JAMAICA MORTGAGE BANK

ANNUAL REPORT & FINANCIAL STATEMENTS

2007

JAMAICA MORTGAGE BANK

FINANCIAL STATEMENTS

MARCH 31, 2007

CHAIRMAN'S MESSAGE FOR
ANNUAL REPORT 2007

The financial year 2006/2007 was a difficult one for the Jamaica Mortgage Bank (JMB), which saw changes in its General Manager and its Board of Directors. These changes affected the timely preparation of the annual report for the period.

A new board was appointed on October 22, 2007 and up to that date the 2007 audited accounts had not yet been completed as there were some outstanding audit queries contributing to the protracted delay in finalizing the accounts. These included:

- the amount of the Loan Loss Provision;
- a valuation of the Spanish Village Project; and
- the unresolved issue of the lands to be transferred to JMB Developments Ltd. to settle a long outstanding matter between the Ministry of Water and Housing and the JMB.

The new board worked diligently to resolve the outstanding issues so that the accounts could be finalized and to also address the bad debt portfolio, which had grown significantly and was threatening to negatively impact the Bank's image.

During the reporting period, 2006/2007, JMB's loan portfolio expanded by $570M with the Bank financing 2,200 housing solutions.

The JMB experienced growth in revenue of 25% over the previous year. However, the institution took the decision to provide for asset impairment, which resulted in a net loss of $152M. The intention was to start the new financial year with a clean portfolio.

The Bank's assets declined by 11% over the previous year due mainly to the provision for asset impairment and the maturity of $150M worth of shelter bonds, which were paid out.

June 2006, during the year under review, marked 35 years of existence of the Jamaica Mortgage Bank and this milestone was celebrated with a church service, a long service awards ceremony and other activities.

Despite the difficulties the JMB endeavours to remain a viable entity to continue making a sterling contribution to the nation and delivering on its mandate to promote affordable, environmentally acceptable housing solutions for Jamaicans. This is at the heart of what the Jamaica Mortgage Bank is about and so the JMB will continue to review its operations with a view to improving its effectiveness and efficiency in support of its vision:
"To finance safe and affordable housing so that all Jamaicans will have access to home ownership."

On behalf of the Board of Directors, I say thanks to the Ministry of Water and Housing and the Minister for their support and to the members of the JMB staff for their commitment, hard work and unwavering dedication.

George Thomas (Mr.)
Chairman, JMB Board of Directors

JAMAICA MORTGAGE BANK

FINANCIAL STATEMENTS
As at and for year ended
March 31, 2007

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KPMG
Chartered Accountants
The Victoria Mutual Building
6 Duke Street
Kingston
Jamaica, W.I.

P.O. Box 76
Kingston
Jamaica, W.I.
Telephone +1 (876) 922-6640
Fax +1 (876) 922-7198
+1 (876) 922-4500
e-Mail firmmail@kpmg.com.jm

To the Directors of
JAMAICA MORTGAGE BANK

Report on the Financial Statements

We have audited the financial statements of Jamaica Mortgage Bank (the Bank), set out on pages 3 to 35 which comprise the Group and Bank balance sheets as at March 31, 2007, and the Group and Bank statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and consistently applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

KPMG

To the Directors of
JAMAICA MORTGAGE BANK

Report on the Financial Statements, cont'd

Opinion

In our opinion, the financial statements give a true and fair view of the financial positions of the Group and the Bank as at March 31, 2007, and of the Group's and the Bank's financial performance, changes in equity and cash flows for the year then ended, which have been prepared in accordance with International Financial Reporting Standards.

