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# Letter of Transmittal

July 1, 2018

The Honourable Minister Mr. Karl Samuda, CD, MP
Minister without Portfolio
With responsibility for Water, Housing & Infrastructure
Ministry of Economic Growth and Job Creation
25 Dominica Drive
Kingston 5

Dear Sir:

In accordance with Section 15 (1) of the Jamaica Mortgage Bank Act, No. 16 of 1972, I have the honour of transmitting herewith the Bank's Report for the year ended March 31, 2018 and a copy of the Statement of the Bank's Accounts as at March 31, 2018, duly certified by the Auditors.

Yours respectfully,

Mr. Hugh Faulkner
For Board Chairman

# VISION

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

# MISSION

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

# CORE VALUES

RESPECT

ACCOUNTABILITY

INTEGRITY

SERVICE-ORIENTED

EXCELLENCE

# Summary of JMB’s Business Operations


**The Jamaica Mortgage Bank (JMB or the Bank) 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 island wide 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 developers;
- 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 engage in building development in Jamaica.

The Bank’s current operations fall into the following 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.

### Diaspora Home Building Service
The provision of Project Management services to persons from the Diaspora desirous of building a home in Jamaica.

### Technical Support Service
The provision of Project Management assurance for Financial Institutions lending to Developers for Housing or Commercial Construction.

# Board of Directors' Report

## Economic Overview

During the 2017/18 fiscal year, the Jamaican economy continued to benefit from an improved macro-economic environment. The GDP growth of 0.5% (World Bank –March 2018 Report) during 2017 was lower than projected when compared to the prior year, primarily attributable to the persistent rains for the better part of the year, resulting in lower outputs in areas such as agriculture. Nonetheless, the Government kept its resolve in its effort at maintaining fiscal prudence and achieving continued success under its economic reform programme and precautionary three year Stand-By Arrangement (SBA) with the IMF. Business and consumer confidence continued to be strong. The Economic & Social Survey Jamaica 2016 (ESSJ) published by the Planning Institute of Jamaica (PIOJ), reports that the World Bank "Doing Business 2017" report ranked Jamaica 67 out of 190 countries, one of the highest ranking in the Caribbean.

The government with the assistance of the Economic Growth Council (EGC) and the Ministry of Economic Growth and Job Creation, is trying to achieve a 5% annualized GDP growth rate by 2020 (commonly referred to as "five in four"). The JMB stands ready to assist the government in achieving this ambitious but necessary target, to improve the lives of the majority of the Jamaican people. The other key macro-economic indicators are discussed below:

Inflation: The rate of inflation for 2017 was 5.1 percent, compared to 1.7 percent in 2016 and 3.7 percent in 2015. According to the Statistical Institute of Jamaica (STATIN), the higher out-turn was primarily attributable to increases in the areas of food and non-alcoholic beverages, transportation and education.

Exchange Rate: The Jamaican Dollar revalued in 2017 to the US dollar by approximately 2.7 percent for the first time in several years which indicates some stability in the exchange market, compared to the 6.7 percent devaluation in the prior year.

Net International Reserves (NIR): At the end of 2017 the NIR of $3,208M was $489M higher than 2016.

Interest Rate: Interest Rate on the benchmark Six-Month Treasury Bill decreased from 6.56 percent in December 2016, to a rate of 4.63 percent at the end of December 2017. Similarly, the Ninety-day rate declined from 5.68 percent at end of 2016 to 4.17 percent at December 2017.

Growth: According to the March 2018 World Bank report, Jamaica's GDP grew by 0.5 percent during 2017, and represented the fifth consecutive year of growth. The 2017 economic growth rates slowed when compared to previous years primarily due to inclement weather for most of the year. The World Bank forecasts GDP growth to normalize and accelerate to over 2.5 percent in 2018 and beyond, aided by expected growth of 2.3 percent in the U.S. economy, low oil prices, and various initiatives announced by the Economic Growth Council of Jamaica.

However, despite the macro-economic improvements, reports from the Statistical Institute of Jamaica shows that the unemployment rate in Jamaica, though improved year over year, remained relatively high at 10.4 percent, compared to 12.9% the previous year. The unemployment rate for youth was considerably higher at 35.5 percent, and the average unemployment rate for women, while declining, was still much higher than for men: 14.1 percent versus 7.3 percent respectively.

**Table - Select Construction Indicators**

| | Jan - Dec 2016 | Jan - Dec 2017 | % Change |
|---|---|---|---|
| Housing Starts (NHT only) | 3,024 | 3,277 | 8.4 |
| Total Housing Starts[1] | 3,024 | 4,280 | 41.5 |
| JMB New Loan Commitments ($M) | 515.9 | 1,084.9 | 110.3 |
| JMB Loan Disbursements | 1,041.6 | 868.4 | -16.6 |
| Housing Completions (NHT only) | 1,323 | 1,212 | -8.4 |
| Total Housing Completions[1] | 1,420 | 1,357 | -4.4 |
| Number of Mortgages by NHT | 5,467 | 6,321 | 15.6 |
| Total Number of Mortgages[2] | 13,863 | 8,230 | -40.6 |
| Value of Mortgages by NHT ($M) | 17,159 | 21,345 | 24.4 |
| Total Value of Mortgages ($M) | 38,404 | 39,048 | 1.7 |
| Commercial Bank Loans and Advances ($M)[3] | 25,920.1 | 28,005.5 | 8.0 |

Source: Adapted from PIOJ Economic Update & Outlook - Volume 22 #3 October - December 2017

[1] Consists of NHT, Housing Agency of Jamaica (HAJ), and Private Sector Developers that obtain interim financing from NHT

[2] Based on data from life insurance companies and all except one building society

[3] Stock of loans at the end of the review quarter

* See notes 2 and 3

## Construction Sector and Housing Sub-Sector:

Overview of the (Residential) Construction Market 2017-2018 FY

Data from the Planning Institute of Jamaica (PIOJ) -- see table above -- indicate that 2017 was another active year for the residential construction sector as well as for the construction industry as a whole. However, due to the absence of a centralized construction data repository, the housing data provided by PIOJ are heavily National Housing Trust (NHT) dependent. The data largely reflects NHT's own activities, but includes residential construction undertaken by Housing Agency of Jamaica (HAJ) and private developers with interim financing from NHT. Financing to the sector by commercial institutions is also reflected to a limited extent*.

During the calendar year 4,280 housing starts were recorded, an increase of 41.5% over the number for 2016 calendar year. Housing completions numbered 1,357, down 4.4% from 1,420 seen in the prior year. Mortgages issued by the major players in the mortgage industry for 2017 valued $39,048M; up 1.7% from $38,404M issued in 2016. Data on financing to the wider construction industry for the full year were unavailable at PIOJ publication date but the half-year position showed Commercial Bank Loans and Advances to the construction sector amounting to $28,005.5M, an increase of just over 8% when compared with $25,920.1M for the comparable period in 2016. Based on the observed activities in the sector during the year, it is safe to project that the trend continued into the New Year. Indeed, Bank of Jamaica's (BOJ) Quarterly Monetary Policy Report for the January to March 2018 Quarter reflected expansion in the construction sector as a whole during the period.

For the calendar year 2017/2018 Jamaica Mortgage Bank (JMB or the Bank) issued new loan commitments amounting to $972M (2016/2017-$1,084.9M) as interim financing for residential construction by private sector developers. These funds facilitated the construction of 94 (2016/2017-104) housing units across Kingston, St. Andrew, Clarendon and St. James. Over the same period, the Bank disbursed approximately $1,102.5M (2016/2017-$868.4M) for these and other on-going projects.

between $7M and $30M) but the upper income market (prices above $30M) was fairly well catered to, and at least one project in St. Andrew was geared toward the lower income segment (prices below $7M).

Taken together, therefore, the available data reflect new and or on-going housing solutions across the island during 2017 numbering approximately 9,200 (including completions during the year), and although considered an active/fairly good year for the residential construction sector, the achievement falls short of the estimated 20,000 solutions required per year .

**Table - Housing Developments Sponsored By Private Sector Developers - 2017**

| Parish | No. Of Projects | No. Of Units | No. & Types of Development |
|---|---|---|---|
| St. Andrew | 42 | i. 660<br>ii. 120<br>iii. 253 | i. Strata Apartments (30)<br>ii. Strata - Townhouses / Apts. (8)<br>iii. Subdivision - Lots / Buildings (4) |
| St. Ann | 2 | i. 40<br>ii. 8 | ii. Strata Apartments (1)<br>iii. Subdivision - Lots / Buildings (1) |
| St. Catherine | 2 | i. 1,999<br>ii. 70 | i. Subdivision - Lots / Buildings (1)<br>ii. Strata Apartments (1) |
| St. Elizabeth | 1 | 9 | Subdivision - Lots / Buildings (1) |
| St. James | 3 | 115 | Strata Apartments (3) |
| St. Mary | 1 | 54 | Strata - Townhouses / Apartments (1) |
| St. Thomas | 1 | 29 | Subdivision - Lots / Buildings (1) |
| Trelawny | 1 | 133 | Subdivision - Lots / Buildings (1) |
| Westmoreland | 1 | 52 | Subdivision - Lots / Buildings (1) |
| TOTALS | 54 | 3,542 | |

Source: Real Estate Board

Data from the Real Estate Board (REB) on residential construction activities exclusively undertaken by private sector developers (i.e. with private capital, including financing in some instances from JMB) during 2017 are summarized in the table above. As data revealed, 54 projects were undertaken island wide by private developers during 2017, and included strata apartments, townhouses and subdivisions for residential lots and/or buildings.

Although not shown in the table, the majority of the projects were geared toward the middle market (prices

According to a director of the Jamaica Developers Association (JDA) who is also a leading developer, specializing in the higher end of the market, the promulgation of new zoning ordinances by the Town and Country

Planning Authority in 2017 is responsible in part for the resurgence of residential construction activity. The new ordinances, among other things, establish new density standards by way of increases in the number of habitable rooms per hectare in certain areas, modify set-back requirements, establish standards to guide/encourage mixed use developments, and provide guidelines for "Incentive Development" .One outcome expected by this developer is increases in the number of apartment complexes being constructed in the Kingston Metropolitan Area (KMA), a phenomenon already in evidence.

He, however, believes that even though there appears to be general structural integrity in the buildings being constructed, the Development Order needs to be partnered with the long anticipated new National Building Code to allow for safe and orderly development as well as to bolster the regulatory framework within which the industry operates.

Commenting on the demand side of the equation, a senior director of the Realtors Association shared the view that the market appears to be slow in absorbing the units being provided in the KMA middle market because of affordability challenges experienced by prospects. The result is that it is not uncommon for units to be available in several apparently "sold-out" projects. A further outcome is that some developers have become 'unintentional landlords'. This observation would support the call by Caribbean Policy Research Institute (CAPRI) for a "well-functioning rental-housing market (as) a critical part of a sustainable, integral, and healthy housing system" for Jamaica. In this regard, we note that steps are in train to introduce new legislation to streamline gated communities as well as to modernize the legal parameters of landlord/tenant relationships by amendments to the Rent Restriction Act. We also note that further steps were taken during the review year by NHT to increase the amounts available from the Trust to contributors across its spectrum of financing options/benefits in a bid to bridge the affordability gap.

Meanwhile, because of land scarcity in the KMA, prospects in the middle and lower ends of the local market remain more likely to acquire or afford single family units, including residential lots, in rural parishes like St. Catherine, Clarendon, St James and Trelawny. One concern faced here, however, is that potential purchasers in such developments may face high transportation costs considering where many of them work relative to the locations of such projects. A total solution approach, taking into account construction costs/technology, availability of supporting infrastructure including utilities, potable water, sewerage, transportation, and employment opportunities, as well as social and civic amenities, need to be at the centre of planning and approval considerations. The Provisional Development Orders therefore, represent a step in the right direction.

With the trend of increasing activity in the housing construction sector not only in the KMA but also in key rural locations, and with a substantial share of such activities being undertaken by private sector developers, the projection is for opportunities for partnerships between these developers and the Jamaica Mortgage Bank to remain strong.

## Annual Report 2017

The Jamaica Mortgage Bank (JMB) continues to overcome the challenges presented by the macro-economic environment, characterized by higher than expected borrowing cost in the capital markets, and a competitive, lower than expected construction sector growth. Despite these challenges, the Jamaica Mortgage Bank continues to effectively execute its mandate of facilitating affordable housing solutions for Jamaicans. The Board of Directors are therefore pleased to present the Bank's Annual Report for the financial year ended March 31, 2018.

## Strategy and Financial Performance

Given the economic environment and increased activity in the construction and specifically housing sector, together with the past three years improved performance of the Bank, the strategy for the next four years, is to grow the loan portfolio and by extension, finance quality home construction projects without any additional non-performing loans being created. While funding continues to be a challenge, the Bank will work with its Financial Institutional partners to raise the appropriate level of funding supplemented by the offloading of all lands held for sale. Income will be enhanced by other project management services offered by the Bank, while employing robust risk management and technology to improve efficiency.

As such, the Bank projected to commit J$2.2B to finance 800 housing solutions through its Primary Market programme for the financial year 2017/2018. Due to the deferral of the 3rd phase of the UWI project (656 units), the Bank was only able to commit to $972M to start 94 solutions. The Bank, however, disbursed over $1.1B to fund new commitments as well as finance the completion of approximately 24 solutions carried-over from previous periods. No disbursements were funded by syndication arrangements for the reporting year.

For the 2017/2018 year, the Bank raised $1.625M from the private capital market and paid out $1.607M of debt obligations, primarily through a revolving facility negotiated with the National Commercial Bank. The JMB will be working with financial institutions for loans of approximately One Billion Four Hundred Million Dollars ($1.4B) to finance its Primary Market housing programme in 2018/2019, as the Bank currently has over $2B of applications in the pipeline, including proposals to build low-middle and middle income houses.

As the Bank commences its 4 year growth strategy to 2021, it also aggressively recovered and collected over $390M of its bad debt during the financial year (over $2B in 4 years), as well as, settled with the largest debtor, thereby significantly reducing the bad debt portfolio. Total revenues increased by 86.6% and interest income from loans increased by 36.4%. Also administrative cost showed a year over year decline of 3.3%. In preparation for the International Financial Reporting Standard (IFRS) # 9 that replaced IAS # 39, effective January 1 2018, the management took an additional $61.3M of loans provision to expenses, resulting in a 94.4% overall increase in total expenses. Despite this increase, profits before taxes were $205M or 77.2% higher when compared to the $116M from the previous year. This reflects the fourth consecutive year of increased profitability and a change in the fortune and future of the Bank.

## Risk Management

The Bank's risk management is a comprehensive and systematic process to identify, manage and monitor both internal and external risks to ensure that the Bank achieves its strategic objectives and safeguards its assets. As such, the Board reviewed and approved several policy changes during the year, but most notable, the Board approved the Bank's Enterprise Risk Management Framework (ERMF). We believe that the implementation of such a framework will allow the Bank to effectively identify and manage risk across the operations, as well as, guide management and staff in their daily functions.

## Outlook

The Jamaica Mortgage Bank has achieved most of its objectives for the past four (4) years and it is the Bank's strategic imperative to now build and grow upon those achievements. Given the improved financial position and increased visibility in the space, the Bank intends to double its balance sheet and profitability by 2022. Further given the increased volume of financing requests seen by the Bank, the JMB is convinced that there's a sizeable market for housing solutions geared toward low-middle and middle income earners. Additionally, the Bank has established itself as the premier expert in housing and commercial short-term financing in Jamaica, partly, by utilizing its project management strengths across the public and private housing sector, including offering these services to the Diaspora.

The Board, Management and the Government will work with other financial institutions to ensure the funding of viable projects in the low-middle to middle income niche of the housing sub-sector.

Similarly, the Bank has experienced an up-take in the usage of the Mortgage Insurance product, since the amendment of the Mortgage Insurance Act (MIA)

2014. This amendment allows for the percentage of the mortgage loan to be granted, to be increased from 90 percent to 97 percent. The Bank was also proactive in increasing the amount of the appraised value on the property which can be insured under the MII programme, as well as, changing the risk profile of potential home buyers by increasing the required Debt Service Ratio (DSR) from 40% to 45%, to accommodate slightly higher risk home purchasers to be able to access mortgage financing.

The Bank will continue to take initiatives to stimulate the use of the Mortgage Indemnity Insurance product. Although the initiative involving the World Bank on the MII aspect of the "Access to Finance" project was deferred, the JMB will work to extend and increase the utility of the Mortgage Indemnity Insurance product to benefit low income and younger prospective homeowners. This will be done by reviewing the existing legislation and making recommendations for amendments which will make the product much more robust. This along with the many other initiatives will be used to drive the expected growth and profitability of the Bank.

## Appreciation

The Board of Directors deeply appreciates the support of the Most Honourable Prime Minister Andrew Holness and Minister without portfolio in the Ministry of Economic Growth and Job Creation; the Honourable Dr. Horace Chang, our Portfolio Minister for Water, Works and Housing, and Permanent Secretary, Mrs Audrey Sewell and the staff of the Ministry, for their support during the year. The Board also welcomes the new portfolio Minister, the Honourable Karl Samuda.

To our business partners, especially the National Commercial Bank, the Victoria Mutual Group, our Developers and the many other stakeholders, we thank you for the confidence that you continue to place in the Jamaica Mortgage Bank as we strive to positively impact economic growth, employment and overall quality of life in Jamaica.

Finally, we would like to thank the past Chairman, Dr. Patrick Thelwell, the management and staff of the Bank for their steadfast and consistent commitment to the continued success of the organization. The Board of Directors and Management have demonstrated their unwavering commitment to the growth of the Jamaica Mortgage Bank. As a result of this commitment, we are confident that by working with all stakeholders, we will overcome the challenges and continue to deliver on the mandate of providing affordable housing solutions for Jamaicans.

For and on Behalf of the Board of Directors

**Hugh Faulkner**
**Director**
For Chairman

# The Board of Directors

FROM LEFT

Courtney Hamilton
Tiva Forbes
Hugh Faulkner
Doreen Prendergast
Louis Campbell

Absent: Ryan Parkes, Dr. Patrick Thelwell (Resigned effective January 5,2018)

# Corporate Governance Report

**The Board of the Jamaica Mortgage Bank and the Management Team are committed to carry out their respective functions by adopting and practising sound and probative corporate governance principles and guidelines.**

The Corporate Governance Principles and Policies followed by the Bank were established in accordance with the provisions of the Jamaica Mortgage Bank Act, the Public Bodies Management and Accountability Act, the Government of Jamaica's Corporate Governance Framework and International Best Practices.

The Jamaica Mortgage Bank acknowledges that adopting a strong Corporate Governance Framework is necessary to ensure that it carries out its mandate responsibly and effectively to meet the expectations of its shareholders and stakeholders as well as to engender investor and public confidence.

The Board of Directors is the ultimate governing body of the Organisation and it is responsible for the long-and medium term strategy of the Bank. The Board is also responsible for guiding the management team to achieve the broad objectives of the Organisation.

As such, it provides oversight and guidance through regular meetings with and reporting from Management, as well as through the effective functioning of each of the four existing Board Committees. The powers and responsibilities of each Committee are established in the applicable Committee's Terms of Reference. These Committees provide a detailed report, including their recommendations, to the full Board at the Board Meeting immediately following each of the periodic Committee meetings.

The Board of Directors is comprised of seven (7) members, 5 of whom are appointed by the Minister of Housing, and two ex-officio members. The two ex-officio members are the Financial Secretary's nominee and a nominee from the Bank's parent Ministry, the Ministry of Economic Growth and Job Creation.

During the Financial Year 2017-2018, the Board met fourteen (14) times to consider and discuss issues pertinent to the strategic direction of the organisation and to ensure that the mandate was being fulfilled. In addition, the Board met with Management to review and approve the Bank's Four (4) Year Strategic and Operational Plans and in its scheduled monthly meetings, approved a total of seven (7) new projects which saw the provision of 94 additional housing solutions. The Board also ensured the organisation met the prescribed deadlines for the preparation and submission of the following Statutory and Regulatory Reports:

- Four-Year Corporate Plan, One -Year Operating Plan and Operating and Capital Budgets for the FY 2018/2019

- Monthly Financial Reports as required under the PBMA
- Quarterly Performance Reports to Ministry of Economic Growth & Job Creation
- Quarterly Procurement Reports to the Office of the Contractor General
- Annual Report along with the Audited Financial Statements for FY 2016/2017

**Table - Board of Directors' Meetings**

| Name of Director | Meetings Held | Meetings Attended | Apologies Received |
|---|---|---|---|
| Patrick Thelwell * - Chairman | 14 | 9 | 1 |
| Hugh Faulkner ** | 14 | 14 | - |
| Tiva Forbes | 14 | 9 | 3 |
| Louis Campbell | 14 | 11 | 2 |
| Courtney Hamilton | 14 | 13 | 1 |
| Ryan Parkes | 14 | 12 | 1 |
| Doreen Prendergast | 14 | 11 | 3 |

* Dr. Patrick Thelwell resigned as at January 5, 2018 and was therefore absent as a result of his resignation from the Board.

** The Board members selected Mr. Hugh Faulkner to act as Chairman for the three (3) Board Meetings held from January 25, 2018, to March 31, 2018.