KPMG

January 30, 2008

JAMAICA MORTGAGE BANK

Balance Sheets
March 31, 2007

	Notes	Group 2007 $'000	Group 2006 $'000	Bank 2007 $'000	Bank 2006 $'000
ASSETS					
Cash and cash equivalents:					
Short-term deposits		618	108,848	618	108,848
Other cash and bank balances		9,141	1,136	9,141	1,136
		9,759	109,984	9,759	109,984
Resale agreements	4	309,118	875,568	309,118	875,568
Accounts receivable and prepaid expenses	5	589,746	428,531	589,746	428,531
Income tax recoverable		103,077	82,842	103,077	82,842
Other investments	6	-	14,000	-	14,000
Interest in subsidiary	7	-	-	134,709	134,293
Loans receivable	8	1,800,901	1,693,894	1,800,901	1,693,894
Land held for development and sale	9	147,169	147,169	147,168	147,168
Employee benefits	10(b)	18,211	14,595	18,211	14,595
Property, plant and equipment	11	58,760	60,689	58,738	60,339
		3,036,741	3,427,272	3,171,427	3,561,214
LIABILITIES AND EQUITY					
LIABILITIES					
Accounts payable and accrued charges	12	46,279	34,574	46,119	34,020
Bonds payable	13	1,000,000	1,150,000	1,000,000	1,150,000
Loan payable to Ministry of Finance	14	39,611	46,647	39,611	46,647
Other loan payable	15	-	13,790	-	13,790
Deferred tax liability	16(a)	30,529	98,290	30,529	98,277
		1,116,419	1,343,301	1,116,259	1,342,734
EQUITY					
Share capital	17	500,000	500,000	500,000	500,000
Reserve fund	18	500,000	500,000	500,000	500,000
Special reserve fund	19	340,083	340,083	340,083	340,083
Retained profits		580,239	743,888	715,085	878,397
		1,920,322	2,083,971	2,055,168	2,218,480
		3,036,741	3,427,272	3,171,427	3,561,214

The financial statements on pages 3 to 35 were approved for issue by the Board of Directors on January 30, 2008 and signed on its behalf by:

____________________ Chairman
George Thomas

____________________ Director
Osmond Clarke

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

JAMAICA MORTGAGE BANK

Income Statements
March 31, 2007

	Notes	Group 2007 $'000	Group 2006 $'000	Bank 2007 $'000	Bank 2006 $'000
REVENUE					
Interest from loans		415,328	262,027	415,328	262,027
Interest from deposits		46,974	58,958	46,974	58,958
Interest from other investments		33,968	62,455	33,968	62,455
Total interest income		496,270	383,440	496,270	383,440
Other income		19,203	29,003	19,103	29,003
		515,473	412,443	515,373	412,443
EXPENSES					
Staff costs	20	(60,399)	(47,026)	(60,399)	(47,026)
Provision for impairment	8(b)	(461,783)	(48,019)	(461,783)	(48,019)
Other administrative and general expenses		(39,849)	(51,402)	(39,399)	(50,373)
Finance costs:					
Interest on bonds		(161,058)	(91,689)	(161,058)	(91,689)
Interest on loans		(12,497)	(10,040)	(12,497)	(10,040)
		(735,586)	(248,176)	(735,136)	(247,147)
(Loss)/profit before income tax	21	(220,113)	164,267	(219,763)	165,296
Income tax credit/(charge)	22	67,761	(52,323)	67,748	(52,323)
(LOSS)/PROFIT FOR THE YEAR		(152,352)	111,944	(152,015)	112,973

Dealt with in the financial statements of:

	2007 $'000	2006 $'000
The Bank	(152,015)	112,973
The subsidiary	(337)	(1,029)
	(152,352)	111,944

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

JAMAICA MORTGAGE BANK

Statements of Changes in Equity
Year ended March 31, 2007

Group

	Share capital $'000	Reserve fund $'000	Special reserve fund $'000	Retained profits $'000	Total $'000
Balances at March 31, 2005	500,000	500,000	340,083	631,944	1,972,027
Profit for the year, being total recognised gains	-	-	-	111,944	111,944
Balances at March 31, 2006	500,000	500,000	340,083	743,888	2,083,971
Loss for the year, being total recognised losses	-	-	-	(152,352)	(152,352)
Dividends paid (note 23)	-	-	-	(11,297)	(11,297)
Balances at March 31, 2007	500,000	500,000	340,083	(580,239)	(1,920,322)

Bank

	Share capital $'000	Reserve fund $'000	Special reserve fund $'000	Retained profits $'000	Total $'000
Balances at March 31, 2005	500,000	500,000	340,083	765,424	2,105,507
Profit for the year, being total recognised gains	-	-	-	112,973	112,973
Balances at March 31, 2006	500,000	500,000	340,083	878,397	2,218,480
Loss for the year, being total recognised losses	-	-	-	(152,015)	(152,015)
Dividends paid (note 23)	-	-	-	(11,297)	(11,297)
Balances at March 31, 2007	500,000	500,000	340,083	715,085	2,055,168

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

JAMAICA MORTGAGE BANK

Statement of Group Cash Flows
Year ended March 31, 2007

	Notes	2007 $'000	2006 $'000
Cash flows from operating activities			
(Loss)/profit for the year		(152,352)	111,944
Adjustments to reconcile (loss)/profit for the year to net cash (used)/provided by operating activities:			
Depreciation	11	4,102	6,104
Gain/(loss) on disposal of property, plant and equipment		(53)	1,354
Provision for impairment losses on loans	8(b)	461,783	48,019
Income tax	22	(67,761)	52,323
Revaluation loss		-	5,000
Employee benefits		(3,616)	(2,362)
Gain on disposal of investment property		-	(7,168)
		(242,103)	215,214
Interest income		(496,270)	(383,440)
Interest expense		173,555	101,729
		(80,612)	(66,497)
(Increase)/decrease in operating assets and liabilities:			
Accounts receivable and prepaid expenses		(100,639)	(30,249)
Income tax recoverable		67,748	(27,389)
Loans receivable		(568,790)	(688,678)
Accounts payable and accrued charges		11,705	9,632
Loan payable to Ministry of Finance		(7,036)	(6,809)
Due to Mortgage Insurance Fund		-	(1)
Interest received		299,005	282,645
Interest paid		(124,849)	(101,649)
Net cash used by operating activities		(503,468)	(628,995)
Cash flows from investing activities			
Resale agreements		566,450	(237,104)
Other investments		14,000	-
Proceeds of disposal of property, plant and equipment		4,674	25,685
Additions to property, plant and equipment	11	(6,794)	(2,410)
Proceeds from disposal of investment property		-	37,962
Net cash provided/(used) by investing activities		578,330	(175,867)
Cash flows from financing activities			
Issue of bearer bonds		100,000	500,000
Redemption of bearer bonds		(250,000)	-
Other loan payable		(13,790)	(522)
Dividends paid	23	(11,297)	-
Net cash (used)/provided by financing activities		(175,087)	499,478
Net decrease in cash and cash equivalents		(100,225)	(305,384)
Cash and cash equivalents at beginning of year		109,984	415,368
Cash and cash equivalents at end of year		9,759	109,984

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

JAMAICA MORTGAGE BANK

Statement of Bank Cash Flows
Year ended March 31, 2007

	Notes	2007 $'000	2006 $'000
Cash flows from operating activities			
(Loss)/profit for the year	11	(152,015)	112,973
Adjustments to reconcile (loss)/profit for the year to net cash (used)/provided by operating activities:			
Depreciation		4,091	6,081
(Gain)/loss on disposal of property, plant and equipment		(370)	1,279
Provision for impairment losses on loans	8(b)	461,783	48,019
Income tax	22	(67,748)	52,323
Revaluation loss		-	5,000
Employee benefits		(3,616)	(2,362)
Gain on disposal of investment property		-	(7,168)
		(242,125)	216,145
Interest income		(496,270)	(383,440)
Interest expense		173,555	101,729
		(80,590)	(65,566)
(Increase)/decrease in operating assets and liabilities:			
Accounts receivable and prepaid expenses		(101,055)	(30,249)
Income tax recoverable		67,748	(27,389)
Loans receivable		(568,790)	(688,678)
Accounts payable and accrued charges		12,099	8,525
Loan payable to Ministry of Finance		(7,036)	(6,809)
Due to Mortgage Insurance Fund		-	(1)
Interest received		299,005	282,645
Interest paid		(124,849)	(101,649)
Net cash used by operating activities		(503,468)	(629,171)
Cash flows from investing activities			
Resale agreements		566,450	(237,104)
Other investments		14,000	-
Interest in subsidiary		(416)	(801)
Proceeds of disposal of property, plant and equipment		4,674	26,684
Additions to property, plant and equipment	11	(6,794)	(2,410)
Proceeds from disposal of investment property		-	37,962
Net cash provided/(used) by investing activities		577,914	(175,669)
Cash flows from financing activities			
Issue of bearer bonds		100,000	500,000
Redemption of bearer bonds		(250,000)	-
Other loan payable		(13,790)	(522)
Dividends paid	23	(11,297)	-
Net cash (used)/provided by financing activities		(175,087)	499,478
Net decrease in cash and cash equivalents		(100,225)	(305,362)
Cash and cash equivalents at beginning of year		109,984	415,346
Cash and cash equivalents at end of year		9,759	109,984