An annual Board and Management Retreat was held during the year, where the Corporate Strategic Goals and Objectives for the period 2018/2019 to 2021/2022 were discussed and approved, and the Budget and the Operational Plan for the upcoming financial year 2018/2019 were also discussed and approved setting the strategic direction for the Bank.

The Board, during the course of the year, also finalized and approved an Enterprise Risk Framework and Policy for the Bank and the Management commenced establishing a Risk Register to further strengthen the Bank's Corporate Governance Framework.

The Bank entered the inaugural Public Sector Corporate Governance Awards during the year and was awarded 1st Runner Up position in the Board Composition, Function and Structure section of the Competition.

## Board Diversity

The Board of the JMB comprises members whose expertise spans both the private and public sectors and brings to the governance of the Bank, the appropriate balance and diversity of skills, experience, gender and knowledge required of the company and its business. The members possess the core competencies of Accounting and Finance, Project Management, Legal, Real Estate, Strategic Planning and Construction Industry knowledge and experience.

## Corporate Governance Committee

The Corporate Governance Committee of the Board deals with matters concerning the proper and prudent governance practices of the Board, and its mandate and terms of reference are in line with the Government of Jamaica's Corporate Governance Framework and International Best Practices. These include: making recommendations to the Board on policies and processes designed to provide for effective and efficient governance, overseeing the Board's self- evaluation exercise annually and conducting a "gap analysis" to identify any weaknesses in competency in the composition and functioning of the Board and making recommendation for training to close the gap.

The committee consists of four members including the Chairman of the Board. The Committee met two (2) times during the course of the financial year. During the year, the Committee reviewed and analysed the results of the Board Evaluation exercise and made recommendations to the full Board for improvements in the areas

**Table - Board Diversity Matrix**

| Name of Director | Sector | Finance | Accountancy | Risk Management | Legal | Housing | Project Management |
|---|---|---|---|---|---|---|---|
| Patrick Thelwell | Private | ✓ | | | | ✓ | |
| Hugh Faulkner | Public | | | | ✓ | | |
| Tiva Forbes | Public | ✓ | ✓ | ✓ | | | |
| Courtney Hamilton | Private | | | | ✓ | ✓ | |
| Ryan Parkes | Private | ✓ | ✓ | ✓ | | | |
| Doreen Prendergast | Public | | | | | ✓ | ✓ |
| Louis Campbell | Private | ✓ | ✓ | ✓ | | | |

which were identified as having some weaknesses. The Committee also discussed and recommended for approval a Board and Management Resolution Policy and proposed a framework for the review of the existing Board Charter and the development of a formalized Corporate Social Responsibility Policy.

**Table - Corporate Governance Committee Meetings**

| Name of Director | Meetings Held | Meetings Attended | Apologies Received |
|---|---|---|---|
| Hugh Faulkner - Chairman | 2 | 2 | - |
| Courtney Hamilton | 2 | 0 | 1 |
| Tiva Forbes | 2 | 1 | 1 |
| *Patrick Thelwell | 2 | 1 | 1 |

* Dr. Patrick Thelwell resigned effective January 5, 2018.

## Audit, Finance & Risk Committee

The Audit, Finance and Risk Committee has been established to assist the Board of Directors in carrying out its duties relating to Internal Controls, Accounting and Risk Management Policies and Procedures, and Financial Reporting Practices. During the year under review, the Committee met three (3) times and the issues addressed by the Committee included the following:

- Reviewing and recommending for Board approval the Audited Financial Statements for the year 2016/2017 for the Jamaica Mortgage Bank, JMB Developments Limited and the Mortgage Insurance Fund.
- Reviewing and recommending for Board approval the Risk Management Framework Policy which provides the framework to identify, assess, monitor and manage the risks associated with the Bank's business and operations.
- Facilitating and discussing issues and concerns arising out of the Internal Audit Reviews with key Internal Audit representatives and management which covered areas including the examination of the adequacy of the internal controls of the Bank's payroll functions, Fixed Assets and Information Technology System and to ensure that the policies and procedures governing these areas were being followed by the organisation.
- Reviewing the performance of the Bank's investment activities on a quarterly basis.

The addition of the Risk component to the Committee's responsibilities during the year, will result in greater monitoring of the Risk Management Framework implementation in the forthcoming year.

**Table - Audit, Finance & Risk Management Committee Meetings**

| Name of Director | Meetings Held | Meetings Attended | Apologies Received |
|---|---|---|---|
| Ryan Parkes - Chairman | 3 | 3 | - |
| Tiva Forbes | 3 | 3 | - |
| Louis Campbell | 3 | 1 | 0 |

## Human Resource Committee

The Human Resource Committee is responsible for providing guidance in the strategic development of the human resources of the Bank and to oversee and approve Human Resource Policies, as stipulated by the Committee's mandate which is outlined in its Terms of Reference.

**Table - Human Resource Committee Meetings**

| Name of Director | Meetings Held | Meetings Attended | Apologies Received |
|---|---|---|---|
| Hugh Faulkner - Chairman | 3 | 3 | - |
| Tiva Forbes | 3 | 3 | - |
| * Patrick Thelwell | 3 | 2 | - |

* Dr. Patrick Thelwell resigned effective January 5, 2018 and was therefore absent as a result of his resignation from the Board.

During the year under review the Committee met on three (3) occasions, reviewed and recommended the following issues to the Board of Directors for approval: Employee Dispute Resolution Policy, amendments to the Policies on Payroll, Background Checks, Extended Sick Leave, No Pay Leave, and Incentive Payments.

## Projects & Loans Committee

The Projects & Loans Committee of the Board of Directors acts as the final risk management and monitoring mechanism in the decision hierarchy of the Bank's project financing activities. As such, it has an oversight function which includes the review of all loan applications before consideration by the full Board, and the holding of periodic meetings with Management and the Technical Team of the Bank to review the status of projects financed, as well as the performance of the loan portfolio.

The Projects and Loans Committee is comprised of five (5) Board members who also consider recommendations by Management for modifications to policy ahead of final determination by the Board. Matters falling under the purview of the Projects & Loans Committee, therefore, having been considered by it, are presented to the full Board with the Committee's recommendation, for final decision to approve or decline.

In pursuance of its mandate, the Projects & Loans Committee met on eight (8) occasions during fiscal year 2017/18. As a result of its review and recommendations, Board approval was obtained for seven (7) projects amounting to $972.2M and comprising ninety-four (94) housing units.

**Table - Projects & Loans Committee Meetings**

| Name of Director | Meetings Held | Meetings Attended | Apologies Received |
|---|---|---|---|
| *Patrick Thelwell - Chairman | 8 | 6 | - |
| Courtney Hamilton | 8 | 1 | 3 |
| Ryan Parkes | 8 | 6 | 1 |
| Doreen Prendergast | 8 | 6 | 2 |
| Louis Campbell | 8 | 0 | 0 |

* Dr. Patrick Thelwell resigned effective January 5, 2018 and Ryan Parkes chaired subsequent meetings held. Dr. Patrick Thelwell was therefore absent as a result of his resignation from the Board.

# General Manager's Report

**The fiscal year 2017/2018 represented the end of a three-year strategic plan implemented in 2014, to turn around the fortunes of the Jamaica Mortgage Bank (the Bank) and to achieve sustainable profitability.**

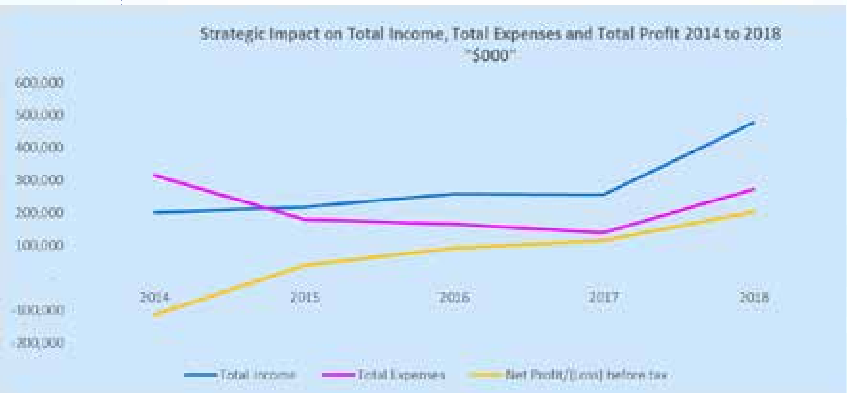
The period also marked the beginning of a four year growth strategy to double the size of the Bank by 2021. As at the end of the fiscal year, the Bank's core business, experienced the fourth consecutive year of improved operating performance, resulting in year over year profit growth of 77.2%.

In recognition of the difficulty of raising funds in the private market post the National Debt Exchange (NDX) programme in 2012/2013, the Bank took the decision to only borrow based on existing loan commitments. As such, the Bank established a revolving facility with a major financial institution where draw-downs and repayments resulted in net borrowing from the facility of $193M. Similarly, the Bank, through its promotion of the 97% Mortgage Indemnity Insurance programme, experienced increased activities in the number of policies insured. Additionally, the Bank has seen the mortgage market settled at a Loan to Value (LTV) ratio to end users of between 95% and 97%. Simultaneously, mortgage rates are the lowest in approximately 25 years.

## The Strategy

In 2014, the Bank employed a three (3) year strategy to 2017, to strengthen its capital base and return to sustainable growth and profitability, using three pillars: i) increasing the loan portfolio, while leveraging its expertise to offer other services, thereby increasing income, ii) finding more innovative means of funding and iii) aggressively pursuing collections on the bad debt portfolio. As at 2016/2017, the Bank through its execution of the three-pillar strategy mentioned above, experienced three consecutive years of improved performance, thereby positioning itself for sustainable future growth commencing 2017/2018. Growth also includes facilitating increased number of housing solutions in the low middle to middle markets.

The primary objective was to grow the loan portfolio, with no additional Non-Performing Loans (NPL), thereby optimizing interest from loans, resulting in increased income and profitability. This would be done with borrowed funds, supplemented by the conversion of unearned to liquid assets, as well as, continuing the recovery efforts of the Bank's legacy bad debt portfolio. Further, the Bank would enhance its ability to earn by selling its new Technical Support Services (TSS) and the Diaspora Home Building Services (DHBS). See below the net impact on Total income, Total expenses and Profit-



ability resulting from the strategic plan implementation.

## Financial Performance

As a result of the Bank's sustainable growth strategy execution, the Bank showed a significant increase in the year over year profitability, as well as improvement in some of its key financial indicators. The increased profitability was primarily driven by a significant increase in the loan portfolio due to higher yields when compared to investments. The Bank also sold land to supplement funds raised to disburse approximately $1B to housing projects. The Bank also recovered on two major debts, thereby reducing the level of planned debt funding raised.

**ANALYSIS OF CHANGE IN INCOME & EXPENDITURE 2017/18 vs 2016/2017**

| ITEM | 2018 $'000 | 2017 $'000 | Variance $'000 | Var. % |
|---|---|---|---|---|
| **Interest Income** | | | | |
| Interest from Loans | 149,852 | 109,894 | 39,958 | 36.4% |
| Interest from Deposits | 3,007 | 12,719 | (9,712) | -76.4% |
| **Total Interest Income** | 152,859 | 122,613 | 30,246 | 24.7% |
| **Interest Expenses** | | | | |
| Interest on Bonds Payable | 69,878 | 71,491 | (1,613) | -2.3% |
| **Net Interest Income/(Loss)** | 82,981 | 51,122 | 31,859 | 62.3% |
| **Non Interest Income** | 325,760 | 133,844 | 191,916 | 143.4% |
| **Gross Margin before Provision and Expenses** | 408,741 | 184,966 | 223,775 | 121.0% |
| Less Operating Expenses | (142,091) | (132,194) | (9,897) | 7.5% |
| **Operating Profit/(Loss) for the year before Provision** | 266,650 | 52,772 | 213,878 | 405.3% |
| **Provisions** | (61,320) | 63,088 | (124,408) | -197.2% |
| **Profit/(Loss) for the year before taxes** | 205,330 | 115,860 | 89,470 | 77.2% |
| Taxes | (39,563) | (20,207) | (19,356) | -95.8% |
| **Profit/(Loss) for the year** | 165,767 | 95,653 | 70,114 | 73.3% |
| **Other Comprehensive Income/(Deficit)** | | | | |
| Remeasurement gains/(losses)-defined benefit plan | 28,521 | (6,046) | 34,567 | 571.7% |
| Deferred tax-defined benefit plan | (15,969) | 1,511 | (17,480) | -1156.8% |
| | 12,552 | (4,535) | 17,087 | 376.8% |
| **TOTAL COMPREHENSIVE INCOME FOR YEAR, NET OF TAX** | 178,319 | 91,118 | 87,201 | 95.7% |

## Revenues

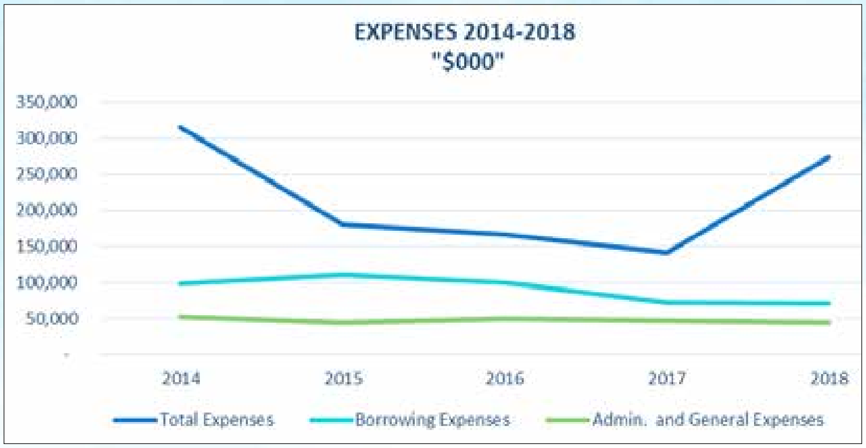
Total income of $478.6M (see income statement) was $222.1M or 86.60% higher than the previous year. All categories of income showed significant year over year increases except for interest on investments which showed a $9.7M year over year decrease attributable to lower than planned deposits and lower yields due to decline in interest rates.

Total Interest income of $152.9M for the reporting period was 24.7% higher than the previous year, but 15.7% lower than budget, primarily due to lower than planned investments, as well as, lower yields on investments. Interest income from loans of $149.9M was 36.4% higher than the previous year. This was attributable to holding yields, on the loan portfolio, while increasing the loan portfolio by over 30%. As mentioned above, less than planned deposits, together with lower yields resulted in lower than planned income from deposits when compared to the previous year, however, this was offset by the increases from the loan portfolio. Net interest income of $82.9M was also higher than the previous year and budget by 62.3% and 41.5%, respectively, primarily due to reasons already mentioned above.


Non-Interest income of $325.8M significantly exceeded that of the previous year by $191.9M or 143.4% and exceeded budget by $240.9M or 283.9%, primarily driven by fees from new business, when compared to budget, as well as, bad debt recoveries on two major projects.

## Expenses

Total expenses of $273.3M were higher than the previous year by $132.7M or 94.4% primarily due to a $124.4M year over year swing in the provisions taken




on the loan portfolio in anticipation of International Financial Reporting Standard (IFRS) # 9. As a result, the Bank took an additional net provision of ($61.3M) to expenses for the current period. This, when compared to a favourable write back of $63M to expenses in the previous year, resulted in the difference of $124.4M.

Interest expenses on Debt (Finance Cost) were $69.9M or 2.3% lower than the $71.5M of the previous year. This was primarily due to cost of funds falling below planned level resulting from lower interest rates combined with the Bank's prudent management of its cash flow.

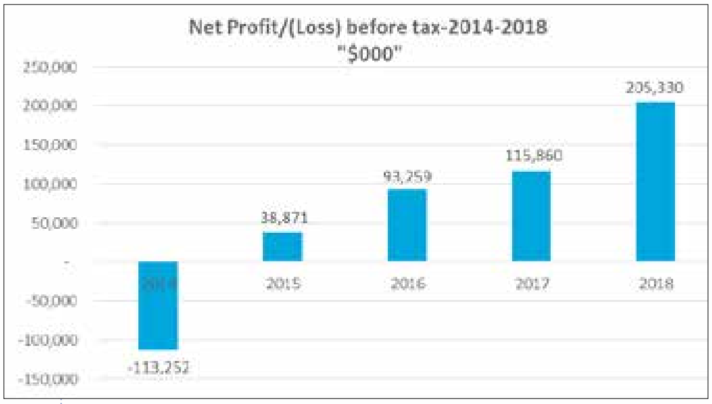
Operating Expenses (OPEX) of $142.1M consist of expenses related to staff salaries and other Administrative cost. Staff expenses were $97.6M or 13.2% higher than the previous period due to accumulated increases from Government wage negotiations. However, staff expenses were somewhat offset by lower year over year Administrative cost of 3.3%.

International Financial Reporting Standard (IFRS) # 9 replaces IAS 39; Financial Instruments-Recognition and Measurement. The new Standard aims to simplify the accounting for financial instruments and addresses perceived deficiencies which were highlighted by the recent financial crisis. The consequences are as follows:

- Earlier recognition of impairment losses on receivables and loans
- Significant new disclosure requirements, which may necessitate upgrading of systems

## Profit / (Loss)

Resulting from the overall performance in the fiscal year 2017/2018, the Bank increased its before tax profit by 77.2% to $205.3M, or by $89.5M when compared to the previous year. Likewise, the Bank exceeded its budgeted net profit before tax by $196.1M or 2,144.2%. After tax profit and Total Comprehensive Income were also 73.3% and 95.7% higher when compared to the previous year.




## Growth

The JMB continued to strategically manage its loan portfolio growth by positioning its cash and near-cash to meet its disbursement commitments. The Bank raised a total of $1.625B versus the planned $1.4B for funding during the year; however, the Bank reduced its borrowing liabilities by $1.607B, including short term funds borrowed and repaid from the NCB revolving facility during the year, resulting in a net borrowing liability movement of $18M. Total borrowings for the year ended at $915M. The Bank will further reduce its liabilities by another $500M by the second quarter of the following fiscal year. The Balance sheet grew by 8.9% when compared to the previous year, primarily as a result of the 30.2% growth in the loan portfolio. The Bank will continue to grow, while carefully managing its cash.

## Other Key Operational Performance Indicators

**OTHER KEY PERFORMANCE METRICS**

| Budget-2017/18 $'000 | Actual-2017/18 $'000 | Variance $'000 | Variance % | Metric | Budget-2018/2019 $'000 |
|---|---|---|---|---|---|
| 1,500,000 | 972,000 | -528,000 | -35.2% | Commitments * | 1,500,000 |
| 1,600,000 | 1,100,000 | -500,000 | -31.3% | Disbursements * | 1,600,000 |
| 1,450,000 | 982,000 | -468,000 | -32.3% | Total Collections | 1,450,000 |
| 550,000 | 392,000 | -158,000 | -28.7% | Bad Debt Recovery | 360,000 |
| 171 | 94 | -77 | -45.0% | Units Funded | 171 |

* Excludes Syndication amounts

## Primary Market

During the fiscal year 2017/2018, the Jamaica Mortgage Bank (JMB) committed new loans amounting to $972.2M for 94 new housing units. These numbers represent improvements of 43.6% and 32.4% respectively over those for the prior year. Similarly, the Bank made loan disbursements of $1,102.5M to new and on-going projects, representing a 3% improvement over the achievement for fiscal 2016/2017. Although both the Bank's commitments and disbursements were somewhat below budget primarily due in the first instance to a major prospect failing to satisfy due diligence standards, and in the second, to unforeseen intervening challenges which delayed satisfaction of pre-disbursement conditions by two customers, the Bank has a good jump-off point for the new financial year.

JMBs Technical Support Services (TSS) performed creditably during the year as a source of non-interest income, and saw the Bank continuing to provide monitoring services to a major housing development on behalf of the project financiers. The TSS product is geared toward other interim financiers who lack the technical expertise demanded by complex construction projects, and seeks to increase the success rate associated with such projects by assessing and monitoring the technical elements ranging from approvals and budget/costing to implementation and close-out.

The Bank participated in road shows hosted by JN Bank in Florida and Canada during the last quarter, and these presented excellent opportunities for direct interfacing with the Jamaican Diaspora, prime targets of JMBs "Diaspora Home Building Services" (DHBS). Much interest was expressed in the product by participants and the dialogue will be continued during the ensuing period. Also, the Bank has commenced other targeted informational and promotional activities in the Diaspora to raise awareness of the services available with the expectation that the effort will translate into business for JMB.

Responses to date have generated confidence that a need exists for the DHBS product, which is tailored to assist Jamaicans living overseas in building their home locally. JMB stands as a trusted partner which provides project management services by leveraging the in-house expertise it has developed over time to plan and execute the works. 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.

## Secondary Market

The Central Bank has indicated an intention to continue to ease monetary policy in the first half of 2018, and twice during the last quarter, reduced its policy rate by 25 basis points. Although some interest rate reduction is expected to follow in the local financial markets, for the fiscal period under review, lending rates generally were above the threshold desired to support operations in the Secondary Mortgage Market. JMB has, therefore, continued to monitor local market conditions in readiness to re-engage in the Secondary Mortgage Market when the interest rate environment becomes conducive.

## Mortgage Indemnity Insurance (MII)

As administrator of the Mortgage Indemnity Insurance (MII) product on behalf of the Government of Jamaica (GOJ), JMB played a pivotal role in the review undertaken as part of the "Access to Finance" project sponsored by the World Bank and administered by Development Bank of Jamaica (DBJ). Two overseas-based consultants were engaged to conduct a risk based assessment of the MII portfolio and fund, and a review of the legislative and regulatory framework of the product. The exercise led to the creation of a proposed legal framework to guide an overhaul of existing Act and Regulations governing the MII but absence of critical data thwarted efforts at the risk-based review, and contributed to the decision of the GOJ to forego the housing component of the Access to Finance project for the time being.

In the meantime, JMB continued to partner with existing Approved Lenders (mortgage providers) to offer increased mortgage financing with Loan to Value (LTV) of up to 97% for persons across the island seeking home ownership.

Undertakings to Insure (UTIs) issued over the reporting period numbered thirty-seven (37), representing a decline of 26% from the prior year – likely due to affordability issues resulting from general increases in property costs relative to growth in real wages. These UTIs provided coverage amounting to $53.01M; down 26.8% from $72.44M in 2016/2017, while making the average sum insured $1.43M, or roughly approximating the average coverage of $1.45M from prior year. Simultaneously, sixty-eight (68) new policies valuing $84.57M were issued; trebling the 2017 count of 21 and bettering the value of $36.5M then by 131.7%. Looking ahead.

For the ensuing fiscal year, the Bank projects improved performance in both new loan commitments and disbursements, based on prospecting already commenced, as well as the existing overhang of undrawn loan approvals. Positive feedback on the value of the TSS product has been received from several providers of interim financing in the local construction industry and the Bank will actively seek to convert these expressions of interest into business relationships, which together with new partnerships with members of the Jamaican Diaspora through the DHBS should contribute to growth in non-interest income. Certain MII policy revisions having the potential to substantially boost marketing initiatives by mortgage providers will also be made during the first quarter of the next fiscal year. The Bank expects that this will yield noticeable increases in MII take-up.

Access to Finance Project (Facilitating use of MII)
In 2017, the Bank began work with the Development Bank of Jamaica (DBJ) on a Financial Inclusion Project being sponsored by the Government of Jamaica (GOJ) and the World Bank, which includes a review of the Mortgage Indemnity Insurance (MII) product as a component geared toward increasing access to finance and home ownership by Jamaicans. On completion, the project is expected to stimulate growth in MII take-up in the mortgage finance sector. However, the project was deferred to a future period to give way to other Government priorities.

## Bad Debt

The Bank was very successful in its debt recovery drive during the financial year 2017/2018. JMB recovered a total sum of $391.67M (2016/2017-$279M) by the end of the year as a result of the various recovery initiatives, including sale of properties under the Bank's Power of sale and recoveries of outstanding sums under Settlement Agreements.

This thrust to recover and reduce the Non-Performing Loan portfolio will continue into the new financial year with the Bank projecting to collect an additional $360M during the course of the year. It is also expected that with the strengthened assessment and approval process instituted, and the continued implementation of tighter monitoring controls of the approved loans, the Bank will be able to mitigate the risk of further bad loans being created and a gradual reduction in the Non-Performing Loan portfolio.

## Other

During the 2016/2017 year, the Bank deepened its relationship with the University of Technology, Jamaica (UTECH) by establishing a scholarship valued at $200,000 for third and fourth year students within the

Faculty of Built Environment. The launch was effected in recognition of the Bank's 45th Anniversary, during the Housing Seminar, June 2016 and the recipient awarded later that year.  The intention from inception was to establish a financial assistance initiative, to which other stakeholders within the construction industry would contribute.  However, the initiative was unsuccessful due to a lack of buy-in which resulted in no award being made in the 2017/2018 year.

## Macro Real Estate Legal Environment

The Bank, as part of its focus, monitors the macro-legal environment as it relates to the Real Estate Market, and note the continued uptick in the residential construction industry. In order to facilitate Jamaicans accessing the new homes being constructed, the Bank created synergies with other financial players in the Real Estate Market by offering its Mortgage Indemnity Insurance product to Mortgage Institutions to facilitate purchasers being able to access a larger percentage of the purchase price of these units and reducing their need to come up with large sums for their deposits.

In addition, the Bank also continues to work with the Real Estate Board (REB) to ensure that all of the Developers who are financed by the JMB, register with the REB to protect the rights of purchasers in these developments. This collaboration with these other industry stakeholders contributes to the Bank fulfilling its mandate of facilitating safe and affordable housing for all Jamaicans.

Additionally, the JMB continues to encourage the Government to review the level of Transfer tax and Stamp duty, as well as, the timing of these payments to the Government by developers/other real estate vendors, as these high taxes act as a deterrent to early home ownership. We continue to believe that the lowering of these taxes will more likely result in increased activity in the market which will ultimately improve the construction sector's contribution to GDP growth. Similarly, the Bank supports a lowering of Stamp duty borne by both Public and Private Developers who wish to enter into Public Private Partnerships (PPP) for housing.

## Conclusion and the Way Forward

Despite various challenges, the Bank was able to execute on its growth strategy 2017/18 financial year, resulting in mixed but mostly positive performance. Given the Government's ongoing position on waivers and guarantees, many of the Bank's key performance metrics such as interest rates in the capital market, are now market driven, in a sector where the Bank's mandate is to facilitate affordable housing.  None-the-less, the Bank was able to turn a profit for the fourth consecutive year after several years of uncertainty.

While the 2018/2019 financial year is predicted to be equally challenging, the Bank will continue to be agile and innovative in its implementation to ensure growth and housing for Jamaicans 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 will continue in 2018/2019 with its growth strategy, while trying to define its future business model. What is clear, is that the current business model is not sustainable without an identifiable source of low interest funding.  We intend to work with the Government to determine the next steps. However, we are committed to achieving the objectives of our financial and other key metrics, as outlined in the budget included, as well as, ensuring that all supporting resources, 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

## 2018/19 BUDGET OF INCOME & EXPENDITURE

| Budget-2017/18 $'000 | Actual-2017/18 $'000 | Variance $'000 | Variance % | ITEMS | Budget-2018/2019 $'000 |
|---|---|---|---|---|---|
| | | | | **Interest Income** | |
| 151,389 | 149,852 | (1,537) | -1.0% | Interest from Loans | 248,975 |
| 30,015 | 3,007 | (27,008) | -90.0% | Interest from Deposits | 10,104 |
| 0 | 0 | 0 | 100.0% | Interest from other Investments | 174 |
| 181,404 | 152,859 | (28,545) | -15.7% | **Total Interest Income** | 259,253 |
| | | | | **Interest Expenses** | |
| 122,777 | 69,878 | 52,899 | 43.1% | Interest on Debt Payable | 134,150 |
| 58,627 | 82,981 | 24,355 | 41.5% | **Net Interest Income/(Loss)** | 125,103 |
| 84,854 | 325,760 | 240,906 | 283.9% | **Non Interest Income** | 50,453 |
| 143,481 | 408,741 | 265,261 | 184.9% | **Gross Margin before Provision and Expenses** | 175,556 |
| (134,331) | (142,091) | (7,760) | 5.8% | Less Operating Expenses | (148,552) |
| 9,150 | 266,650 | 257,501 | 2814.4% | **Operating Profit/(Loss) for the year before Provision** | 27,004 |
| 0 | (61,320) | (61,320) | 100.0% | **Provisions** | 0 |
| 9,150 | 205,330 | 196,181 | 2144.2% | **Profit/(Loss) for the year before taxes** | 27,004 |
| (2,287) | (39,563) | (37,276) | -1629.9% | Taxes | (7,561) |
| 6,863 | 165,767 | 158,905 | 2315.6% | **Profit/(Loss) for the year** | 19,443 |

## BUDGET-2018
## BALANCE SHEET POSITION

| | 2018 $'000 | 2017 $'000 | % Change | Budget-2018/2019 $'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and Cash Equivalents | 8,590 | 6,515 | 31.8% | 18,198 |
| Certificates of Deposits | 16,680 | 30,193 | -44.8% | 374,838 |
| Resale Agreements | 7,939 | 119,610 | -93.4% | - |
| Receivables and Prepayments | 22,016 | 77,483 | -71.6% | 116,486 |
| Income tax Recoverables | 161,117 | 195,853 | -17.7% | 193,903 |
| Loans Receivables | 2,150,599 | 1,651,846 | 30.2% | 2,215,915 |
| Land Held for Development and Sale | 408,989 | 488,989 | -16.4% | 349,050 |
| Post Retirement Benefits | 63,876 | 37,747 | 69.2% | 50,238 |
| Property Plant and Equipment | 55,127 | 49,842 | 10.6% | 37,747 |
| **TOTAL ASSETS** | 2,894,933 | 2,658,079 | 8.9% | 3,356,375 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **LIABILITIES** | | | | |
| Payables and Accruals | 37,642 | 36,488 | 3.2% | 28,957 |
| Bonds and Loans Payable | 472,478 | 399,504 | 18.3% | 300,000 |
| Short Term Loan | 442,903 | 500,403 | -11.5% | 1,155,068 |
| Deferred Tax Liability | 39,917 | 1,600 | 2394.8% | 1,601 |
| Income Tax Payable | 16,043 | 12,454 | 28.8% | 2,215 |
| | 1,008,983 | 950,449 | 6.2% | 1,487,841 |
| **SHAREHOLDER EQUITY** | | | | |
| Share Capital | 500,000 | 500,000 | 0.0% | 500,000 |
| Reserve Fund | 500,000 | 500,000 | 0.0% | 500,000 |
| Special Reserve Fund | 340,083 | 340,083 | 0.0% | 340,083 |
| Retained Earnings | 545,867 | 367,547 | 48.5% | 528,452 |
| | 1,885,950 | 1,707,630 | 10.4% | 1,868,535 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | 2,894,933 | 2,658,079 | 8.9% | 3,356,375 |

# Leadership Team

FROM LEFT

Suzette Austin - Manager, Finance
Denise Bryson Hinds - Manager, Human Resource & Administration
Courtney Wynter - General Manager
Hecton Hemans - Director, Business Operations
Donna Samuels Stone - Corporate Secretary/Legal Officer

# Highlights of JMB's Social & Team Building Activities

Labour Day Project 2017 – St. Simon's Basic School

Team Integrity – Sports Day 2017


Christmas Luncheon 2017

Presentation on Pension Awareness

Team Excellence – Sports Day 2017


Marketing activity in Florida, USA

JMB's Jamaica Day, March 2018

Facilitating Home Ownership

# Corporate Information

## REGISTERED OFFICE

33 Tobago Avenue
Kingston 5

## AUDITORS

Crowe Horwath
(Formerly UHY Dawgen)
Unit 34 Winchester Business Centre
Kingston 10

## BANKERS

Sagicor Bank Jamaica Limited
17 Dominica Drive
Kingston 5

National Commercial Bank
1 Knutsford Boulevard
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

Facilitating Home Ownership

# Departments

## Finance & Accounts

- Financial & Management Accounting
- Treasury and Cash Management
- Budgeting and Control

## Business Operations

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

- Secondary Mortgage Market
  - Mortgage-backed Securities

- Mortgage Insurance
  - Evaluation of proposals for insurance 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 and Administration

- Human Resource Management
- Policy Development and Administration
- Office Administration

## General Manager's Office

- Strategy Development, Implementation and Execution
- Information & Communication Technology
- Public Relations and Marketing

# General Manager’s Office

FROM LEFT

Courtney Wynter - General Manager
Clifton Bennett - ICT Administrator
Shedina Powell - Executive Assistant

# Business Operations

FROM LEFT

Raymond Johnson - Technical Officer
Marlene Lawrence - Administrative Assistant
Latoya Cole - Loans Officer
Hecton Hemans - Director, Business Operations
Christopher White - Technical Officer

# Finance & Accounts

FROM LEFT

Kentawya Johnson - General Ledger Assistant
Garth Cranston - Treasury & Accounting Officer
Doreen Mowen - Financial Accounting Officer

Absent: Suzette Austin, Manager, Finance; Doreen Shaw, Payables Assistant

# Human Resources & Administration

FROM LEFT

Jefton Samma - Messenger

Monica Ewan - Office Attendant

Denise Bryson Hinds - Manager, Human Resources & Administration

Marcia Morrison - Office Cleaner

Rashard Tracey - Customer Serivce Representative

Daniel Scott - General Worker

Dwight Hall - Security Officer

Absent: Kerryan Saulas, Office Administrator; Danovan Blackburn, Security Officer

# Legal Department

FROM LEFT

Donna Samuels Stone - Corporate Secretary / Legal Officer
Antionette Symister - Legal Assistant

Facilitating Home Ownership

# Mayfair

This development is located in Red Hills, St. Andrew and features thirty two (32) apartments of two and three bedrooms units, contained in five (5) blocks as well as two (2) town houses. The development which includes a gym and a pool, is ideal for families, single persons and for persons desiring to use the property as a long term real estate investment.

Developer: Divine Dwelling Construction Company

# The Hamptons

The Hamptons at Fairway, located less than five minutes from the heart of New Kingston is a five storied, inclusive of basement parking, development featuring 42 one and two bedroom units. The development includes amenities such as elevator, pool, gym and stand by power to name a few. Units currently being advertised for sale will be of particular interest to singles, young couples as well as those interested in real estate for short term rentals.

**Developer: New Heights Construction and Development Limited**

## Edinburgh

This development is located in the Constant Spring Gardens area of St. Andrew, and on completion will feature 10 studio apartment units and will be an ideal first home for young professionals.

**Developer: Woodchip Development Limited**

# Nell's Cottage

This development features 25 – two (2) bedroom houses in a gated community in Halse Hall, Clarendon. It is ideal for families and those single persons desiring spacious quarters. It offers ample space for expansion.

**Developer: Nell's Cottage Limited**

# Sherlock Manor

This development consists of four (4) townhouses and one (1) detached villa in St. Andrew. The townhouses are ideal for families or for persons seeking to acquire a property for a long term real estate investment.

**Developer: Jamaica Methodist District**


# Upland Manor

This gated complex features 24 units in four block of two and three bedroom unit and is located in Kingston 6, St. Andrew. It is ideal for single persons or for persons desirous of purchasing properties for the purpose of real estate investment.

**Developer: Shally's Developers Limited**


# Richesse

Richesse Chateaux consists of nine 9 studio apartment units and is located in the Kingston 10 area of St. Andrew. All units in this development have been sold.

Developers: Gefal and Jhamms Limited

Facilitating Home Ownership

# Directors' & Senior Executives' Compensation

## Directors' Compensation - April 1, 2017 to March 31, 2018

| Position / Title | | Fees | Motor Vehicle / Travelling | Honoraria | Other Compensation | Total |
|---|---|---|---|---|---|---|
| Board Chairman / Sub-Committee Chairman | Dr. Patrick Thelwell | $238,650 | - | - | - | $238,650 |
| Director / Sub-Committee Chairman | Ryan Parkes | $182,250 | - | - | - | $182,250 |
| Director / Sub-Committee Chairman (Acting Chair for the three Board Meetings held for January to March, 2018) | Hugh Faulkner | $211,750 | - | - | - | $211,750 |
| Director | Doreen Prendergast | $154,300 | - | - | - | $154,300 |
| Director | Tiva Forbes | $137,850 | - | - | - | $137,850 |
| Director | Courtney Hamilton | $137,550 | - | - | - | $137,550 |
| Director | Louis Campbell | $121,000 | - | - | - | $121,000 |
| | | | | | TOTAL | $1,183,350 |

## Senior Executives' Compensation - April 1, 2017 to March 31, 2018

| Position / Title | Names | Salary | Gratuity | Travel Allowance | Pension | Incentive | Vacation | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| General Manager | Courtney Wynter | $8,098,273 | $1,971,544 | $1,285,723 | - | $771,264 | $488,863 | - | $12,615,667 |
| Director, Business Operations | Hecton Hemans | $5,208,835 | $1,265,344 | $1,341,624 | - | $495,000 | - | - | $8,310,803 |
| Corporate Secretary / Legal Officer | Donna Samuels Stone | $6,088,835 | - | $1,341,624 | $279,316 | $619,043 | - | - | $8,328,818 |
| Manager, Finance | Suzette Austin | $3,885,000 | - | $1,341,624 | - | - | - | - | $5,226,624 |
| Manager, Human Resource & Administration | Denise Bryson Hinds | $3,219,933 | - | $707,448 | - | $214,686 | - | - | $4,142,067 |
| TOTAL | | $26,500,876 | $3,236,888 | $6,018,043 | $279,316 | $2,099,993 | $488,863 | - | $38,623,979 |

# Financial Statements for the Jamaica Mortgage Bank and Its Subsidiaries

for the year ended 31st March 2018

Crowe Horwath.

**Crowe Horwath Jamaica**
Member Crowe Horwath International

Corporate Head Office
47-49 Trinidad Terrace,
Kingston 5

Phone 876.908.3124
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**REPORT OF THE INDEPENDENT AUDITORS**
**TO THE MEMBERS**
**RE JAMAICA MORTGAGE BANK**

**Report on the Financial Statements**

We have audited the accompanying financial statements of the 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 statement of financial position as at 31st March 2018, Group's and Bank's statements of comprehensive income, statement of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and Bank as at 31st March 2018, and of the Group's and Bank's financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and Bank, in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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**MANDEVILLE**
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**RUNAWAY BAY**
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**REPORT OF THE INDEPENDENT AUDITORS**
**TO THE MEMBERS**
**RE JAMAICA MORTGAGE BANK**

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Group's and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and Bank's financial reporting process.

**Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Crowe Horwath.

**REPORT OF THE INDEPENDENT AUDITORS**
**TO THE MEMBERS**
**RE JAMAICA MORTGAGE BANK**

**Report on Additional Matters as Required by the Mortgage Bank Act**

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion, proper accounting records have been maintained, so far as appears from our examination of those records, and the financial statements which are in agreement therewith, give the information required by the Mortgage Act, in the manner required.

The engagement partner on the audit resulting in this independent auditors' report is Mr. Dawkins Brown.

Crowe Horwath Jamaica

**Crowe Horwath Jamaica**

May 31, 2018

**JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS AT 31ST MARCH 2018**
(Expressed in Jamaican Dollars unless otherwise indicated)

| | Notes | 2018 $ | 2017 $ | |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and Cash Equivalents | 4 | 8,589,729 | 6,515,271 | |
| Certificates of Deposit | 5 | 16,680,445 | 30,192,914 | |
| Resale Agreements | 6 | 7,938,823 | 119,609,884 | |
| Receivables and Prepayments | 7 | 22,016,493 | 77,482,953 | |
| Income Tax Recoverable | 8 | 161,117,287 | 195,853,480 | |
| Loans Receivable | 10 | 2,150,599,515 | 1,651,846,045 | |
| Land Held for Development and Sale | 11(c) | 408,988,800 | 488,988,800 | |
| Post Retirement Benefits | 12(b) | 63,876,000 | 37,747,000 | |
| Property, Plant and Equipment | 13 | 55,126,596 | 49,842,412 | |
| **TOTAL ASSETS** | | 2,894,933,688 | 2,658,078,759 | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **LIABILITIES** | | | | |
| Payables and Accruals | 14 | 37,642,429 | 36,488,303 | |
| Bonds and Loans Payable | 15 | 472,478,218 | 399,503,941 | * |
| Short Term Loan | 16 | 442,903,292 | 500,402,940 | * |
| Deferred Tax Liability | | 39,916,963 | 1,599,860 | |
| Income Tax Payable | | 16,042,810 | 12,453,683 | |
| | | 1,008,983,712 | 950,448,727 | |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share Capital | 17 | 500,000,000 | 500,000,000 | |
| Reserve Fund | 18 | 500,000,000 | 500,000,000 | |
| Special Reserve Fund | 19 | 340,083,058 | 340,083,058 | |
| Retained Earnings | | 545,866,918 | 367,546,974 | |
| | | 1,885,949,976 | 1,707,630,032 | |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | 2,894,933,688 | 2,658,078,759 | |

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

*Reclassification of Deferred Expense relating to Bonds and Loans Payable and Short Term Loans.