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

1. Identification

(a) The Jamaica Mortgage Bank ("Bank") was incorporated on June 15, 1973 under the Jamaica Mortgage Bank Act 1973 as a body corporate, subject to the provisions of Section 28 of the Interpretation Act 1968, and is wholly-owned by the Government of Jamaica. The Bank is domiciled in Jamaica and its registered office is located at 33 Tobago Avenue, Kingston 5, Jamaica.

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

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

[i] lend money on mortgage and carry out any other transaction involving mortgages;

[ii] lend money on security to be used for the construction of premises for private residential purposes or of a commercial or industrial nature;

[iii] guarantee loans from private investment sources for building development;

[iv] furnish financial advice and provide or assist in obtaining managerial, technical and administrative services for persons engaged in building and development in Jamaica; and

[v] sell investments of whatever kind belonging to the Bank, as and when appropriate.

The present activities of the Bank are the:

- mobilization and disbursement, on a wholesale basis, of loan funds to finance housing development in Jamaica; and
- provision of mortgage insurance facilities.

2. Statement of compliance and basis of preparation

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of preparation:

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

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

2. Statement of compliance and basis of preparation (cont'd)

(b) Basis of preparation (cont'd):

The preparation of the financial statements in accordance with IFRS also assumes that the Bank and the Group will continue in operational existence for the foreseeable future. This means, *inter alia*, that the balance sheet and the income statement assume no intention or necessity to liquidate the Bank and the Group or curtail the scale of their operations. This is commonly referred to as the going concern basis. The directors believe that preparation of the financial statements on the going concern basis continues to be appropriate.

(c) Accounting estimates and judgements:

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are presented below:

(i) Pension and other post-employment benefits:

The amounts recognised in the balance sheets and income statements for pension and other post-employment benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include expected long-term return on plan assets, and the discount rate used to determine the present value of estimated future cash flows required to settle the pension obligations.

The expected return on plan assets assumed considers the long-term historical returns, asset allocation and future estimates of long-term investment returns. The discount rate is determined based on the estimate of yield on long-term government securities that have maturity dates approximating the terms of the Bank's obligation; in the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest-tenor security on the market. Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations.

(ii) 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.

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

3. Significant accounting policies

(a) Interest:

Interest income and expense are accounted for on the accrual basis. Where the collection of interest income is considered doubtful, a provision for loss is made for amounts already accrued and thereafter such interest is accounted for on the cash basis.

(b) Property, plant and equipment and depreciation:

(i) Property, plant and equipment are stated at cost, less accumulated depreciation and, if any, impairment losses [see note 3(j)].

(ii) Property, plant and equipment, with the exception of freehold land, on which no depreciation is provided, are depreciated on the straight-line basis at annual rates, to write down the assets to their estimated residual values at the end of their expected useful lives. Leasehold improvements are depreciated over the shorter of the period of the lease and the expected useful lives. The depreciation rates are as follows:

Freehold buildings	2.5%
Furniture, fixtures and office equipment	10% & 25%
Leasehold improvement	10%
Motor vehicles	20%

(c) Foreign currencies:

Foreign currency balances at the balance sheet date are translated at the rates of exchange ruling at that date.

Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions.

Gains and losses arising from fluctuations in exchange rates are included in the income statement.

(d) Investments:

Investments are classified as loans and receivables where the Group provides money to a debtor, other than those for short-term profit-taking, and the instruments are not quoted in an active market. Such investments in this classification are measured at amortised cost less impairment losses [note 3(j)]. Where the Group has the positive intent and ability to hold investments to maturity, they are classified as held-to-maturity investments and measured at amortised cost, less impairment losses.

(e) Consolidation:

The consolidated financial statements combine the financial position, results of operations and cash flows of the Bank and its wholly-owned subsidiary (note 7), made up to March 31, 2007, after eliminating all material intra-group amounts.

The Bank and its subsidiary are collectively referred to as "Group".

3. Significant accounting policies (cont'd)

(f) Income tax:

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(g) Provision for probable loan losses:

The provision for probable loan losses is maintained at a level determined by management to be adequate to meet losses which may occur in the collection of outstanding loans and related interest. The management determines this level by assessing significant loans individually and, where applicable, loans that are not individually significant, on a portfolio basis, taking account of past loan loss experience, current and anticipated business and economic conditions and, where enforcement of rights as lender is legally possible, the net realisable value of securities held.

(h) Employee benefits:

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

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

3. Significant accounting policies (cont'd)

(h) Employee benefits (cont'd):

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

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

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

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

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

(i) Resale agreements:

Securities purchased under agreements to resell them on a specified date, at a specified price ("resale agreements") are accounted for as short-term collateralised lending and carried at amortised cost, with the difference between the purchase price and the amount receivable on resale being recognised as interest income over the term of the agreement using the effective interest method. It is the policy of the Group to obtain possession of collateral with a market value equal to, or in excess of, the principal amount loaned and interest to be earned.

3. Significant accounting policies (cont'd)

(j) Impairment:

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

(i) Calculation of recoverable amount

The recoverable amount of the Group's investments in loans and 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 a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

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

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 assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Investment in subsidiary:

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

(m) Land held for development and sale:

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

(n) Cash and cash equivalents:

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

3. Significant accounting policies (cont'd)

(n) Cash and cash equivalents (cont'd):

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(o) Investment properties:

Investment properties are carried at cost less impairment losses.

4. Resale agreements

At March 31, 2007, securities obtained and held under resale agreements had a fair value of $319,066,000 (2006: $876,278,000) for the Group and the Bank.

5. Accounts receivable and prepaid expenses

	Group and Bank	
	2007 $'000	2006 $'000
Accrued interest on loans receivable	490,850	283,314
Accrued interest on deposits and investments	1,893	19,218
Other receivables and prepaid expenses	97,003	125,999
	589,746	428,531

Under the terms of an agreement, the Bank offsets the amount of principal and interest on the loan payable to the Ministry of Finance (note 14) which falls due during the year under review, against the amount of principal and interest on the loan receivable from the Ministry of Environment and Housing [note 8(b)] which falls due during the year under review, with the net amount being (receivable from)/payable to the Ministry of Finance. The accumulated net effect of the offset is a receivable from the Ministry of Finance of $10,638,000 (2006: a receivable of $7,120,000), which is included in other receivables (above), made up substantially as follows:

	Group and Bank	
	2007 $'000	2006 $'000
Balance with Ministry of Finance:		
Amount receivable at beginning of year	(7,120)	(4,058)
Current year portion of amount due to Ministry of Finance (see note 14)	11,551	12,007
	4,431	7,949
Current year portion of amount due from Ministry of Environment and Housing [note 8(b)]	(15,069)	(15,069)
Net amount receivable from the Ministry of Finance at end of year	(10,638)	(7,120)

6. Other investments

	Group and Bank	
	2007	2006
	$'000	$'000
Loans and receivables carried at amortised cost:		
Government of Jamaica debentures - 16.87% 2006 Series AJ	-	14,000

7. Interest in subsidiary

	Bank	
	2007	2006
	$'000	$'000
Ordinary shares	-	- *
Long-term loan	134,709	134,293
	134,709	134,293

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

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

The long-term loan, which represents drawdowns 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 shown includes past-due amount of $134,708,530 (2006: $134,292,615). The loan is interest-free. It is supported by a promissory note and is to be secured on land owned by the subsidiary.