**APPROVED FOR ISSUE BY THE BOARD OF DIRECTORS ON** May 31, 2018 **AND SIGNED ON ITS BEHALF BY:**

**MR. HUGH FAULKNER**
*for* CHAIRMAN

**MR. RYAN PARKES**
**DIRECTOR**

**JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31ST MARCH 2018**
(Expressed in Jamaican Dollars unless otherwise indicated)

| | Note | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **Interest Income** | | | |
| Interest from Loans | 20 | 149,851,941 | 109,893,778 |
| Interest from Deposit | 20 | 3,006,763 | 12,719,014 |
| | | 152,858,704 | 122,612,792 |
| **Allowances for Loan Impairment** | | | |
| (Allowance for Impairment Losses on Loans)/Net Recoveries | 21 | (61,320,151) | 63,087,767 |
| **Net Interest Income after Provision** | | 91,538,553 | 185,700,559 |
| **Non-Interest Income** | | | |
| Other Income | 22 | 325,760,526 | 133,844,369 |
| | | 417,299,079 | 319,544,928 |
| **Administrative Expenses** | | | |
| Staff Costs | 23 | (97,641,388) | (86,225,962) |
| Administrative and General Expenses | 24 | (44,449,374) | (45,967,673) |
| | | (142,090,762) | (132,193,635) |
| **Finance Costs** | | | |
| Interest on Bonds Payable | | (69,877,749) | (71,491,330) |
| **Profit Before Taxation** | | 205,330,568 | 115,859,963 |
| Taxation | 26 | (39,562,624) | (20,207,400) |
| **Profit for the Year** | | 165,767,944 | 95,652,563 |
| **Other Comprehensive Income/(Deficit)** | | | |
| Other comprehensive income/(expense) not to be reclassified to profit or loss in subsequent periods: | | | |
| Remeasurement gains/(losses) on the defined benefit plan | | 28,521,000 | (6,046,000) |
| Deferred tax relating to remeasurement (losses)/gains on the defined benefit plan | | (15,969,000) | 1,511,500 |
| | | 12,552,000 | (4,534,500) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | | 178,319,944 | 91,118,063 |

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

**JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31ST MARCH 2018**
(Expressed in Jamaican Dollars unless otherwise indicated)

| | Share Capital | Reserve Fund | Special Reserve Fund | Retained Earnings | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Balance as at April 1, 2016** | 500,000,000 | 500,000,000 | 340,083,058 | 276,428,911 | 1,616,511,969 |
| Surplus for the Year | - | - | - | 95,652,563 | 95,652,563 |
| Other Comprehensive Deficit | - | - | - | (4,534,500) | (4,534,500) |
| Total Comprehensive Income | - | - | - | 91,118,063 | 91,118,063 |
| **Balance as at March 31, 2017** | 500,000,000 | 500,000,000 | 340,083,058 | 367,546,974 | 1,707,630,032 |
| Surplus for the Year | - | - | - | 165,767,944 | 165,767,944 |
| Other Comprehensive Income | - | - | - | 12,552,000 | 12,552,000 |
| Total Comprehensive Income | - | - | - | 178,319,944 | 178,319,944 |
| **Balance as at March 31, 2018** | 500,000,000 | 500,000,000 | 340,083,058 | 545,866,918 | 1,885,949,976 |

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

**JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 31ST MARCH 2018**
(Expressed in Jamaican Dollars unless otherwise indicated)

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Cash Flows from Operating Activities | | |
| **Profit for the Year before Taxation** | 205,330,568 | 115,859,963 |
| Adjustments to reconcile profit for the year to net cash provided by operating activities: | | |
| Depreciation - Property, Plant and Equipment | 4,890,113 | 4,578,458 |
| Provision for Loan Impairment Losses on Loans and Other Receivables, Net of Recoveries | 61,320,151 | (63,087,787) |
| (Gain)/Loss on Disposal of Land Held for Development and Sale | (2,961,000) | 1,535,860 |
| Pension Expense | 4,408,000 | 1,196,000 |
| Amortization of bond issue costs | (544,569) | (1,033,682) |
| Interest Income | (152,858,704) | (122,612,792) |
| Interest Expense | (69,877,749) | (71,491,330) |
| | 49,706,810 | (135,055,310) |
| **Decrease/(Increase) in Operating Assets** | | |
| Receivables and Prepayments | 55,466,460 | (63,872,062) |
| Loans Receivable | (532,308,406) | (475,267,303) |
| **Increase/(Decrease) in Operating Liabilities** | | |
| Payables and Accruals | 1,154,126 | (5,123,182) |
| Contributions paid post retirement employee benefits | (2,016,000) | (1,841,000) |
| **Cash Used in Operations** | (427,997,010) | (681,158,857) |
| Interest Received | 125,304,731 | 175,286,002 |
| Income Tax Paid | 21,110,799 | (13,643,633) |
| **Net Cash Used in Operating Activities** | (281,581,480) | (519,516,488) |
| **Cash Flows from Investing Activities:** | | |
| Resale Agreement | 111,452,960 | 70,966,329 |
| Certificate of Deposit | 13,519,328 | 389,225,460 |
| Proceeds on Disposal of Land Held for Development and Sale | 82,961,000 | 96,464,120 |
| Additions to Land Held for Development and Sale | - | (80,000,000) |
| Additions to Property, Plant and Equipment | (10,174,297) | (833,785) |
| **Net Cash Provided by Investing Activities** | 197,758,991 | 475,822,124 |
| **Cash Flows from Financing Activities:** | | |
| Interest Paid | 68,289,408 | 67,948,069 |
| Long Term Loan Repaid | (425,000,000) | (750,000,000) |
| Long Term Loan Issued | 500,000,000 | 200,000,000 |
| Short Term Loan Issued | 1,283,732,000 | 750,000,000 |
| Short Term Loan Repaid | (1,341,124,461) | (250,655,313) |
| **Net Cash Provided by Financing Activities** | 85,896,947 | 17,292,756 |
| **Net Increase/(Decrease) in Cash and Cash Equivalents** | 2,074,458 | (26,401,608) |
| **Cash and Cash Equivalents at Beginning of the Year** | 6,515,271 | 32,916,879 |
| **Cash and Cash Equivalents at End of the Year** | **8,589,729** | **6,515,271** |

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

**JAMAICA MORTGAGE BANK**
**STATEMENT OF FINANCIAL POSITION**
**AS AT 31ST MARCH 2018**
(Expressed in Jamaican Dollars unless otherwise indicated)

| | Note | 2018 $ | 2017 $ | |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and Cash Equivalents | 4 | 8,589,729 | 6,515,271 | |
| Certificates of Deposit | 5 | 16,680,445 | 30,192,914 | |
| Resale Agreements | 6 | 7,938,823 | 119,609,884 | |
| Receivables and Prepayments | 7 | 22,016,493 | 77,482,953 | |
| Income Tax Recoverable | 8 | 161,117,287 | 195,853,480 | |
| Interest In Subsidiary | 9 | 124,850,513 | 124,669,433 | |
| Loans Receivable | 10 | 2,150,599,515 | 1,651,846,045 | |
| Land Held for Development and Sale | 11(b) | 408,987,800 | 488,987,800 | |
| Post Retirement Benefits | 12(b) | 63,876,000 | 37,747,000 | |
| Property, Plant and Equipment | 13 | 55,126,596 | 49,842,412 | |
| **TOTAL ASSETS** | | 3,019,783,201 | 2,782,747,192 | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **LIABILITIES** | | | | |
| Payables and Accruals | 14 | 25,492,430 | 24,388,304 | |
| Bonds and Loans Payable | 15 | 472,478,218 | 399,503,941 | * |
| Short Term Loan | 16 | 442,903,292 | 500,402,940 | * |
| Deferred Tax Liability | | 39,916,963 | 1,599,860 | |
| Income Tax Payable | | 16,042,810 | 12,453,683 | |
| | | 996,833,713 | 938,348,728 | |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share Capital | 17 | 500,000,000 | 500,000,000 | |
| Reserve Fund | 18 | 500,000,000 | 500,000,000 | |
| Special Reserve Fund | 19 | 340,083,058 | 340,083,058 | |
| Retained Earnings | | 682,866,430 | 504,315,406 | |
| | | 2,022,949,488 | 1,844,398,464 | |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | 3,019,783,201 | 2,782,747,192 | |

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

*Reclassification of Deferred Expense relating to Bonds and Loans Payable and Short Term Loans.

**APPROVED FOR ISSUE BY THE BOARD OF DIRECTORS ON** May 31, 2018 **AND SIGNED ON ITS BEHALF BY:**

**MR. HUGH FAULKNER**
*for* CHAIRMAN

**MR. RYAN PARKES**
**DIRECTOR**

**JAMAICA MORTGAGE BANK**
**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31ST MARCH 2018**
(Expressed in Jamaican Dollars unless otherwise indicated)

| | Note | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **Interest Income** | | | |
| Interest from Loans | 20 | 149,851,941 | 109,893,778 |
| Interest from Deposit | 20 | 3,006,763 | 12,719,014 |
| | | 152,858,704 | 122,612,792 |
| **Allowances for Loan Impairment** | | | |
| Allowance for Impairment Losses on Loans, Net Recoveries | 21 | (61,320,151) | 63,087,767 |
| **Net Interest Income after Provision** | | 91,538,553 | 185,700,559 |
| **Non-Interest Income** | | | |
| Other Income | 22 | 325,760,526 | 133,844,369 |
| | | 417,299,079 | 319,544,928 |
| **Administrative Expenses** | | | |
| Staff Costs | 23 | (97,641,388) | (86,225,962) |
| Administrative and General Expenses | 24 | (44,218,294) | (45,724,412) |
| | | (141,859,682) | (131,950,374) |
| **Finance Costs** | | | |
| Interest on Bonds Payable | | (69,877,749) | (71,491,330) |
| **Profit Before Taxation** | | 205,561,648 | 116,103,224 |
| Taxation | 26 | (39,562,624) | (20,207,400) |
| **Profit for the Year** | | 165,999,024 | 95,895,824 |
| **Other Comprehensive Income/(Deficit)** | | | |
| Other comprehensive income/(deficit) not to be reclassified to profit or loss in subsequent periods: | | | |
| Remeasurement gains/(losses) on the defined benefit plan | | 28,521,000 | (6,046,000) |
| Deferred tax relating to remeasurement (losses)/gains on the defined benefit plan | | (15,969,000) | 1,511,500 |
| | | 12,552,000 | (4,534,500) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | | 178,551,024 | 91,361,324 |

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

**JAMAICA MORTGAGE BANK**
**STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31ST MARCH 2018**
(Expressed in Jamaican Dollars unless otherwise indicated)

| | Share Capital | Reserve Fund | Special Reserve Fund | Retained Earnings | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Balance as at April 1, 2016** | 500,000,000 | 500,000,000 | 340,083,058 | 412,954,082 | 1,753,037,140 |
| Surplus for the Year | - | - | - | 95,895,824 | 95,895,824 |
| Other Comprehensive Expense | - | - | - | (4,534,500) | (4,534,500) |
| Total Comprehensive Income | - | - | - | 91,361,324 | 91,361,324 |
| **Balance as at March 31, 2017** | 500,000,000 | 500,000,000 | 340,083,058 | 504,315,406 | 1,844,398,464 |
| Surplus for the Year | - | - | - | 165,999,024 | 165,999,024 |
| Other Comprehensive Income | - | - | - | 12,552,000 | 12,552,000 |
| Total Comprehensive Income | - | - | - | 178,551,024 | 178,551,024 |
| **Balance as at March 31, 2018** | 500,000,000 | 500,000,000 | 340,083,058 | 682,866,430 | 2,022,949,488 |

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

**JAMAICA MORTGAGE BANK**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 31ST MARCH 2018**
(Expressed in Jamaican Dollars unless otherwise indicated)

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Cash Flows from Operating Activities | | |
| **Profit for the Year before Taxation** | 205,561,648 | 116,103,224 |
| Adjustments to reconcile profit for the year to net cash provided by operating activities: | | |
| Depreciation - Property, Plant and Equipment | 4,890,113 | 4,578,458 |
| Provision for Loan Impairment Losses on Loans and Other Receivables, Net of Recoveries | 61,320,151 | (63,087,767) |
| Loss on Disposal of Land Held for Development and Sale | (2,961,000) | 1,535,860 |
| Pension Expense | 4,408,000 | 1,196,000 |
| Amortization of bond issue costs | (544,569) | (1,033,682) |
| Interest Income | (152,858,704) | (122,612,792) |
| Interest Expense | (69,877,749) | (71,491,330) |
| | 49,937,890 | (134,812,029) |
| **(Increase)/Decrease in Operating Assets** | | |
| Receivables and Prepayments | 55,466,460 | (63,872,062) |
| Loans Receivable | (532,308,406) | (475,267,323) |
| **Increase/(Decrease) in Operating Liabilities** | | |
| Payables and Accruals | 1,104,126 | (5,173,182) |
| Contributions paid post retirement employee benefits | (2,016,000) | (1,841,000) |
| **Cash Used in Operations** | (427,815,930) | (680,965,596) |
| Interest Received | 125,304,731 | 175,286,002 |
| Income Tax Paid | 21,110,799 | (13,643,633) |
| **Net Cash Used in Operating Activities** | (281,400,400) | (519,323,227) |
| **Cash Flows from Investing Activities:** | | |
| Resale Agreement | 111,452,960 | 70,966,329 |
| Certificates of Deposit | 13,519,328 | 389,225,460 |
| Proceeds on Disposal of Land Held for Development and Sale | 82,961,000 | 96,464,120 |
| Additions to Property, Plant and Equipment | (10,174,297) | (833,785) |
| Additions to Land Held for Development and Sale | - | (80,000,000) |
| Interest in Subsidiary | (181,080) | (193,261) |
| **Net Cash Provided by Investing Activities** | 197,577,911 | 475,628,863 |
| **Cash Flows from Financing Activities:** | | |
| Interest Paid | 68,289,408 | 67,948,069 |
| Long Term Loan Repaid | (425,000,000) | (750,000,000) |
| Long Term Loan Issued | 500,000,000 | 200,000,000 |
| Short Term Loan Issued | 1,283,732,000 | 750,000,000 |
| Short Term Loan Repaid | (1,341,124,461) | (250,655,313) |
| **Net Cash Used in Financing Activities** | 85,896,947 | 17,292,756 |
| Increase/(Decrease) in Liquid Assets | 2,074,458 | (26,401,608) |
| Liquid Assets at Beginning of Year | 6,515,271 | 32,916,879 |
| Liquid Assets at End of Year | **8,589,729** | **6,515,271** |
| **Non-Cash item:** | | |
| Non Current asset held for sale | - | - |
| | - | - |

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

## 1. Identification:

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.

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.

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

(a) lend money on mortgage and carry out any other transactions involving mortgages;

(b) lend money on security to be used for the construction of premises for private residential purposes or of a commercial or industrial nature;

(c) guarantee loans from private investment sources for building development;

(d) furnish financial advice and provide or assist in obtaining managerial, technical and administrative services for persons engaged in building and development in Jamaica; and

(e) sell investments of whatever kind belonging to the Bank, as and when appropriate.

The present activities of the Bank are the:

(a) mobilization and disbursement, on a wholesale basis, of loan funds to finance housing development in Jamaica;

(b) administration of, including investment management for the Government of Jamaica (GOJ) mortgage insurance fund; and

(c) operation of a secondary mortgage market facility.

## 2. Adoption of Standards, Interpretations and Amendments:

### (a) Standards and Interpretations in respect of published standards that are in effect:

The International Accounting Standards Board (IASB) issued certain new standards and interpretations as well as amendments to existing standards, which became effective during the year under review. Management has assessed the relevance of these new standards, interpretations and amendments and has adopted and applied in these financial statements, those standards which are considered relevant to the Bank were:-

**Amendments to IAS 7 - Statement of Cash Flows (Effective January 2017)**

Amends IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

**2. Adoption of Standards, Interpretations and Amendments (cont'd) :**

**(a) Standards and interpretations in respect of published standards which are in effect (cont'd):**

**IAS 12 - Income Taxes -Recognition of Deferred Tax Assets for Unrealised Losses (Effective January 2017 )**

Amends IAS 12 Income Taxes to clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

These affected the financial statements for accounting periods beginning on or after the first day of the months stated. The adoption of these Standards and amendments did not have a material impact on the Fund's financial

**(b) Standards and interpretations in respect of published standards that are not in effect:**

**IFRS 9: Financial Instruments (2014) (Effective January 1, 2018)**

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

*Classification and measurement:* Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Hence, financial assets are to be classified into three measurement categories: those measured at amortised cost, those to be measured subsequently at fair value through other profit and loss (FVPL) and those to be measured subsequently at fair value through other comprehensive income (FVOCI). Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

*Impairment:* The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.

*Hedge accounting:* Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

*Derecognition:* The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Note: Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

Management has determined that the standard is relevant to existing policies for its current operations, but has not yet assessed the impact on adoption.

**2. Adoption of Standards, Interpretations and Amendments (Cont'd):**

**(b) Standards and interpretations in respect of published standards that are not in effect (cont'd):**

**IFRS 15 - Revenue from Contracts with Customers (IAS 18 will be superseded by IFRS 15 Revenue from Contracts with Customers.) (Effective January 2018)**

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- 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.

Guidance is provided on topics such as the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

**Clarifications to IFRS 15 : Revenue from Contracts with Customers (Effective January 2018)**

Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

*Improvements to IFRS 2014–2016 cycle contains amendments to certain standards and interpretations and are effective for accounting periods beginning on or after January 1, 2017 and 2018. The main amendment is as follows:*

- **IAS 28: Investments in Associates and Joint Ventures (2011) (Effective January 2018)**

  Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

**IFRS 16 - Leases (Effective January 2019)**

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

**Amendments to IAS 28: Investments in Associates and Joint Ventures (2011) Long-term Interests in Associates and Joint Ventures (Effective January 2019)**

Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

**2. Adoption of Standards, Interpretations and Amendments (Cont'd):**

**(b) Standards and interpretations in respect of published standards that are not in effect (cont'd):**

**IFRIC 22 - Foreign Currency Transactions and Advance Consideration (Effective January 2018)**

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

**Prepayment Features with Negative Compensation (Amendments to IFRS 9) (Effective January 2019)**

Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

*Annual Improvements to IFRS Standards 2015–2017 Cycle contains amendments to certain standards and interpretations and are effective for accounting periods beginning on or after January 2019.*

- **IAS 23: Borrowing Costs (Effective January 2019)**

  The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

**Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (Effective January 2019)**

The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are:

- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement
- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

**Amendments to References to the Conceptual Framework in IFRS Standards**

Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

These affect financial statements for accounting periods beginning on or after the first day of the month stated. The Group is assessing the impact these amendments will have on its 2019 and 2020 financial statements.

**3. Statement of Compliance, Basis of Preparation and Significant Accounting Policies: (Cont'd)**

(a) Statement of Compliance and Basis of Preparation -

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.

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

(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 $63.88 million (2017: $37.75 million) (Note 13) are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include the discount rate used to determine the present value of estimated future cash flows required to settle the pension obligations and to determine the return on plan assets.

  The Bank's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds or, in their absence, certain Government of Jamaica bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of the bonds include the issue size of the bonds and the quality of the bonds. There are also demographic assumptions that impact the result of the valuation. Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations. Note 13(f) details sensitivity analyses in respect of some of these assumptions.

**3. Statement of Compliance, Basis of Preparation and Significant Accounting Policies: (Cont'd)**

(b) Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Cont'd)

(ii) Key Sources of Estimation Uncertainty (cont'd)

- Allowance for Loan Losses

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

To the extent that the net present value of estimated cash flows changed adversely by 2 percent, the provision as estimated would be increased from $239.37 million to $244.16 million (2017: $514.61 million to $524.90 million).

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

- Taxes

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

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

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

(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
- 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.

**3. Statement of Compliance, Basis of Preparation and Significant Accounting Policies: (Cont'd)**

(c) Basis of Consolidation (cont'd)

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

(d) Financial Assets and Liabilities

The Group classifies its financial assets as loans and receivables. Management determines the classification of its investment 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 the liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net direct issue costs.

(i) Initial and Subsequent Recognition

Financial assets and liabilities are recognized 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.

**3. Statement of Compliance, Basis of Preparation and Significant Accounting Policies: (Cont'd)**

(d) Financial Assets and Liabilities (cont'd)

(i) Initial and Subsequent Recognition (cont'd)

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.

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.

**3. Statement of Compliance, Basis of Preparation and Significant Accounting Policies: (Cont'd)**

(d) Financial Assets and Liabilities (cont'd)

(iv) Fair Value Measurement (cont'd)

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 27.

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

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

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

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

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

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

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) Property, Plant 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

**3. Statement of Compliance, Basis of Preparation and Significant Accounting Policies: (Cont'd)**

(e) Property, Plant and Equipment (cont'd)

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.

(f) Impairment of Tangible and Intangible Assets

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years.

A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**3. Statement of Compliance, Basis of Preparation and Significant Accounting Policies: (Cont'd)**

(g) 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 5). 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

(h) Investment in Subsidiary

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

(i) Land Held for Development 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. Statement of Compliance, Basis of Preparation and Significant Accounting Policies: (Cont'd)**

(j) 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.

(k) 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. Statement of Compliance, Basis of Preparation and Significant Accounting Policies: (Cont'd)**

(l) Non-Current Assets Held-for-Sale

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

(m) 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.

(n) Certificates of Deposit

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

(o) 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.

(p) 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.

**3. Statement of Compliance, Basis of Preparation and Significant Accounting Policies: (Cont'd)**

(p) Taxation (cont'd)

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.

<u>Current and Deferred Tax for the Year</u>

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.

(q) Revenue Recognition

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

(i) Interest Income

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

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

(ii) Other Income

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

(r) Interest Expense

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

(s) Foreign Currencies

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

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

### 4. Cash and Cash Equivalents

| | Group and Bank | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Petty Cash | 25,000 | 25,000 |
| Current Account | 8,429,005 | 6,191,809 |
| Savings Accounts | 135,724 | 298,462 |
| | 8,589,729 | 6,515,271 |

### 5. Certificates of Deposit

| | Group and Bank | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Certificates of Deposit | 16,659,112 | 30,178,440 |
| Interest Receivables | 21,333 | 14,474 |
| | 16,680,445 | 30,192,914 |

Certificates of Deposit are made for a period of six months and earn interest at rates ranging between 1.10% to 2.30% (2017: 4.25% to 6.10%) per annum.

Certificates of Deposits equivalent to 3 months interest is maintained as a part of a debt service ratio arrangement for short-term loan totalling $500M. The actual loan balance as at March 31, 2018 was $318M.

### 6. Resale Agreements

| | Group and Bank | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Government of Jamaica -Local Registered Stock | - | 119,377,803 |
| Repurchase Agreements | 7,924,843 | - |
| Interest Receivables | 13,980 | 232,081 |
| | 7,938,823 | 119,609,884 |

These securities mature within one year after year end with interest rates on local currency nil (2017: 4.25% to 6.10%) and interest rates on US$ currency at 1.10% (2017: 2.25%) per annum.

### 7. Receivables and Prepayments

| | Group and Bank | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Receivables | 19,740,102 | 75,565,610 |
| Prepayment | 2,276,391 | 1,917,343 |
| | 22,016,493 | 77,482,953 |

### 8. Income Tax Recoverable

Income Tax Recoverable represents either the net of partial amounts recovered or total outstanding amounts as at 31st March 2018. The company has been in dialogue with the tax authorities to settle the full amount outstanding.

### 9. Interest In Subsidiary

| | The Bank | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Ordinary Shares | 2 | 2 |
| Long Term Loan | 124,850,511 | 124,669,431 |
| | 124,850,513 | 124,669,433 |

On January 5, 1999, the Bank formed a wholly-owned subsidiary, JMB Developments Limited, ("JMBD") to carry on the business of residential, commercial and industrial real estate development. On July 5, 1999, the subsidiary commenced operations; however, it is currently inactive. JMBD had deficiency in assets at the reporting date. The Bank has pledged to, and continues to support the subsidiary.

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

### 10. Loans Receivable

| | Group and Bank | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Construction Loans - Non-Governmental Borrowers (Note 10(a) below) | 2,173,088,348 | 1,978,086,012 |
| Accrued Interest Receivables | 194,367,519 | 166,602,304 |
| | 2,367,455,867 | 2,144,688,316 |
| Less: Allowance for Impairment Losses (Note 10(b) below) | (239,370,622) | (514,608,043) |
| | 2,128,085,245 | 1,630,080,273 |
| Mortgages (Note 10(c)) | | |
| – Staff | 13,848,031 | 11,990,243 |
| – Ex Staff Members | 8,666,239 | 9,775,529 |
| | 22,514,270 | 21,765,772 |
| | 2,150,599,515 | 1,651,846,045 |

(a) Construction loans are issued at interest rates ranging from 13.0% - 17.0%. 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 | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| At the beginning of the year | 514,608,043 | 577,695,810 |
| Charged against revenue during the year (Note 21) | 73,537,101 | 51,183,877 |
| Write back of provision (Note 21) | (12,939,255) | (14,600,000) |
| Bad debt recovery (Note 21) | (247,140,970) | (99,671,644) |
| | 328,064,919 | 514,608,043 |
| Bad debts written off | (88,694,297) | - |
| At end of year | 239,370,622 | 514,608,043 |

**10. Loans Receivable (Cont'd)**

(b) Movement on allowance for impairment losses on loans (cont'd):

| | Group and Bank | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Comprising: | | |
| Specific provisions | 222,899,066 | 504,738,329 |
| General provisions | 16,471,556 | 9,869,714 |
| | 239,370,622 | 514,608,043 |

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

**11. 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.

(b) 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 following properties are held by the group :

| | **2018** | **2017** |
|---|---|---|
| | **$** | **$** |
| Whitehall | 270,000,000 | 270,000,000 |
| Phoenix Park (see Note 12(d)) | 28,100,000 | 28,100,000 |
| Norwich (see Note 12(e)) | 45,887,800 | 45,887,800 |
| Mount Gotham (see Note 12(d)) | 65,000,000 | 65,000,000 |
| Toby Abbotts | - | 80,000,000 |
| | 408,987,800 | 488,987,800 |

**11. Land Held For Development and Sale (Cont'd)**

| | | 2018 | 2017 |
|---|---|---|---|
| | | $ | $ |
| (c) | Bank | 408,987,800 | 488,987,800 |
| | Subsidiary | 1,000 | 1,000 |
| | Group | 408,988,800 | 488,988,800 |

(d) Asset Pledged as Security

Land held by the Bank, specifically Phoenix Park and Mount Gotham with a carrying value of $93.10 million (2017: $93.10 million), and land held by the subsidiary with a carrying value of $1,000, was pledged to secure borrowings of the Group totalling $500 million related to Shelter Bond 13 (See Note 16 (c)) that was repaid in May 20, 2016.

(e) 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.

**12. 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, 2016 indicated a past service surplus of $88.4 million. The actuaries recommended that, based on the value of the fund, contributions of 0.25% of pensionable salaries should be made by the Bank. Contributions during the year ended March 31, 2018 were at a rate of 5.2% of pensionable salaries. The next valuation is due on July 31, 2019. 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 May 15, 2018 (2017: May 10, 2017) by Rambarran & Associates Limited, Consulting Actuaries. This valuation was in respect of balances at March 31, 2018 and 2017. The valuation was carried out using the projected unit credit method.

**12. Post Retirement Benefits (Cont'd)**

(b) The amount recognised in the financial statement in respect of the plan are as follow:

(i) Plan Assets recognised in the Statement of Financial Position:

| | Group and the Bank | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Present Value of Fund Obligations | (203,988,000) | (191,995,000) |
| Fair Value of Plan Asset | 267,864,000 | 229,742,000 |
| | 63,876,000 | 37,747,000 |

(ii) Movements in net asset recognised in the Statement of Financial Position:

| | Group and Bank | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Net Defined Benefit Asset at the beginning of the year | 37,747,000 | 43,148,000 |
| Employer Contribution | 2,016,000 | 1,841,000 |
| Company Expense | (4,408,000) | (1,196,000) |
| Remeasurement Recognised in OCI | 28,521,000 | (6,046,000) |
| Net Defined Benefit Asset at year end | 63,876,000 | 37,747,000 |

(iii) (Income)/Expense recognised in the Statement of Comprehensive Income:

| | Group and Bank | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Current Service Cost | 8,308,000 | 5,330,000 |
| Net Interest Cost | | |
| Interest on Defined Benefit Obligation | 18,086,000 | 14,466,000 |
| Interest Income on Plan Asset | (21,986,000) | (18,600,000) |
| Expense recognized in Net Profit | 4,408,000 | 1,196,000 |
| Change in Financial Assumptions | 56,328,000 | (7,648,000) |
| Experience Adjustments | (84,849,000) | 13,694,000 |
| (Income)/Expense recognised in Other Comprehensive Income | (28,521,000) | 6,046,000 |

(c) Movement in Present Value of Obligation

| | Group and Bank | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Present Value at beginning | 191,995,000 | 164,370,000 |
| Service Cost | 8,308,000 | 5,330,000 |
| Interest Cost on Defined Obligation | 18,086,000 | 14,466,000 |
| Member Contribution | 4,738,000 | 3,845,000 |
| Benefits Paid | (3,299,000) | (7,427,000) |
| Remeasurement - Change in Financial Assumptions | 61,014,000 | (8,732,000) |
| Remeasurement - Change in Experience Assumptions | (76,854,000) | 20,143,000 |
| Present Value at End | 203,988,000 | 191,995,000 |

**12. Post Retirement Benefits ( Cont'd)**

(d) Movements in Fair Value of Plan Assets:

| | Group and Bank | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Fair Value of Plan Asset at the beginning of year | 229,742,000 | 207,518,000 |
| Contribution Paid | | |
| - Employer | 2,016,000 | 1,841,000 |
| - Employee | 4,738,000 | 3,845,000 |
| Interest Income on Plan Asset | 21,986,000 | 18,600,000 |
| Benefit Paid | (3,299,000) | (7,427,000) |
| Remeasurement - Changes in Financial Assumptions | 4,686,000 | (1,084,000) |
| Remeasurement - Changes in Experience Assumptions | 7,995,000 | 6,449,000 |
| Fair Value of Plan Asset at end of year | 267,864,000 | 229,742,000 |
| Plan Asset consist of the following : | | |
| Investment in Pooled Investment funds with Investment Strategies as follow: | | |
| Equities | 69,726,000 | 23,255,000 |
| Fixed Income Securities | 65,426,000 | 161,952,000 |
| Mortgage and Real Estate | 25,326,000 | 18,429,000 |
| Foreign Currency Fund | 43,216,000 | - |
| International Equity Fund | 12,017,000 | - |
| Global Markets Fund | 21,605,000 | - |
| Annuity Purchased | 32,595,000 | 28,602,000 |
| Other | (2,047,000) | (2,496,000) |
| Total Invested Asset | 267,864,000 | 229,742,000 |

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

| | Group and Bank | |
|---|---|---|
| | 2018 | 2017 |
| | % | % |
| Discount Rate at 31st March | 7.50 | 9.50 |
| Future Salary Increase | 4.50 | 6.50 |
| Future Pension Increase | 3.60 | 5.20 |
| Administrative Expense | 1.00 | 1.00 |
| Inflation | 4.50 | 6.50 |
| Minimum Funding Return | 0.25 | 6.25 |

**12. Post Retirement Benefits ( Cont'd)**

(e) Principal actuarial assumptions used for the purpose of the actuarial valuations (Cont'd):

**Demographic Assumptions**

(i) Mortality
Annuitant Mortality (GAM94)
Mortality rate 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:

| **As at 31st March 2018:** | **Discount Rate** | | **Salary Growth** | |
|---|---|---|---|---|
| Sensitivity Level | 1% Increase | 1% Decrease | 1% Increase | 1% Decrease |
| Impact on Defined Benefit Obligation | (18,568,000) | 26,296,000 | 9,626,000 | (8,215,000) |

| **As at 31st March 2017:** | **Discount Rate** | | **Salary Growth** | |
|---|---|---|---|---|
| Sensitivity Level | 1% Increase | 1% Decrease | 1% Increase | 1% Decrease |
| Impact on Defined Benefit Obligation | (17,072,000) | 22,172,000 | 7,687,000 | (6,554,000) |

| **As at 31st March 2018:** | **Pension Increase** | | **Mortality Improvement** | |
|---|---|---|---|---|
| Sensitivity Level | 1% Increase | 1% Decrease | 1% Increase | 1% Decrease |
| Impact on Defined Benefit Obligation | 22,417,000 | (18,860,000) | 2,463,000 | (2,492,000) |

| **As at 31st March 2017:** | **Pension Increase** | | **Mortality Improvement** | |
|---|---|---|---|---|
| Sensitivity Level | 1% Increase | 1% Decrease | 1% Increase | 1% Decrease |
| Impact on Defined Benefit Obligation | 21,095,000 | (17,803,000) | 2,464,000 | (2,500,000) |

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.

(f) The estimated contributions (for both employer and employee) expected to be paid into the pension fund during the next financial year amount to $7,068,000 (2017: 8,018,000).

(g) The expected pension benefit expense in the next year is expected to be $2,128,000 (2017: $4,350,000).

(h) The weighted average duration of the defined benefit obligation at the end of the reporting period is 34 years (2017: 34 years).

## 13. Property, Plant & Equipment:

| | Freehold Land | Furniture, Fixtures and Equipment | Freehold Building | Plant and Machinery | Motor Vehicle | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Group and Bank** | | | | | | |
| **At Cost or Valuation:** | | | | | | |
| 31st March 2016 | 3,000,000 | 38,033,923 | 72,109,916 | 110,000 | - | 113,253,839 |
| Additions | - | 833,785 | - | - | - | 833,785 |
| 31st March 2017 | 3,000,000 | 38,867,708 | 72,109,916 | 110,000 | - | 114,087,624 |
| Additions | - | 2,174,297 | - | - | 8,000,000 | 10,174,297 |
| 31st March 2018 | 3,000,000 | 41,042,005 | 72,109,916 | 110,000 | 8,000,000 | 124,261,921 |
| **Accumulated Depreciation:** | | | | | | |
| 31st March 2016 | - | 30,343,754 | 29,213,000 | 110,000 | - | 59,666,754 |
| Adjustment | - | (180,338) | 180,338 | - | - | - |
| Charge for year | - | 2,685,139 | 1,893,319 | - | - | 4,578,458 |
| 31st March 2017 | - | 32,848,555 | 31,286,657 | 110,000 | - | 64,245,212 |
| Charge for year | - | 2,863,462 | 1,893,318 | - | 133,333 | 4,890,113 |
| 31st March 2018 | - | 35,712,017 | 33,179,975 | 110,000 | 133,333 | 69,135,325 |
| **Net Book Values:** | | | | | | |
| **31st March 2018** | **3,000,000** | **5,329,988** | **38,929,941** | **-** | **7,866,667** | **55,126,596** |
| 31st March 2017 | 3,000,000 | 6,019,153 | 40,823,259 | - | - | 49,842,412 |
| 31st March 2016 | 3,000,000 | 7,690,169 | 42,896,916 | - | - | 53,587,085 |

Property located at 33 Tobago Avenue, Kingston has been pledged as collateral for Bond 12B (Note 15 (b)).

**14. Payables and Accruals**

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $ | $ | $ | $ |
| Other Payables | 19,205,568 | 17,461,365 | 7,205,568 | 5,461,365 |
| Accruals | 18,436,861 | 19,026,938 | 18,286,862 | 18,926,939 |
| | 37,642,429 | 36,488,303 | 25,492,430 | 24,388,304 |

**15. Bonds and Loans Payable**

| | The Group | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| (a) National Insurance Fund Loan | 50,000,000 | 50,000,000 |
| (b) Shelter Bond 12B | 150,000,000 | 150,000,000 |
| (c) Shelter Bond 14 | 150,000,000 | - |
| (d) NCB Term $250M | 125,000,000 | 200,000,000 |
| | 475,000,000 | 400,000,000 |
| Unamortised Bond Issuance Cost | (3,140,945) | (2,596,376) |
| | 471,859,055 | 397,403,624 |

| | The Group | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Principal | | |
| Due within 12 months of the statement of financial position date | 125,000,000 | 150,000,000 |
| Due thereafter (within one to five years) | 346,859,055 | 247,403,624 |
| | 471,859,055 | 397,403,624 |
| Accrued Interest on Bonds and Loans | 619,163 | 2,100,317 |
| | 472,478,218 | 399,503,941 |

(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 July 2014, the Bank issued Shelter Bond 12B which was repaid in full on July 23, 2017. A new bond was issued in September 2017 and is repayable in full on September 27, 2022 at a fixed rate of 8.00%. The bond is secured by a property located at 33 Tobago Avenue (See Note 13).

(c) In November 2017, the Bank issued Shelter Bond 14, at a fixed rate of 8.00% for two (2) years and variable thereafter at 1.1% above the 6 months weighted average treasury bill rate. The bond is repayable in full on November 30, 2022.

**15. Bonds and Loans Payable (Cont'd)**

(d) In August 2016, the Bank received a Term Loan at a fixed rate of 9.5% per annum for 24 months. Interest payments are due quarterly. The loan is repayable in July 2018 in two semi-annual payments after a 12 month moratorium on principal payments. The loan is secured by a letter of Negative Pledge and an Interest Reserve Account which should be equivalent to at least one quarter's interest payment. Amount received as at 31st March 2017 was $200M.

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 2.97% and 3.17%, respectively (2017: 6.13% and 6.32%). Unamortised bond issuance costs related to the bonds is $2,376,091 (2017: $333,000).

**16. Short Term Loan**

| | The Group | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| (a) Mortgage Insurance Fund | 250,000,000 | 250,000,000 |
| (b) NCB Revolving $250M | 192,972,000 | 250,000,000 |
| | 442,972,000 | 500,000,000 |
| Unamortised bond issuance cost | (1,019,774) | (655,313) |
| | 441,952,226 | 499,344,687 |
| Accrued Interest on Revolving Loan | 951,066 | 1,058,253 |
| | 442,903,292 | 500,402,940 |

(a) In May 2016, the Bank received a loan from the Mortgage Insurance Fund (MIF) at a fixed rate of 6.5% per annum for 12 months. Interest payments are due five days after June 30, 2016 and quarterly thereafter. The loan was repaid in full on 18th May 2017. The Bank subsequently received a new loan in the amount of $250,000,000 which was repayable on 28th February 2018. It is not secured. This is provided that no demand is made by the MIF on or before 12 months after the date of the disbursement and provided that there are no defaults by the Bank from the terms of repayment.

(b) In July 2016, the Bank received a revolving loan at a fixed rate of 8.80% per annum. In July 2017 the Bank's revolving loan facility of $250,000,000 was re-issued. The revolving loan facility is for 12 months to revolve at least once per year. Interest payments are due quarterly at a fixed rate of 8.55%. The loan is repayable in full on August 2, 2018 and is secured by a letter of Negative Pledge and an Interest Reserve Account which should be equivalent to at least one quarter's interest payment.

**17. Share Capital**

| | Group and Bank | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Authorized, issued and fully Paid | | |
| 5,000,000,000 ordinary shares of no par value at the beginning and end of the year | 500,000,000 | 500,000,000 |
| | 500,000,000 | 500,000,000 |

### 18. 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 17), no further transfers are required (see also Note 19).

### 19. 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 18).

### 20. Interest Income

| | Group and Bank | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Construction Loans | 148,214,070 | 108,559,472 |
| Mortgage Loans | 1,637,871 | 1,334,306 |
| Deposits (including Cash and Cash Equivalents) | 3,006,763 | 12,719,014 |
| | 152,858,704 | 122,612,792 |

### 21. Allowance for Impairment Losses (Net of Recoveries)

| | Group and Bank | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Charged against revenue during the year (Note 10) | 74,259,406 | 51,183,877 |
| Recoveries during the year (Note 10) | (247,140,970) | (99,671,644) |
| Write back of provision (Note 10) | (12,939,255) | (14,600,000) |
| Adjustment | 335,835,267 | - |
| Direct write off of amounts not deemed collectible | (88,694,297) | - |
| | 61,320,151 | (63,087,767) |

### 22. Other Income

| | Group and Bank | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Administration Fee – Mortgage Insurance Fund | 27,043,793 | 24,427,642 |
| Commitment and Administration Fees | 20,648,625 | 13,736,028 |
| Settlement of Loans Receivable | 750,000 | 3,940,852 |
| Other Income: | | |
| Proceeds from Loan Foreclosure | - | 80,000,000 |
| Other | 277,318,108 | 11,739,847 |
| | 325,760,526 | 133,844,369 |

## 23. Staff Costs

The aggregate cost of employees was as follows:

| | Group and Bank | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Salaries and Wages-Related Expenses | 83,761,335 | 77,694,260 |
| Statutory Payroll Contributions | 8,241,363 | 6,517,346 |
| Employees Benefit Expense (credit) (Note 12(b)(iii)) | 4,408,045 | 1,288,541 |
| Staff Welfare | 1,230,645 | 725,815 |
| | 97,641,388 | 86,225,962 |

## 24. Administrative and General Expenses

| | Group | | Bank | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $ | $ | $ | $ |
| Utilities | 5,082,611 | 4,414,955 | 5,082,611 | 4,414,955 |
| Printing, Postage and Stamp | 555,209 | 867,123 | 555,209 | 867,123 |
| Repairs & Maintenance | 1,408,794 | 1,037,342 | 1,408,794 | 1,037,342 |
| Insurance | 5,265,099 | 6,549,810 | 5,265,099 | 6,549,810 |
| Legal and Professional Fees | 2,196,936 | 3,931,613 | 2,052,156 | 3,782,197 |
| Auditor's Remuneration | 5,042,120 | 4,354,090 | 4,992,120 | 4,304,090 |
| Mortgage Processing Fees | 305,080 | 253,100 | 305,080 | 253,100 |
| Depreciation | 4,890,113 | 4,578,456 | 4,890,113 | 4,578,456 |
| Subscriptions and Publications | 724,678 | 681,416 | 724,678 | 681,416 |
| Customer Services and Activities | 1,799,830 | 2,179,356 | 1,799,830 | 2,179,356 |
| Bond Expenses | 4,283,866 | 3,662,724 | 4,283,866 | 3,662,724 |
| Non-Recoverable G.C.T. | 4,034,734 | 3,698,363 | 4,034,734 | 3,698,363 |
| General Expenses | 2,449,212 | 2,216,603 | 2,449,212 | 2,216,603 |
| Property Tax | 673,725 | 417,845 | 652,450 | 379,000 |
| Donations, Scholarships & Awards | 185,600 | 376,800 | 185,600 | 376,800 |
| Directors Fees | 1,183,350 | 1,246,050 | 1,183,350 | 1,246,050 |
| Computer Expenses | 1,591,279 | 1,459,920 | 1,591,279 | 1,459,920 |
| Meeting Expenses | 1,033,712 | 2,355,705 | 1,033,712 | 2,355,705 |
| Security | 995,751 | 1,131,756 | 995,751 | 1,131,756 |
| Bank Charges | 393,262 | 264,609 | 393,262 | 264,609 |
| Asset Tax | 15,025 | 5,000 | - | - |
| Miscellaneous Expenses | 339,388 | 285,037 | 339,388 | 285,037 |
| | 44,449,374 | 45,967,673 | 44,218,294 | 45,724,412 |

## 25. Profit Before Taxation

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

| | Group and Bank | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Depreciation | 4,890,113 | 4,578,456 |
| Director's emoluments- fees (Note 24) | 1,183,350 | 1,246,050 |
| Auditors' remuneration - current year | 4,992,120 | 4,304,090 |
| (Gain)/Loss on disposal of land held for development and sale | (2,961,000) | 1,535,860 |

## 26. Taxation

(a) Income Tax

Current and deferred taxes have been calculated using the tax rate of 25% (2016: 25%).