8. Loans receivable

	Group and Bank	
	2007	2006
	$'000	$'000
Construction loans – non-governmental borrowers [see (a) below]	2,015,161	1,496,290*
Less: Provision for impairment losses [see (b) below]	(573,463)	(131,785)
	1,441,698	1,364,505
Construction loans – Ministry of Environment and Housing [see (c) below]	63,357	69,533*
Mortgages [see (d) below] - Staff	10,355	9,466
- Other	285,491	250,390*
	1,800,901	1,693,894

* After reclassifications to accord with the current year's presentation.

8. Loans receivable (cont'd)

(a) Construction loans for the Group and the Bank are secured and carry varying interest rates. The loans are repayable over periods of 12 to 24 months.

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

	Group and Bank	
	2007	2006
	$'000	$'000
At beginning of year	131,785	97,945
Charged against revenue during the year	461,783	48,019
Bad debts written off	(20,105)	(14,179)
At end of year	573,463	131,785

(c) These loans were granted for housing construction. They are being repaid over periods of 15 to 25 years and carry varying interest rates.

(d) Mortgage loans for the Group and the Bank are repayable over periods of 15 to 25 years and carry varying interest rates.

9. Land held for development and sale

	Group		Bank	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Balance at the beginning of the year	147,169	151,111	147,168	151,110
Transferred from property, plant and equipment (see note 11)	-	1,058	-	1,058
Valuation adjustment	-	(5,000)	-	(5,000)
Balance at the end of the year	147,169	147,169	147,168	147,168

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

(i) The properties held by the subsidiary 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 subsidiary shall be beneficially entitled to the remaining eighty percent (80%) of such residential serviced lots.

The properties included, at valuation, are as follows:

	Previously reported	Adjustments	End of Year
"The Reserves" – Non Pariel (a)	76,850,000	-	76,850,000
"The Reserves" – White Hall (a)	57,500,000	57,500,000	-
Land part of Green Pond, St. James (b)	54,000,000	54,000,000	-
Landilo Pen (c)	38,000,000	38,000,000	-
	$226,350,000	149,500,000	76,850,000

9. Land held for development and sale (cont'd)

(i) (Cont'd)

The properties were valued on the open market basis at the amounts shown by the persons and at the dates listed below:

(a) Edwin Tulloch-Reid and Associates in July 2004
(b) Breakenridge and Associates in May 2005
(c) D.C. Tavares & Finson Company Realty Limited in February 2003

The Group has made the adjustments indicated because the parcels of land at "The Reserves - White Hall" were transferred back to the Minister of Housing, the undertaking to deliver the title to the Green Pond lands was determined not to be enforceable, and the transfer of the title to the Landilo Pen lands to the Group has not been finalised.

The Board and Management of the Group expect to receive additional lands with a 2002 valuation so as to bring the total such lands held to a 2002 valuation of not less than $194 million.

(ii) The other three properties are held by the Bank

10. Employee benefits

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

The plan requires the establishment of a fund which is subject to triennial actuarial valuations, carried out by an independent firm of actuaries. The latest actuarial valuation for funding purposes, undertaken as at July 31, 2006, indicated a past service surplus of $17.6 million. The actuaries have recommended that, based on the value of the fund, contributions of 7.8% of pensionable salaries should be made by the Bank. Contributions during the year were at a rate of 10% of pensionable salaries. The next valuation will become due on July 31, 2009.