(i) The total charge for the period comprises:

| | Group and Bank | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Current Tax | 17,214,521 | 17,096,040 |
| Deferred Tax | 22,348,103 | 3,111,360 |
| | 39,562,624 | 20,207,400 |

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $ | $ | $ | $ |
| Profit Before Taxation | 205,330,568 | 115,859,963 | 205,561,648 | 116,103,224 |
| Computed "expected" tax expense | 51,332,642 | 28,964,991 | 51,390,412 | 29,025,806 |
| Tax effect of treating the following items differently for financial statement purposes than for tax reporting purposes: | | | | |
| Taxation losses (recognised)/not recognised | (7,190,862) | (6,575,000) | (7,190,862) | (6,575,000) |
| Employment tax credit | (6,777,023) | (5,434,081) | (6,777,023) | (5,434,081) |
| Expenses not allowed | 2,197,867 | 2,856,946 | 497,380 | 767,548 |
| Other | - | 394,544 | - | 394,544 |
| Actual tax charge recognised in the statement of profit or loss | 39,562,624 | 20,207,400 | 37,919,907 | 18,178,817 |
| Tax (credit)/charge recognised directly in other comprehensive income | (15,969,000) | 1,511,500 | (15,969,000) | 1,511,500 |

**26. Taxation (Cont'd)**

(b) Deferred Taxation

(i) Deferred taxes are calculated on all temporary differences using the current tax rate of 25% (2017: 25%).

Analysis for financial reporting purposes:

| | Group and Bank | |
|---|---|---|
| | **2018** | **2017** |
| | $ | $ |
| Deferred Tax Assets | 24,652,745 | 48,037,606 |
| Deferred Tax Liabilities | (64,569,708) | (51,148,966) |
| Net Asset (Liability) | (39,916,963) | (3,111,360) |

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

| | Group and Bank | |
|---|---|---|
| | **2018** | **2017** |
| | $ | $ |
| Charged to income for the year | (22,348,103) | (3,111,360) |
| (Charged)/Credited to other comprehensive income for the period | (15,969,000) | 1,511,500 |
| Net movement | (38,317,103) | (1,599,860) |

(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:

Deferred Tax Assets

| | Group and Bank | | | | | |
|---|---|---|---|---|---|---|
| | **Accrued Vacation** | **Tax Loss** | **Interest Payables** | **Accelerated Capital Allowances** | **Other** | **Total** |
| | $ | $ | $ | $ | $ | $ |
| At April 1, 2016 | 767,548 | 59,979,735 | 1,675,458 | 1,832,275 | 1,412,500 | 65,667,516 |
| Adjustments to Prior Year | - | 4,790,794 | - | - | - | 4,790,794 |
| Credited/(Charged) to income for the year | (270,168) | (22,530,122) | (885,816) | 210,473 | 1,054,929 | (22,420,704) |
| At March 1, 2017 | 497,380 | 42,240,407 | 789,642 | 2,042,748 | 2,467,429 | 48,037,606 |
| Credited/(Charged) to income for the year | 22,200 | (23,891,544) | (397,085) | (768,892) | 1,650,460 | (23,384,861) |
| At March 31, 2018 | 519,580 | 18,348,863 | 392,557 | 1,273,856 | 4,117,889 | 24,652,745 |

**26. Taxation (Cont'd)**

(b) Deferred Taxation (cont'd)

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

Deferred Tax Liabilities

| | Group and Bank | | |
|---|---|---|---|
| | **Pension Plan Asset** | **Interest Receivables** | **Total** |
| | **$** | **$** | **$** |
| At April 1, 2016 | (10,787,000) | (54,880,516) | (65,667,516) |
| (Charged)/Credit to income for the year | (161,250) | 13,168,300 | 13,007,050 |
| Credited to Other Comprehensive Income | 1,511,500 | - | 1,511,500 |
| At March 1, 2017 | (9,436,750) | (41,712,216) | (51,148,966) |
| (Charged)/Credit to income for the year | 9,436,750 | (6,888,492) | 2,548,258 |
| Credited to Other Comprehensive Income | (15,969,000) | - | (15,969,000) |
| At March 31, 2018 | (15,969,000) | (48,600,708) | (64,569,708) |

Subject to agreement with Commissioner General, Tax Administration Jamaica, at the end of the reporting period, the Group had unused tax losses of approximately $73.40 million (2017: $168.96 million) available for offset against future profits. A deferred tax asset of approximately $18.35 million (2017: $42.24 million) has been recognised in respect of $73.40 million (2017: $168.96 million) of these losses.

**27. Related Party Balances and Transactions**

A party is related to a 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* ) or 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.

(h) the Bank, or any member of the group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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

**27. Related Party Balances and Transactions (Cont'd)**

Balance outstanding at the end of the reporting period:

| | Group and Bank | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Due from the Mortgage Insurance Fund | 800,000 | - |
| Due to the Mortgage Insurance Fund - Short Term Loan | (250,044,520) | (250,000,000) |

| | Group and Bank | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Related Party Transaction: | | |
| Administration Fees - Mortgage Insurance Fund | 27,043,793 | 24,427,642 |
| Interest on Short Term Loan - Mortgage Insurance Fund | (16,555,287) | (14,085,401) |

Balances receivable from key management personnel are as follows:

| | Group and Bank | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Staff Loans | 2,340,350 | 2,395,833 |

Key management compensation is as follows:

| | Group and Bank | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Directors' Fees (Note 24) | 1,183,350 | 1,246,050 |
| Short-Term Employee Benefits | 29,255,288 | 33,319,863 |
| Post-Employment Expense | 576,000 | 130,000 |

**28. Financial Risk Management**

**Introduction and Overview**

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

(a) Credit Risk
(b) Market Risk
(c) Liquidity Risk
(d) Operational Risk

Detailed below is information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for the 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 rash management policies in their specified areas.

## 28. Financial Risk Management (Cont'd)

**Risk Management Framework (cont'd)**

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 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 the 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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $ | $ | $ | $ |
| Cash and Cash Equivalents | 8,589,729 | 6,515,271 | 8,589,729 | 6,515,271 |
| Certificates of Deposit | 16,680,445 | 30,192,914 | 16,680,445 | 30,192,914 |
| Resale Agreements | 7,938,823 | 119,609,884 | 7,938,823 | 119,609,884 |
| Receivables | 19,740,102 | 75,565,610 | 19,740,102 | 75,565,610 |
| Loans Receivable | 2,150,599,515 | 1,651,846,045 | 2,150,599,515 | 1,651,846,045 |
| Investment in Subsidiary | - | - | 124,850,513 | 124,669,433 |
| | 2,203,548,614 | 1,883,729,724 | 2,328,399,127 | 2,008,399,157 |

(ii) Management of Credit Risk

(1) Loans Receivable

The management of the credit 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.

**28. Financial Risk Management (Cont'd)**

**Risk Management Framework (cont'd)**

(a) Credit Risk (cont'd)

(ii) Management of Credit Risk (cont'd)

(1) Loans Receivables (cont'd)

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) Investment in subsidiary

The directors believe that the credit risk associated with this financial instrument is minimal. The carrying amount of $124.85 million (2017: $124.48 million) at the report date represents the Bank's maximum exposure of this class of financial assets.

(3) Resale Agreements and Certificates of Deposit

Collateral is held for all resale agreements.

(4) Receivables

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

(5) 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.

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 receivables is summarized as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Gross | Impairment | Gross | Impairment |
| | $ | $ | $ | $ |
| Not past due or impaired | 1,669,861,956 | - | 1,008,910,000 | - |
| Past due but not impaired under 12 months | - | - | - | - |
| Past due and impaired over 12 months | 720,108,181 | 239,370,622 | 1,157,545,000 | 514,608,043 |
| | 2,389,970,137 | 239,370,622 | 2,166,455,000 | 514,608,043 |

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 10 (b).

**28. Financial Risk Management (Cont'd)**

**Risk Management Framework (cont'd)**

(a) Credit Risk (cont'd)

(iii) Credit Quality of Loans (cont'd)

(1) Impairment Loans

Impaired loans are loans for which the Group determines that it is possible that it is probable that it will be unable to collect al 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 of 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 re-structured 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 re-structured, 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.

(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:

| | 2018 | | |
|---|---|---|---|
| | **Construction Loans** | **Mortgage Loans** | **Total** |
| | $ | $ | $ |
| Developers | 2,367,263,736 | - | 2,367,263,736 |
| Staff | - | 14,040,162 | 14,040,162 |
| Others | - | 8,666,239 | 8,666,239 |
| | 2,367,263,736 | 22,706,401 | 2,389,970,137 |

**28. Financial Risk Management (Cont'd)**

**Risk Management Framework (cont'd)**

(a) Credit Risk (cont'd)

(iv) Concentration of Loans (cont'd)

| | 2017 | | |
|---|---|---|---|
| | Construction Loans | Mortgage Loans | Total |
| | $ | $ | $ |
| Developers | 2,144,688,316 | - | 2,144,688,316 |
| Staff | - | 11,990,243 | 11,990,243 |
| Others | - | 9,775,529 | 9,775,529 |
| | 2,144,688,316 | 21,765,772 | 2,166,454,088 |

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 are 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, 2018 or 2017.

(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 it 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 risks 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

(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.

## 28. Financial Risk Management (Cont'd)

### Risk Management Framework (cont'd)

(b) Market Risk (cont'd)

(i) Interest Rate Risk (cont'd)

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**

| | 2018 | | | | |
|---|---|---|---|---|---|
| | **Within 3 Months** | **3 to 12 Months** | **Over 12 Months** | **Non-Rate Sensitive** | **Total** |
| | **$** | **$** | **$** | **$** | **$** |
| Cash and Cash Equivalents | - | - | - | 8,589,729 | 8,589,729 |
| Certificates of Deposit | 13,294,119 | 3,386,326 | - | - | 16,680,445 |
| Resale Agreements | 7,938,823 | - | - | - | 7,938,823 |
| Receivables | - | - | - | 22,016,493 | 22,016,493 |
| Loans Receivables | 152,799,323 | 1,018,715,137 | 979,085,055 | - | 2,150,599,515 |
| Total Financial Assets | 174,032,265 | 1,022,101,463 | 979,085,055 | 30,606,222 | 2,205,825,005 |
| | | | | | |
| Payables | - | - | - | 19,205,568 | 19,205,568 |
| Short-Term Loans | 250,000,000 | 192,972,000 | - | - | 442,972,000 |
| Bonds and Loans Payable | - | 125,000,000 | 346,859,055 | 619,163 | 472,478,218 |
| Total Financial Liabilities | 250,000,000 | 317,972,000 | 346,859,055 | 19,824,731 | 934,655,786 |
| **Interest Rate Sensitivity Gap** | **(75,967,735)** | **704,129,463** | **632,226,000** | **10,781,491** | **1,271,169,219** |
| **Cumulative Gap** | **(75,967,735)** | **628,161,728** | **1,260,387,728** | **1,271,169,219** | **-** |

**28. Financial Risk Management (Cont'd)**

**Risk Management Framework (cont'd)**

(b) Market Risk (cont'd)

(i) Interest Rate Risk (cont'd)

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**

| | **2017** | | | | |
|---|---|---|---|---|---|
| | **Within 3 Months** | **3 to 12 Months** | **Over 12 Months** | **Non-Rate Sensitive** | **Total** |
| | **$** | **$** | **$** | **$** | **$** |
| Cash and Cash Equivalents | - | - | - | 6,515,271 | 6,515,271 |
| Certificates of Deposit | 30,192,914 | - | - | - | 30,192,914 |
| Resale Agreements | 104,265,000 | 15,344,884 | - | - | 119,609,884 |
| Receivables | - | - | - | 75,565,610 | 75,565,610 |
| Loans Receivables | 168,537,000 | 818,434,000 | 664,875,045 | - | 1,651,846,045 |
| Total Financial Assets | 302,994,914 | 833,778,884 | 664,875,045 | 82,080,881 | 1,883,729,724 |
| | | | | | |
| Payables | - | - | - | 17,461,365 | 17,461,365 |
| Short Term Loans | 250,000,000 | 250,000,000 | - | - | 500,000,000 |
| Bonds and Loans Payable | - | 150,000,000 | 247,403,624 | 2,100,317 | 399,503,941 |
| Total Financial Liabilities | 250,000,000 | 400,000,000 | 247,403,624 | 19,561,682 | 916,965,306 |
| **Interest Rate Sensitivity Gap** | **52,994,914** | **433,778,884** | **417,471,421** | **62,519,199** | **966,764,418** |
| **Cumulative Gap** | **52,994,914** | **486,773,798** | **904,245,219** | **966,764,418** | **-** |

**28. Financial Risk Management (Cont'd)**

**Risk Management Framework (cont'd)**

(b) Market Risk (cont'd)

(i) Interest Rate Risk (cont'd)

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.

**Bank**

| | 2018 | | | | |
|---|---|---|---|---|---|
| | **Within 3 Months** | **3 to 12 Months** | **Over 12 Months** | **Non-Rate Sensitive** | **Total** |
| | **$** | **$** | **$** | **$** | **$** |
| Cash and Cash Equivalents | - | - | - | 8,589,729 | 8,589,729 |
| Certificates of Deposit | 13,294,119 | 3,386,326 | - | - | 16,680,445 |
| Resale Agreements | 7,938,823 | - | - | - | 7,938,823 |
| Receivables | - | - | - | 22,016,493 | 22,016,493 |
| Loans Receivables | 152,799,323 | 1,018,715,137 | 979,085,055 | - | 2,150,599,515 |
| Interest in Subsidiary: Long Term Loans | - | - | - | 124,850,511 | 124,850,511 |
| Total Financial Assets | 174,032,265 | 1,022,101,463 | 979,085,055 | 155,456,733 | 2,330,675,516 |
| | | | | | |
| Payables | - | - | - | 7,205,568 | 7,205,568 |
| Short-Term Loans | - | 442,972,000 | - | - | 442,972,000 |
| Bonds and Loans Payable | - | 125,000,000 | 346,859,055 | 619,163 | 472,478,218 |
| Total Financial Liabilities | - | 567,972,000 | 346,859,055 | 7,824,731 | 922,655,786 |
| **Interest Rate Sensitivity Gap** | **174,032,265** | **454,129,463** | **632,226,000** | **147,632,002** | **1,408,019,730** |
| **Cumulative Gap** | **174,032,265** | **628,161,728** | **1,260,387,728** | **1,408,019,730** | **-** |

**28. Financial Risk Management (Cont'd)**

**Risk Management Framework (cont'd)**

(b) Market Risk (cont'd)

(i) Interest Rate Risk (cont'd)

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.

**Bank**

| | 2017 | | | | |
|---|---|---|---|---|---|
| | **Within 3 Months** | **3 to 12 Months** | **Over 12 Months** | **Non-Rate Sensitive** | **Total** |
| | $ | $ | $ | $ | $ |
| Cash and Cash Equivalents | - | - | - | 6,515,271 | 6,515,271 |
| Certificates of Deposit | 30,192,914 | - | - | - | 30,192,914 |
| Resale Agreements | 104,265,000 | 15,344,884 | - | - | 119,609,884 |
| Receivables | - | - | - | 75,565,610 | 75,565,610 |
| Loans Receivables | 168,537,000 | 818,434,000 | 664,875,045 | - | 1,651,846,045 |
| Interest in Subsidiary: Long Term Loans | - | - | - | 124,669,431 | 124,669,431 |
| Total Financial Assets | 302,994,914 | 833,778,884 | 664,875,045 | 206,750,312 | 2,008,399,155 |
| | | | | | |
| Payables | - | - | - | 5,461,365 | 5,461,365 |
| Short-Term Loans | - | 500,000,000 | - | - | 500,000,000 |
| Bonds and Loans Payable | - | 150,000,000 | 247,403,624 | 2,100,317 | 399,503,941 |
| Total Financial Liabilities | - | 650,000,000 | 247,403,624 | 7,561,682 | 904,965,306 |
| **Interest Rate Sensitivity Gap** | **302,994,914** | **183,778,884** | **417,471,421** | **199,188,630** | **1,103,433,849** |
| **Cumulative Gap** | **302,994,914** | **486,773,798** | **904,245,219** | **1,103,433,849** | **-** |

**28. Financial Risk Management (Cont'd)**

**Risk Management Framework (cont'd)**

(b) Market Risk (cont'd)

(i) Interest Rate Risk (cont'd)

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

**Group and Bank**

| | 2018 | | |
|---|---|---|---|
| | **Within 3 Months** | **3 to 12 Months** | **Over 12 Months** |
| | % | % | % |
| Certificates of Deposits | 1.70 | 1.25 | - |
| Resale Agreements | 1.05 | - | - |
| Loans Receivable | 12 | 13 | 12 |
| Bonds and Loans Payable | - | 8.20 | 8 |
| | **2017** | | |
| | **Within 3 Months** | **Three to 12 Months** | **Over 12 Months** |
| | % | % | % |
| Certificates of Deposits | 5.48 | - | - |
| Resale Agreements | 5.92 | 6.35 | 0.00 |
| Loans Receivable | 11.89 | 12.48 | 9.90 |
| Bonds and Loans Payable | 6.50 | 7.96 | 9.30 |

*Sensitivity Analysis*

If the interest rate had been 100 basis points higher and 100 basis points lower and all other variables were held constant for local interest bearing assets and liabilities, the Bank's/Group's profit for the period would increase by $16.60 million and decrease by $16.60 million respectively (2017: increase by $9.59 million and decrease by $9.59 million). For foreign interest bearing assets and liabilities, if interest rates were 100 basis points higher or 50 basis points lower, and all other variables were held constant, the Bank's/Group's profit for the period would increase by $0.11 million and decrease by $0.05 million respectively (2017: increase by $0.11 million and decrease by $0.05 million).

(ii) Foreign Currency Risk

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

**28. Financial Risk Management (Cont'd)**

**Risk Management Framework (cont'd)**

(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 having 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 age 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 investments in debt securities for which there is an active liquid market, less loan commitments to borrowers within the coming year.