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

JAMAICA MORTGAGE BANK

Notes to the Financial Statements (Continued)
March 31, 2007

10. Employee benefits (cont'd)

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

(i) Plan asset recognised in the balance sheet

	Group and Bank	
	Asset	
	2007	2006
	$'000	$'000
Present value of funded obligations	(49,464)	(33,794)
Fair value of plan assets	68,158	53,631
	18,694	19,837
Unrecognised actuarial gains	(483)	(5,242)
Recognised asset	18,211	14,595

(ii) Movements in net asset recognised in the balance sheet:

	Group and Bank	
	Asset	
	2007	2006
	$'000	$'000
Net asset at beginning of year	14,595	12,233
Contributions paid	3,381	2,496
Expense recognised in the income statements	235	(134)
Net asset at end of year	18,211	14,595

(iii) Expense recognised in the income statements:

	Group and Bank	
	Asset	
	2007	2006
	$'000	$'000
Current service cost	2,490	2,439
Interest on obligation	4,048	3,275
Actuarial gains recognised	-	(16)
Expected return on plan assets	(6,773)	(5,564)
(Income)/expense recognised in the income statements (note 20)	(235)	134
Actual return on plan assets	15%	11%

JAMAICA MORTGAGE BANK

Notes to the Financial Statements (Continued)
March 31, 2007

10. Employee benefits (cont'd)

(c) Movements in plan assets:

	2007 $'000	2006 $'000
Fair value of plan assets at beginning of year	53,631	44,426
Contributions paid	5,909	4,232
Expected return on plan assets	6,773	5,564
Benefits paid	325	(238)
Actuarial gain	520	(353)
Fair value of plan assets at end of year	67,158	53,631
Plan assets consist of the following:		
Equities	7,316	6,427
Fixed income securities	53,200	41,110
Real estate	7,007	5,826
Bank	167	104
Other	468	164
	68,158	53,631

(d) Principal actuarial assumptions at the balance sheet date (expressed as weighted averages based on the plan assets of the plan).

	Group and Bank	
	2007 %	2006 %
Discount rate at March 31	12.50	12.50
Expected return on plan assets at March 31	12.50	12.50
Future salary increases	10.00	10.00
Future pension increases	3.50	3.50

(e) Historical information

	2007 $'000	2006 $'000	2005 $'000	2004 $'000	2003 $'000
Present value of the defined obligation	49,464	33,794	27,411	21,301	17,931
Fair value of plan assets	(68,158)	(53,631)	(44,426)	(31,674)	(21,627)
Surplus in plan	(18,694)	(19,837)	(17,015)	(10,373)	(3,696)
Experience adjustments arising on plan liabilities	6,279	(829)	(372)	435	3,685
Experience adjustments arising on plan assets	(1,520)	353	4,162	5,525	6,059

(f) The estimated contributions expected to be paid into the pension fund during the next financial year is $6,303,000.

JAMAICA MORTGAGE BANK

Notes to the Financial Statements (Continued)
March 31, 2007

11. Property, plant and equipment

Group

	Freehold land $'000	Freehold buildings $'000	Leasehold improvements $'000	Furniture, fixtures and equipment $'000	Plant and machinery $'000	Motor vehicles $'000	Total $'000
Cost:							
March 31, 2005	4,058	79,400	317	21,864	110	13,377	119,126
Additions	-	930	-	1,480	-	-	2,410
Disposals	-	(24,000)	-	(798)	-	(7,013)	(31,811)
Transfers (see note 9)	(1,058)	-	-	-	-	-	(1,058)
March 31, 2006	3,000	56,330	317	22,546	110	6,364	88,667
Additions	-	4,452	-	1,107	-	1,235	6,794
Disposals	-	-	(317)	(761)	-	(6,364)	(7,442)
March 31, 2007	3,000	60,782	-	22,892	110	1,235	88,019
Depreciation:							
March 31, 2005	-	11,140	-	11,391	66	4,049	26,646
Charge for the year	-	1,939	-	2,224	11	1,930	6,104
Eliminated on disposal	-	(750)	-	(579)	-	(3,443)	(4,772)
March 31, 2006	-	12,329	-	13,036	77	2,536	27,978
Charge for the year	-	1,427	-	2,393	11	271	4,102
Eliminated on disposal	-	-	-	(169)	-	(2,652)	(2,821)
March 31, 2007	-	13,756	-	15,260	88	155	29,259
Net book values:							
March 31, 2007	3,000	47,026	-	7,632	22	1,080	58,760
March 31, 2006	3,000	44,001	317	9,510	33	3,828	60,689
March 31, 2005	4,058	68,260	317	10,473	44	9,328	92,480