## 28. Financial Risk Management (Cont'd)

(c) Liquidity Risk

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

**Group**

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Within One Month | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | No Specific Maturity | Cash Flows Total | Carrying Values Total |
| | $ | $ | $ | $ | $ | $ | $ |
| Cash and Cash Equivalents | 8,589,729 | - | - | - | - | 8,589,729 | 8,589,729 |
| Certificate of Deposit | - | 13,294,119 | 3,386,326 | - | - | 16,680,445 | 16,680,445 |
| Resale Agreements | | 7,938,823 | - | - | - | 7,938,823 | 7,938,823 |
| Receivables | 1,387,443 | 20,629,050 | - | - | - | 22,016,493 | 22,016,493 |
| Loans Receivables | 16,274,475 | 136,524,848 | 1,018,715,137 | 979,085,055 | - | 2,150,599,515 | 2,150,599,515 |
| Total Financial Assets | 26,251,647 | 178,386,840 | 1,022,101,463 | 979,085,055 | - | 2,205,825,005 | 2,205,825,005 |
| Payables | 3,837,925 | - | - | 3,367,643 | 12,000,000 | 19,205,568 | 19,205,568 |
| Short-Term Loans | - | - | 442,972,000 | - | - | 442,972,000 | 442,972,000 |
| Bonds and Loans Payable | - | - | 122,478,218 | 350,000,000 | - | 472,478,218 | 472,478,218 |
| Total Financial Liabilities | 3,837,925 | - | 565,450,218 | 353,367,643 | 12,000,000 | 934,655,786 | 934,655,786 |
| | 22,413,722 | 178,386,840 | 456,651,245 | 625,717,412 | (12,000,000) | 1,271,169,219 | 1,271,169,219 |

**Group**

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Within One Month | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | No Specific Maturity | Cash Flows Total | Carrying Values Total |
| | $ | $ | $ | $ | $ | $ | $ |
| Cash and Cash Equivalents | 6,515,271 | - | - | - | - | 6,515,271 | 6,515,271 |
| Certificate of Deposit | - | 30,192,914 | - | - | - | 30,192,914 | 30,192,914 |
| Resale Agreements | 69,026,000 | 35,239,000 | 15,344,884 | - | - | 119,609,884 | 119,609,884 |
| Receivables | 6,530,000 | 61,239,000 | - | 7,796,610 | - | 75,565,610 | 75,565,610 |
| Loans Receivables | 168,537,000 | - | 818,434,000 | 664,875,045 | - | 1,651,846,045 | 1,651,846,045 |
| Total Financial Assets | 250,608,271 | 126,670,914 | 833,778,884 | 672,671,655 | - | 1,883,729,724 | 1,883,729,724 |
| Payables | 5,506,000 | 7,956,000 | 3,999,365 | - | - | 17,461,365 | 17,461,365 |
| Short-Term Loans | 250,000,000 | 250,000,000 | - | - | - | 500,000,000 | 500,000,000 |
| Bonds and Loans Payable | - | 150,000,000 | - | 249,503,941 | - | 399,503,941 | 399,503,941 |
| Total Financial Liabilities | 255,506,000 | 407,956,000 | 3,999,365 | 249,503,941 | - | 916,965,306 | 916,965,306 |
| | (4,897,729) | (281,285,086) | 829,779,519 | 423,167,714 | - | 966,764,418 | 966,764,418 |

## 28. Financial Risk Management (Cont'd)

**Risk Management Framework (cont'd)**

(c) Liquidity Risk (cont'd)

**Bank**

| | 0 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Within One Month** | **One to 3 Months** | **Three 12 Months** | **One to 5 Years** | **No Specific Maturity** | **Cash Flows Total** | **Carrying Values Total** |
| | $ | $ | $ | $ | $ | $ | $ |
| Cash and Cash Equivalents | 8,589,729 | - | - | - | - | 8,589,729 | 8,589,729 |
| Certificates of Deposit | - | 13,294,119 | 3,386,326 | - | - | 16,680,445 | 16,680,445 |
| Resale Agreements | - | 7,938,823 | - | - | - | 7,938,823 | 7,938,823 |
| Receivables | 1,387,443 | 20,629,050 | - | - | - | 22,016,493 | 22,016,493 |
| Loans Receivables | 16,274,475 | 136,524,848 | 1,018,715,137 | 979,085,055 | - | 2,150,599,515 | 2,150,599,515 |
| Interest in Subsidiary: Long Term Loans | - | - | - | - | 124,850,511 | 124,850,511 | 124,850,511 |
| Total Financial Assets | 26,251,647 | 178,386,840 | 1,022,101,463 | 979,085,055 | 124,850,511 | 2,330,675,516 | 2,330,675,516 |
| | | | | | | | |
| Payables | 3,837,925 | - | - | 3,367,643 | - | 7,205,568 | 7,205,568 |
| Short-Term Loans | - | - | 442,972,000 | - | - | 442,972,000 | 442,972,000 |
| Bonds and Loans Payable | - | - | 122,478,218 | 350,000,000 | - | 472,478,218 | 472,478,218 |
| Total Financial Liabilities | 3,837,925 | - | 565,450,218 | 353,367,643 | - | 922,655,786 | 922,655,786 |
| | 22,413,722 | 178,386,840 | 456,651,245 | 625,717,412 | 124,850,511 | 1,408,019,730 | 1,408,019,730 |

## 28. Financial Risk Management (Cont'd)

### Risk Management Framework (cont'd)

(c) Liquidity Risk (cont'd)

**Bank**

| | | | | 0 | | | |
|---|---|---|---|---|---|---|---|
| | Within One Month | One to 3 Months | Three 12 Months | One to 5 Years | No Specific Maturity | Cash Flows Total | Carrying Values Total |
| | $ | $ | $ | $ | $ | $ | $ |
| Cash and Cash Equivalents | 6,515,271 | - | - | - | - | 6,515,271 | 6,515,271 |
| Certificates of Deposit | - | 30,192,914 | - | - | - | 30,192,914 | 30,192,914 |
| Resale Agreements | 69,026,000 | 35,239,000 | 15,344,884 | - | - | 119,609,884 | 119,609,884 |
| Receivables | 6,530,500 | 61,239,000 | - | 7,796,110 | - | 75,565,610 | 75,565,610 |
| Loans Receivables | 168,537,000 | - | 818,434,000 | 664,875,045 | - | 1,651,846,045 | 1,651,846,045 |
| Interest in Subsidiary: Long Term Loans | - | - | - | - | 124,669,431 | 124,669,431 | 124,669,431 |
| Total Financial Assets | 250,608,771 | 126,670,914 | 833,778,884 | 672,671,155 | 124,669,431 | 2,008,399,155 | 2,008,399,155 |
| | | | | | | | |
| Payables | | 5,461,365 | - | - | - | 5,461,365 | 5,461,365 |
| Short-Term Loans | 250,000,000 | 250,000,000 | - | - | - | 500,000,000 | 500,000,000 |
| Bonds and Loans Payable | - | - | 100,000,000 | 299,503,941 | - | 399,503,941 | 399,503,941 |
| Total Financial Liabilities | 250,000,000 | 255,461,365 | 100,000,000 | 299,503,941 | - | 904,965,306 | 904,965,306 |
| | 608,771 | (128,790,451) | 733,778,884 | 373,167,214 | 124,669,431 | 1,103,433,849 | 1,103,433,849 |

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

**28. Financial Risk Management (Cont'd)**

**Risk Management Framework (cont'd)**

(d) Operational Risk

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

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

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

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

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit 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 regulation. However, by virtue of the provisions of the Jamaica Mortgage Bank Act (see Note 19) and stated Board policy (see Note 20), 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 credit and market confidence.

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 allocations are reviewed regularly by the Board of Directors.

## 29. 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. 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**

| | Carrying Amount | | Fair Value | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $ | $ | $ | $ |
| **Assets** | | | | |
| Loans and Receivables | 2,150,599,515 | 1,651,846,045 | 1,979,534,242 | 1,600,018,352 |
| **Liabilities** | | | | |
| Short Term Loans | 442,972,000 | 500,000,000 | 442,972,000 | 500,000,000 |
| Bonds and Loans Payable | 472,478,218 | 399,503,941 | 525,581,377 | 392,887,586 |
| | 915,450,218 | 899,503,941 | 968,553,377 | 892,887,586 |

**Bank**

| | Carrying Amount | | Fair Value | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $ | $ | $ | $ |
| **Assets** | | | | |
| Loans and Receivables | 2,150,599,515 | 1,651,846,045 | 1,979,534,242 | 1,600,018,352 |
| Investment in Subsidiary | 124,850,511 | 124,669,431 | 124,850,511 | 124,669,431 |
| | 2,275,450,026 | 1,776,515,476 | 2,104,384,753 | 1,724,687,783 |
| **Liabilities** | | | | |
| Short Term Loans | 442,972,000 | 500,000,000 | 442,972,000 | 500,000,000 |
| Bonds and Loans Payable | 472,478,218 | 399,503,941 | 525,581,377 | 392,887,586 |
| | 915,450,218 | 899,503,941 | 968,553,377 | 892,887,586 |

**29. Fair Value Measurement (Cont'd)**

The following table provides an analysis of financial instruments held for the Group and the Bank as at 31st March 2017 and 31st March 2016 that, subsequent to initial recognition, are measured at fair value. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable, as follow:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical instruments;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the instrument, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the instrument that are not based on observable market data (unobservable inputs).

**Group and Bank**

| | 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | $ | $ | $ | $ |
| Assets for which fair value is disclosed: | | | | |
| - Loans Receivables | - | 1,979,534,242 | - | 1,979,534,242 |
| Liabilities for which fair values are disclosed: | | | | |
| - Short Term Loans | - | 442,972,000 | - | 442,972,000 |
| - Bonds and Loans Payable | - | 525,581,377 | - | 525,581,377 |
| | - | 968,553,377 | - | 968,553,377 |

| | 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | $ | $ | $ | $ |
| Assets for which fair value is disclosed: | | | | |
| - Loans Receivables | - | 1,600,018,352 | - | 1,600,018,352 |
| Liabilities for which fair values are disclosed: | | | | |
| - Short Term Loans | - | 500,000,000 | - | 500,000,000 |
| - Bonds and Loans Payable | - | 392,887,586 | - | 392,887,586 |
| | - | 892,887,586 | - | 892,887,586 |

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of net assets available for benefits. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on a arm's length basis. The quoted market price used for financial assets is the current bid price. These instruments are grouped in level 1.

The fair value of financial instruments not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

**30. Commitments**

Loans approved but not disbursed by the Group and the Bank at 31st March 2018 amounted to approximately $85,400,000 (2016: $237,450,000).

**31. 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 Reserved 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 the investments and assets of the Fund for that year; and, if more is still required, then by; and
- advances from the Government of Jamaica's Consolidated Fund.

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Cost of Administration of Mortgage Insurance Fund | | |
| Bank Charges and Interest | 19,581 | 16,394 |
| Professional and Other | 12,550 | 70,727 |
| Audit Fees | 200,000 | 200,000 |
| Total Costs | 232,131 | 287,121 |
| Funded by: | | |
| Contribution of: | | |
| Two-fifths of Mortgage Insurance fees | 2,037,509 | 1,131,027 |
| Loan Investigation Fees | 166,896 | 85,000 |
| One-half of investment income of Mortgage (Government Guaranteed Loans) Insurance Reserve Fund | 617 | 622 |
| | 2,205,022 | 1,216,649 |
| Recovered by the Mortgage Insurance Fund | (1,972,891) | (929,528) |
| Total Funding | 232,131 | 287,121 |

## 32. Contingencies

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

(i) On April 1, 2013, Springfield Development, 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 defence 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 on the date for Case Management Conference. No provision has been made in these financial statements in respect of this matter.

It appears that the claimant is not pursuing the suit but the attorney has advised the Bank to await at least six years from the dates the suit was initiated.

# Financial Statements for JMB Developments Ltd

for the year ended 31st March 2018

Crowe Horwath.

Crowe Horwath Jamaica
Member Crowe Horwath International

Corporate Head Office
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Kingston 5

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# REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF JMB DEVELOPMENTS LIMITED

## Opinion

We have audited the financial statements of JMB Developments Limited, which comprise the statements of financial position as at 31st March 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31st March 2018, and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs).

## Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company, in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to próvide a basis for our opinion.

## Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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MANDEVILLE
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**REPORT OF THE INDEPENDENT AUDITORS**
**TO THE MEMBERS OF**
**JMB DEVELOPMENTS LIMITED**

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company's or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditors' Responsibilities for the Audit of the Financial Statements**
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Crowe Horwath.

**REPORT OF THE INDEPENDENT AUDITORS**
**TO THE MEMBERS OF**
**JMB DEVELOPMENTS LIMITED**

**Auditors' Responsibilities for the Audit of the Financial Statements (Cont'd)**

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also (cont'd):

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on Additional Matters as Required by the Jamaican Companies Act**

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion, proper accounting records have been maintained, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act, in the manner required.

Crowe Horwath Jamaica

**Crowe Horwath Jamaica**

May 31, 2018

**JMB DEVELOPMENTS LIMITED**

**STATEMENT OF FINANCIAL POSITION**
**AS AT 31ST MARCH 2018**
(Expressed in Jamaican Dollars unless otherwise indicated)

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| **ASSETS:** | | | |
| Investment by Parent Company | | 2 | 2 |
| Land Held for Development and Sale | 5 | 1,000 | 1,000 |
| Property, Plant and Equipment | 6 | - | - |
| **Total Assets** | | **1,002** | **1,002** |
| **DEFICIENCY IN ASSETS** | | | |
| Share Capital | 7 | 2 | 2 |
| Accumulated Deficit | | (136,999,512) | (136,768,432) |
| **Total Deficiency in Assets** | | (136,999,510) | (136,768,430) |
| **LIABILITIES** | | | |
| Loan Payable to Parent | 8 | 124,850,512 | 124,669,432 |
| Payables | | 150,000 | 100,000 |
| Deposit | 8 | 12,000,000 | 12,000,000 |
| **Total Liabilities** | | 137,000,512 | 136,769,432 |
| **TOTAL DEFICIENCY IN ASSETS AND LIABILITIES** | | **1,002** | **1,002** |

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

**APPROVED FOR ISSUE BY THE BOARD OF DIRECTORS ON** May 31, 2018 **AND SIGNED ON ITS BEHALF BY:**

**MR. HUGH FAULKNER**
*for* CHAIRMAN

**MR. RYAN PARKES**
**DIRECTOR**

**JMB DEVELOPMENTS LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31ST MARCH 2018**
(Expressed in Jamaican Dollars unless otherwise indicated)

| | 2018 $ | 2017 $ |
|---|---|---|
| **Administrative Expenses:** | | |
| Professional Fees | (231,080) | (243,261) |
| **Net Loss being Total Comprehensive Expense for the Year** | (231,080) | (243,261) |

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

**JMB DEVELOPMENTS LIMITED**

**STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31ST MARCH 2018**
(Expressed in Jamaican Dollars unless otherwise indicated)

| | Share Capital | Accumulated Deficit | Total |
|---|---|---|---|
| | $ | $ | $ |
| **Balance as at April 1, 2016** | 2 | (136,525,171) | (136,525,169) |
| Net Loss being Total Comprehensive Expense for the Year | - | (243,261) | (243,261) |
| **Balance as at March 31, 2017** | 2 | (136,768,432) | (136,768,430) |
| Net Loss being Total Comprehensive Expense for the Year | - | (231,080) | (231,080) |
| **Balance as at March 31, 2018** | 2 | (136,999,512) | (136,999,510) |

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

**JMB DEVELOPMENTS LIMITED**

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 31ST MARCH 2018**
(Expressed in Jamaican Dollars unless otherwise indicated)

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Loss for the Year, being net cash used in Operating Activities | (231,080) | (243,261) |
| **Increase / (Decrease) in Operating Liabilities** | | |
| Payables | 50,000 | 50,000 |
| **Net Cash Used in Operating Activities** | (181,080) | (193,261) |
| **Cash Flows from Financing Activities:** | | |
| Increase in Loan Payable to Parent | 181,080 | 193,261 |
| **Net Cash Provided by Investing Activities** | 181,080 | 193,261 |
| **Net Change in Cash and Cash Equivalents** | - | - |
| **Cash and Cash Equivalents at the Beginning of the Year** | - | - |
| **Cash and Cash Equivalents at the End of the Year** | - | - |

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

1. **Corporate Information**

JMB Developments Limited ("the Company") was incorporated under the laws of Jamaica on January 5, 1999 and commenced operations on July 5, 1999. The Company is a wholly-owned subsidiary of Jamaica Mortgage Bank ("parent body"), which is incorporated in Jamaica under the Jamaica Mortgage Bank Act 1973 and is owned by the Government of Jamaica. The Company is domiciled in Jamaica and its registered office is located at 33 Tobago Avenue, Kingston 5, Jamaica.

The principal activity of the Company is to carry on the business of residential, commercial and industrial real estate development. However, the Company was inactive during the year under review and the previous year.

2. **Adoption of Standards, Interpretation and Amendments:**

The International Accounting Standards Board (IASB) issued certain new standards and interpretations as well as amendments to existing standards, which became effective during the year under review. Management has assessed the relevance of these new standards, interpretations and amendments and has adopted and applied in these financial statements, those standards which are considered relevant to its operations.

(a) The following are Standards, Amendments and Interpretations in respect of published standards which are in effect:

**Amendments to IAS 7 - Statement of Cash Flows (Effective January 2017)**

Amends IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

**IAS 12 - Income Taxes -Recognition of Deferred Tax Assets for Unrealised Losses (Effective January 2017 )**

Amends IAS 12 Income Taxes to clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

These affected the financial statements for accounting periods beginning on or after the first day of the months stated. The adoption of these Standards and amendments did not have a material impact on the Company's financial statements.

**2. Adoption of Standards, Interpretation and Amendments (cont'd):**

(b) Standards and Interpretations which are considered relevant to the Funds were issued but not yet effective:

Certain new, revised and amended standards and interpretations have been issued which are not yet effective for the current year and which the Funds has not early-adopted. The Funds has assessed the relevance of all the new standards, amendments and interpretations with respect to the Funds' operations and has determined that the following are likely to have an effect on the Funds' financial statements:

**IFRS 9: Financial Instruments (2014) (Effective January 1, 2018)**

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

*Classification and measurement:* Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Hence, financial assets are to be classified into three measurement categories: those measured at amortised cost, those to be measured subsequently at fair value through other profit and loss (FVPL) and those to be measured subsequently at fair value through other comprehensive income (FVOCI). Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

*Impairment:* The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.

Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

*Derecognition:* The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Note: Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

Management has determined that the standard is relevant to existing policies for its current operations, but has not yet assessed the impact on adoption.

**IFRS 15 - Revenue from Contracts with Customers (IAS 18 will be superseded by IFRS 15 Revenue from Contracts with Customers.) (Effective January 2018)**

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- 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.

**2. Adoption of Standards, Interpretation and Amendments (cont'd):**

(b) Standards and Interpretations which are considered relevant to the Funds were issued but not yet effective (cont'd):

**IFRS 15 - Revenue from Contracts with Customers (IAS 18 will be superseded by IFRS 15 Revenue from Contracts with Customers.) (Effective January 2018) (Cont'd)**

Guidance is provided on topics such as the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

**Clarifications to IFRS 15 : Revenue from Contracts with Customers (Effective January 2018)**

Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

*Improvements to IFRS 2014–2016 cycle contains amendments to certain standards and interpretations and are effective for accounting periods beginning on or after January 1, 2017 and 2018. The main amendment is as follows:*

- **IAS 28: Investments in Associates and Joint Ventures (2011) (Effective January 2018)**

  Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

**Amendments to IAS 28: Investments in Associates and Joint Ventures (2011) Long-term Interests in Associates and Joint Ventures (Effective January 2019)**

Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

**Prepayment Features with Negative Compensation (Amendments to IFRS 9) (Effective January 2019)**

Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

**Amendments to References to the Conceptual Framework in IFRS Standards**

Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

These affect financial statements for accounting periods beginning on or after the first day of the month stated. The company is assessing the impact these amendments will have on its 2019 and 2020 financial statements.

**3. Statement of Compliance, Basis of Preparation and Significant Accounting Policies:**

(a) Statement of Compliance and Basis of Preparation -

The financial statements are prepared on the historical cost basis, and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and the requirements of the Jamaican Companies Act.

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 Company and rounded to the nearest thousand, unless otherwise stated.

(b) Fair Value Measurement -

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 Company.

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

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

Level 1 - Quoted (unadjusted) market prices in active market for identical assets and liabilities.

Level 2 - Valuation techniques for which the lowest level input that significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

**3. Statement of Compliance, Basis of Preparation and Significant Accounting Policies:**

(c) Land Held for Development and Sale -

Land held for development and sale is stated 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 cost to sell.

(d) 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 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 the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The following useful lives are used in the calculation of depreciation:

| | |
|---|---|
| Property and Equipment | 10 years |

(e) Payables -

Trade and other payables are stated at cost.

(f) Impairment -

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated at each reporting date. 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 comprehensive income.

(i) Calculation of Recoverable Amount

The recoverable amount of the Company's receivables 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 receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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

**3. Statement of Compliance, Basis of Preparation and Significant Accounting Policies (cont'd):**

(g) Taxation -

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

Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the 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 Company'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 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 the initial recognition 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 company 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.

(h) Revenue -

Interest income earned from investments and fees are recorded on the accrual basis.

(i) Expenses -

Expenses are recorded on the accrual basis.

(j) Comparative Information -

Where necessary, comparative figures have been re-classified to conform to changes in presentation in the current year. In particular, comparatives have been adjusted to take into account the requirements of IFRS.

(k) Fair Value of Financial Instruments -

Amounts reflected in the accounts for investments, trade and other receivables, cash and cash equivalents, trade and other payables is an approximation of their fair value.

**3. Statement of Compliance, Basis of Preparation and Significant Accounting Policies (cont'd):**

(l) Related Party Balances and Transactions -

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24, Related Party Disclosures as the "reporting entity").

(a) A person or a close member of that person's family is related to the reporting entity if that person:

(i) has control or joint control over the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to the reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled, or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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

## 4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical Judgements in applying Accounting Policies

The directors and management believe that there are no critical judgements that management has made in the process of applying the Company's accounting policies and that had a significant effect on the amounts recognised in the financial statements.

### Key Sources of Estimation Uncertainty

The directors and management believe there are no 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.

## 5. Land Held for Development and Sale

The properties held by the Company were acquired from the Ministry of Environment and Housing for $1,000 on condition that the Ministry shall 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 Company shall be beneficially entitled to the remaining eighty percent (80%) of such residential serviced lots.

The condition to the agreement, as outlined above, was not fulfilled and subsequent to this an agreement was arrived at for the Ministry to transfer to the company other lands to cover the terms of the agreement. In 2012, the Ministry of Transport, Works and Housing (formerly the Ministry of Water and Housing, (MOWH)) transferred a property at Whitehall to the Company's parent in part settlement of the obligation of the company to its parent. The MOWH is to transfer to the Company's parent one additional parcel of land to fully cover the obligation of the Company to its parent.

**6. Property, Plant & Equipment -**

| | Plant and Machinery $ |
|---|---|
| **At Cost or Valuation:** | |
| April 1, 2016, March 31st, 2017 and March 31st 2018 | 110,000 |
| **Accumulated Depreciation:** | |
| April 1, 2016, March 31st, 2017 and March 31st 2018 | 110,000 |
| **Net Book Value:** | |
| March 31st 2017 and 2018 | - |

**7. Share Capital**

| | 2018 $ | 2017 $ |
|---|---|---|
| Authorized: | | |
| 1,000 shares at no par value at beginning and end of year | | |
| Issued and Fully Paid: | | |
| 2 shares at no par value at beginning and end of year | 2 | 2 |

**8. Loan Payable To Parent**

| | 2018 $ | 2017 $ |
|---|---|---|
| Loan Payable To Parent | 124,850,512 | 124,669,432 |

This represents a loan from the parent that after a 24-month moratorium on principal should have been repaid over the five years ended March 31, 2006. The loan is supported by a promissory note and is to be secured by land owned by the Company. In the 2010/11 financial year, the Company transferred land received from the Ministry of Water and Housing, as distribution in respect of a joint venture, to the parent in settlement of interest outstanding on this loan at that date. Beneficial ownership of the parcels of land that were set aside for the purpose of the joint venture is to be transferred to the Company's parent through the Company. The total distribution to the Company will fully satisfy amounts borrowed from its parent and any interest thereon. During the prior year, a portion of the land was sold and part payment in the amount of $12 million was received as a deposit and used to offset the loan.

**9. Net Loss for the Year**

The following are among the items charged in arriving at loss for the year:

| | 2018 $ | 2017 $ |
|---|---|---|
| Auditors' Remuneration - Current Year | 50,000 | 50,000 |
| Professional Fees | 144,780 | 149,416 |
| Asset Tax | 15,025 | 5,000 |
| Property Taxes | 21,275 | 38,845 |
| | 231,080 | 243,261 |

**10. Tax Losses**

Current and deferred taxes have been calculated using the tax rate of 25% (2017: 25%).

At the reporting date, subject to agreement by the Commissioner, Taxpayer Audit and Assessment, tax losses, available for relief against future taxable profits, amounted to approximately $94.31 million (2017: $94.32 million).

Potential deferred tax asset of approximately $23.58 million (2017: $23.58 million), arising on the unused tax losses, has not been recognised as the Company is not expected to have taxable profits in the foreseeable future to utilise the losses.

**11. Financial Instruments and Financial Instruments 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 purposes of these financial statements, there are no financial assets or financial liabilities except receivables, payables and loan payable to parent.

Information relating to fair values and financial risk management is summarised below.

(a) Fair Value

Fair value measurements recognized in the Statement of Financial Position

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

Determination of Fair Value:

The fair value of loan payable to parent has been estimated to be its carrying amount as the loan is repayable on demand as repayment is overdue.

(b) Financial Risk Management

Exposure to credit risk, liquidity risk and market risk including interest rate risk and currency risk arises in the ordinary course of the company's business. Information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk is detailed below.

The Board of Directors has overall responsibility for the establishment and oversight of the Company'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.

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

(i) Credit Risk

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

At the end of the reporting period, the Company's exposure to credit risk was insignificant.

**11. Financial Instruments and Financial Instruments Risk Management (Cont'd):**

(b) Financial Risk Management (cont'd)

(ii) Market Risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

These arise from changes in interest rates, foreign currency rates and equity prices and will affect the company'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 optimizing the return on risk.

- Foreign Currency Risk

  Foreign currency risk is the risk that the market value of, or the cash flows from, financial instruments will fluctuate because of changes in foreign exchange rates.

  The Company has no exposure to foreign exchange risk since it has no foreign currency related transactions or balances.

- 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.

  The Company currently has no financial instrument subject to significant interest rate risk.

  There has been no change in the manner in which the Company manages and measures this risk during the year.

  The Company currently has no financial instrument subject to significant interest rate risk.

- Other Market Price Risk

  The Company has no exposure to market risk as it does not hold any traded securities.

(iii) Liquidity Risk

Liquidity risk, also referred to as funding risk, is the risk that the company 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 manaqement implies maintaininq sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed facilities.

The Company had net current liabilities at the reporting date and obtains continued financial support from its parent.

There has been no change to the Company's exposure to liquidity risk or the manner in which it manages and measures the risk during the year.

## 11. Financial Instruments and Financial Instruments Risk Management (Cont'd):

### Capital Risk Management Policies and Objectives

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the equity balance. The capital structure of the Company consists of equity attributable to equity holders, comprising issued capital and retained earnings.

The Company is not subject to any externally imposed capital requirements and its Board of Directors reviews the capital structure on an annual basis. As a part of this review, the Board of Directors considers the cost of capital and the risks associated with each class of capital.

The Company had deficiency in assets at the reporting date. The Company's parent has pledged to, and continues to support the Company.

The Company's overall strategy as directed by its shareholders remains unchanged from year ended March 31, 2017.

# Financial Statements for the Mortgage Insurance Fund and Mortgage Insurance Reserve Fund

for the year ended 31st March 2018

Crowe Horwath.

**Crowe Horwath Jamaica**
Member Crowe Horwath International

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**REPORT OF THE INDEPENDENT AUDITORS**
**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)**

**Opinion**

We have audited the financial statements of The Mortgage Insurance Fund and Mortgage (Government Guaranteed Loans) Insurance Reserve Fund (the "Funds"), which comprise the statements of financial position as at 31st March 2018, and the statements of changes in fund balances and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Funds as at 31st March 2018, and of the changes in fund balances and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs).

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Funds, in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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**REPORT OF THE INDEPENDENT AUDITORS**
**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)**

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund's or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Funds' financial reporting process.

**Auditors' Responsibilities for the Audit of the Financial Statements**
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Funds' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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**REPORT OF THE INDEPENDENT AUDITORS**
**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)**

**Auditors' Responsibilities for the Audit of the Financial Statements (Cont'd)**

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also (cont'd):

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Funds' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Funds to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on Additional Matters as Required by the Mortgage Insurance Act**

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion, proper accounting records have been maintained, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Mortgage Insurance Act, in the manner required.

The engagement partner on the audit resulting in this independent auditors' report is Mr. Dawkins Brown.

Crowe Horwath Jamaica

**Crowe Horwath Jamaica**

May 31, 2018

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

**STATEMENT OF FINANCIAL POSITION**
**AS AT 31ST MARCH 2018**
(Expressed in Jamaican Dollars unless otherwise indicated)

| | Notes | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **ASSETS:** | | | |
| **Non-Current Assets** | | | |
| Cash and Cash Equivalents | | 57,791,141 | 1,267,010 |
| Investments | 5 | 1,024,028,061 | 879,261,130 |
| Receivables | 6 | 148,026,724 | 255,801,725 |
| Due From Related Party | 7 | 250,230,343 | 250,000,000 |
| Property, Plant and Equipment | 8 | - | - |
| | | 1,480,076,269 | 1,386,329,865 |
| **LIABILITIES:** | | | |
| Accounts Payable | | 801,002 | 601,002 |
| Due to Mortgage (Government Guaranteed Loans) Insurance Reserve Fund | | 79,889 | 78,861 |
| Due To Related Party | 7 | 124,826 | - |
| | | 1,005,717 | 679,863 |
| **NET ASSETS** | | **1,479,070,552** | **1,385,650,002** |
| Represented By: | | | |
| **ACCUMULATED SURPLUS** | | **1,479,070,552** | **1,385,650,002** |

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

**APPROVED FOR ISSUE BY THE BOARD OF DIRECTORS ON** May 31, 2018 **AND SIGNED ON ITS BEHALF BY:**

**MR. HUGH FAULKNER**
*for* CHAIRMAN

**MR. RYAN PARKES**
**DIRECTOR**

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

**STATEMENT OF CHANGES IN FUND BALANCE**
**FOR THE YEAR ENDED 31ST MARCH 2018**
(Expressed in Jamaican Dollars unless otherwise indicated)

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| **Increase in Fund:** | | |
| Three-fifths of Mortgage Loan Insurance Fees | 3,158,750 | 1,696,541 |
| Investment Income | 86,709,733 | 81,221,087 |
| Interest Income on Loans | 16,610,272 | 14,085,401 |
| Miscellaneous Income | 12,065,855 | 9,244,622 |
| | 118,544,610 | 106,247,651 |
| **Decrease in Fund:** | | |
| Recovered by the Bank as Contribution towards the cost of administering the Mortgage Insurance Act | 1,972,275 | 928,906 |
| Administration Charges paid to the Bank | (27,096,335) | (24,427,642) |
| | (25,124,060) | (23,498,736) |
| **Net Increase in Fund Balance for the Year** | 93,420,550 | 82,748,915 |
| **Fund Balance at the Beginning of the Year** | 1,385,650,002 | 1,302,901,087 |
| **Fund Balance at the End of the Year** | 1,479,070,552 | 1,385,650,002 |

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**
**FOR THE YEAR ENDED 31ST MARCH 2018**
(Expressed in Jamaican Dollars unless otherwise indicated)

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Increase in Fund Balance for the Year | 93,420,550 | 82,748,915 |
| **(Increase) / Decrease in Operating Assets** | | |
| Due from Jamaica Mortgage Bank | (230,343) | (250,000,000) |
| Trade and Other Receivables | 107,775,001 | (9,619,994) |
| **Increase / (Decrease) in Operating Liabilities** | | |
| Accounts Payable | 200,000 | 202,602 |
| Due to Mortgage (Government Guaranteed Loans) | | |
| Insurance Reserve Fund | 1,028 | 1,037 |
| Due to Jamaica Mortgage Bank | 124,826 | (5,513,886) |
| **Net Cash Provided by/(Used in) Operating Activities** | 201,291,062 | (182,181,326) |
| **Cash Flows from Investing Activities:** | | |
| Additions to/(Encashment of) Investments | (144,766,931) | 178,250,326 |
| **Net Cash (Used in)/Provided by Investing Activities** | (144,766,931) | 178,250,326 |
| **Net Increase/(Decrease) in Cash and Cash Equivalents** | 56,524,131 | (3,931,000) |
| **Cash and Cash Equivalents at the Beginning of the Year** | 1,267,010 | 5,198,010 |
| **Cash and Cash Equivalents at the End of the Year** | 57,791,141 | 1,267,010 |

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 31ST MARCH 2018
(Expressed in Jamaican Dollars unless otherwise indicated)

| | 2018 $ | 2017 $ |
|---|---|---|
| **ASSETS** | | |
| Due from Mortgage Insurance Fund | 79,889 | 78,861 |
| Government of Jamaica Investment Debenture | 15,779 | 15,779 |
| | 95,668 | 94,640 |
| Represented By: | | |
| **ACCUMULATED SURPLUS** | 95,668 | 94,640 |

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

APPROVED FOR ISSUE BY THE BOARD OF DIRECTORS ON May 31, 2018 AND SIGNED ON ITS BEHALF BY:

MR. HUGH FAULKNER
*for* CHAIRMAN

MR. RYAN PARKES
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
FOR THE YEAR ENDED 31ST MARCH 2018
(Expressed in Jamaican Dollars unless otherwise indicated)

| | 2018 $ | 2017 $ |
|---|---|---|
| **Increase in Fund:** | | |
| One-half of investment income transferred to the Bank as contribution towards the cost of administering the Mortgage Insurance Act | 1,028 | 1,028 |
| | 1,028 | 1,028 |
| **Net Increase in Fund for the Year** | 1,028 | 1,028 |
| **Fund Balance at the Beginning of the Year** | 94,640 | 93,612 |
| **Fund Balance at the End of the Year** | 95,668 | 94,640 |

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**
**FOR THE YEAR ENDED 31ST MARCH 2018**
(Expressed in Jamaican Dollars unless otherwise indicated)

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Increase in Fund Balance for the Year | 1,028 | 1,028 |
| **(Increase) in Operating Assets:** | | |
| Due from Mortgage Insurance Fund | (1,028) | (1,037) |
| **Net Cash Used in Operating Activities** | - | (9) |
| **Cash Flows from Investing Activities:** | | |
| Additions to/(Encashment of) Investments | - | 9 |
| **Net Cash Provided by Investing Activities** | - | 9 |
| **Net Increase in Cash and Cash Equivalents** | - | - |
| **Cash and Cash Equivalents at the Beginning of the Year** | - | - |
| **Cash and Cash Equivalents at the End of the Year** | - | - |

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

## 1. Corporate Information

(a) The Mortgage Insurance Fund

(i) Establishment and Functions

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

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

(ii) Funding

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

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

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

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

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

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

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

(e) These Funds are exempt from taxation.

**2. Adoption of Standards, Interpretation and Amendments:**

The International Accounting Standards Board (IASB) issued certain new standards and interpretations as well as amendments to existing standards, which became effective during the year under review. Management has assessed the relevance of these new standards, interpretations and amendments and has adopted and applied in these financial statements, those standards which are considered relevant to its operations.

(a) The following are Standards, Amendments and Interpretations in respect of published standards which are in effect:

**Amendments to IAS 7 - Statement of Cash Flows (Effective January 2017)**

Amends IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

This affected the financial statements for accounting periods beginning on or after the first day of the months stated. The adoption of this amendment had no material impact on the company's financial statements.

(b) Standards and Interpretations which are considered relevant to the Funds were issued but not yet effective:

Certain new, revised and amended standards and interpretations have been issued which are not yet effective for the current year and which the Funds has not early-adopted. The Funds has assessed the relevance of all the new standards, amendments and interpretations with respect to the Funds' operations and has determined that the following are likely to have an effect on the Funds' financial statements:

**IFRS 15 - Revenue from Contracts with Customers (IAS 18 will be superseded by IFRS 15 Revenue from Contracts with Customers.) (Effective January 2018)**

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- 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.

Guidance is provided on topics such as the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

**Clarifications to IFRS 15 : Revenue from Contracts with Customers (Effective January 2018)**

Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

**2. Adoption of Standards, Interpretation and Amendments (cont'd):**

(b) Standards and Interpretations which are considered relevant to the Funds were issued but not yet effective (cont'd):

**IFRS 9: Financial Instruments (2014) (Effective January 1, 2018)**

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

*Classification and measurement:* Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Hence, financial assets are to be classified into three measurement categories: those measured at amortised cost, those to be measured subsequently at fair value through other profit and loss (FVPL) and those to be measured subsequently at fair value through other comprehensive income (FVOCI). Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

*Impairment:* The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.

Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

*Derecognition:* The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Note: Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

Management has determined that the standard is relevant to existing policies for its current operations, but has not yet assessed the impact on adoption.

**Amendments to IFRS 9: Prepayment Features with Negative Compensation (Effective January 2019)**

Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

**Amendments to References to the Conceptual Framework in IFRS Standards**

Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework.

**2. Adoption of Standards, Interpretation and Amendments (cont'd):**

(b) Standards and Interpretations which are considered relevant to the Funds were issued but not yet effective (cont'd):

**Amendments to References to the Conceptual Framework in IFRS Standards (Cont'd)**

Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

These affect financial statements for accounting periods beginning on or after the first day of the month stated. The Fund is assessing the impact these amendments will have on its 2018 and 2019 financial statements.

**3. Statement of Compliance, Basis of Preparation and Significant Accounting Policies:**

(a) Statement of Compliance and Basis of Preparation -

The financial statements are prepared on the historical cost basis, and in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

The financial statements are presented in Jamaican dollars, which is the functional currency of the Funds.

(b) Key Sources of Estimation Uncertainty -

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

- Withholding Tax Recoverable

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

(c) Cash and Cash Equivalents

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

(d) Investments -

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

**3. Statement of Compliance, Basis of Preparation and Significant Accounting Policies:**

(d) Investments - (cont'd)

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

Effective Interest Method

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

Fair Value Measurement

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

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

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

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

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

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

Level 1 - Quoted (unadjusted) market prices in active market for identical assets and liabilities.

Level 2 - Valuation techniques for which the lowest level input that significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

**3. Statement of Compliance, Basis of Preparation and Significant Accounting Policies (cont'd):**

(e) Receivables -

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

(f) Impairment -

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

(i) Calculation of Recoverable Amount -

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

(i) Reversals of Impairment -

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

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

(g) Property, Plant 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.

(h) Payables -

Trade and other payables are stated at cost.

(i) Revenue -

Interest income earned from investments and fees are recorded on the accrual basis.

(j) Expenses -

Expenses are recorded on the accrual basis.

**3. Statement of Compliance, Basis of Preparation and Significant Accounting Policies (cont'd):**

(k) Comparative Information -

Where necessary, comparative figures have been re-classified to conform to changes in presentation in the current year. In particular, comparatives have been adjusted to take into account the requirements of IFRS.

(l) Fair Value of Financial Instruments -

Amounts reflected in the accounts for investments, trade and other receivables, cash and cash equivalents, trade and other payables is an approximation of their fair value.

**4. Related Party Balances and Transactions:**

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24, Related Party Disclosures as the "reporting entity").

(a) A person or a close member of that person's family is related to the reporting entity if that person:

(i) has control or joint control over the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting

(b) An entity is related to the reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled, or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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

**5. Investments - Mortgage Insurance Fund -**

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Government of Jamaica: | | |
| Repurchase Agreements | 42,595,209 | 114,112,418 |
| Investment Bonds | 764,222,085 | 752,156,230 |
| | 806,817,294 | 866,268,648 |
| Time Deposits | 180,955,134 | - |
| Deferred Shares | 25,286,952 | - |
| Accrued Interest | 10,968,681 | 12,992,482 |
| | 1,024,028,061 | 879,261,130 |

**6. Receivables -**

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Other Receivable | 1,207 | 1,207 |
| Withholding Tax Recoverable | 148,025,517 | 255,800,518 |
| | 148,026,724 | 255,801,725 |

**7. Due From/(To) Related Party:**

| | 2018 | 2017 |
|---|---|---|
| Balances outstanding at the end of the reporting period: | $ | $ |
| Due from Jamaica Mortgage Bank | 250,230,343 | 250,000,000 |
| Due to Jamaica Mortgage Bank | (124,826) | - |
| Income incurred during the reporting period: | | |
| Administration fees - Jamaica Mortgage Bank | 27,096,335 | 24,427,642 |

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. Property, Plant & Equipment -**

| | Computer<br>$ | Total<br>$ |
|---|---|---|
| **At Cost or Valuation:** | | |
| 31st March 2016 | 114,598 | 114,598 |
| 31st March 2017 | 114,598 | 114,598 |
| 31st March 2018 | 114,598 | 114,598 |
| **Accumulated Depreciation:** | | |
| 31st March 2016 | 114,598 | 114,598 |
| 31st March 2017 | 114,598 | 114,598 |
| 31st March 2018 | 114,598 | 114,598 |
| **Net Book Value:** | | |
| 31st March 2016 | - | - |
| 31st March 2017 | - | - |
| 31st March 2018 | - | - |

**9. Financial Instruments and Financial Instruments Risk Management:**

A financial instrument is a contract that gives rise to both 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, loan receivable from the Jamaica Mortgage Bank, investments and receivables. Financial liabilities have been determined to include payables, due to Jamaica Mortgage Bank, and due to the Mortgage (Government Guaranteed Loans) Insurance Reserve Fund.

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

(i) 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 $775 million (2017 - $765 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.

(ii) Financial Risk Management

The Funds' activities are principally related to the use of financial instruments. The Funds are exposed to credit risk, market risk and liquidity risk from its use of financial instruments. Market risk includes interest rate and foreign currency risk.

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.

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.

**9. Financial Instruments and Financial Instruments Risk Management (Cont'd):**

**(a) Credit Risk**

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

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

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum exposure to credit risks. At the date of the statement of financial position, these amounts were:

Mortgage Insurance Fund

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Cash and Cash Equivalents | 57,791,141 | 1,267,010 |
| Investments | 1,024,028,061 | 879,261,130 |
| Receivables | 148,026,724 | 255,801,725 |
| Short Term Loan - Due From Jamaica Mortgage Bank | 250,230,343 | 250,000,000 |
| | 1,480,076,269 | 1,386,329,865 |

Mortgage (Government Guaranteed Loans) Insurance Reserve Fund

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Due from Mortgage Insurance Fund | 79,889 | 78,861 |
| Government of Jamaica Investment Debenture | 15,779 | 15,779 |
| | 95,668 | 94,640 |

**(b) 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. Financial Instruments and Financial Instruments Risk Management (cont'd):

### (c) 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.

(i) 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.

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.

**31st March 2018**

| | Average Effective Yield | Within 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | No Specific Maturity | Total |
|---|---|---|---|---|---|---|---|
| | (%) | $ | $ | $ | $ | $ | $ |
| Cash and Cash Equivalents | | - | - | - | - | 57,791,141 | 57,791,141 |
| Investments | 5.09 | 165,263,581 | 19,255,443 | 75,286,952 | 764,222,085 | - | 1,024,028,061 |
| | | 165,263,581 | 19,255,443 | 75,286,952 | 764,222,085 | 57,791,141 | 1,081,819,202 |

**31st March 2017**

| | Average Effective Yield | Within 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | No Specific Maturity | Total |
|---|---|---|---|---|---|---|---|
| | (%) | $ | $ | $ | $ | $ | $ |
| Cash and Cash Equivalents | | - | - | - | - | 1,267,010 | 1,267,010 |
| Investments | 6.44 | 54,800,000 | 72,304,900 | - | 752,156,230 | - | 879,261,130 |
| | | 54,800,000 | 72,304,900 | - | 752,156,230 | 1,267,010 | 880,528,140 |

**9. Financial Instruments and Financial Instruments Risk Management (cont'd):**

**(c) Market Risk (cont'd)**

(ii) Foreign Currency Risk

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

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

(iii) Other Market Price Risk

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.

**10. Fund Valuation**

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