JAMAICA MORTGAGE BANK

Notes to the Financial Statements (Continued)
March 31, 2007

11. Property, plant and equipment (cont'd)

Bank

	Freehold land $'000	Freehold buildings $'000	Furniture, fixtures and equipment $'000	Motor vehicles $'000	Total $'000
Cost:					
March 31, 2005	4,058	79,400	21,503	13,377	118,338
Additions	-	930	1,480	-	2,410
Disposals	-	(24,000)	(437)	(7,013)	(31,450)
Transfers (see note 9)	(1,058)	-	-	-	(1,058)
March 31, 2006	3,000	56,330	22,546	6,364	88,240
Additions	-	4,452	1,107	1,235	6,794
Disposals	-	-	(761)	(6,364)	(7,125)
March 31, 2007	3,000	60,782	22,892	1,235	87,909
Depreciation:					
March 31, 2005	-	11,140	11,176	4,049	26,365
Charge for the year	-	1,939	2,212	1,930	6,081
Disposals	-	(750)	(352)	(3,443)	(4,545)
March 31, 2006	-	12,329	13,036	2,536	27,901
Charge for the year	-	1,427	2,393	271	4,091
Disposals	-	-	(169)	(2,652)	(2,821)
March 31, 2007	-	13,756	15,260	155	29,171
Net book values:					
March 31, 2007	3,000	47,026	7,632	1,080	58,738
March 31, 2006	3,000	44,001	9,510	3,828	60,339
March 31, 2005	4,058	68,260	10,327	9,328	91,973

12. Accounts payable and accrued charges

	Group		Bank	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Interest payable	27,280	21,426	27,280	21,426
Other	18,999	13,148	18,839	12,594
	46,279	34,574	46,119	34,020

13. Bonds payable

	Group and Bank	
	2007	2006
	$'000	$'000
Shelter Bond V due 2007 [see (a) below]	-	250,000
Shelter Bond VI [see (b) below]	400,000	400,000
Shelter Bond VII [see (c) below]	100,000	-
Shelter Bond VIII [see (d) below]	500,000	500,000
	1,000,000	1,150,000

	Group and Bank	
	2007	2006
	$'000	$'000
Due within 12 months of the balance sheet date	-	250,000
Due thereafter	1,000,000	900,000
	1,000,000	1,150,000

The Bank no longer maintains a segregated sinking fund for the redemption of the Bonds, but, instead, has designated investments that it holds in a particular financial institution as the sinking fund; this fund is managed internally by the Bank.

(a) In February 2002, the Bank issued Shelter Bond V at 1.25% above the weighted average treasury bill rate. These bonds were repaid in full on January 31, 2007.

(b) In January 2006, the Bank issued shelter Bond VI at 1% above the weighted average treasury bill rate. These bonds are repayable in full on January 31, 2010.

(c) In May 2006, the Bank issued Shelter Bond VII at 1% above the weighted average treasury bill rate. The bonds are repayable in full on January 31, 2010.

(d) In March 2006, the Bank issued Shelter Bond VIII at 1.124% above the weighted average treasury bill rate. The bonds are repayable in full on January 31, 2011.

(e) The conditions precedent to the issuing of Shelter Bond 9 ($500M), were satisfied in March 2007. By agreement with the subscriber however, the bonds will be issued in the financial year 2007/2008. A first tranche of $250M was issued in May 2007.

The weighted average treasury bill yield rate used is that from the most recent auction of six month treasury bills prior to the commencement of the particular interest period.

14. Loan payable to Ministry of Finance

The amount due to the Ministry of Finance represents the following outstanding Jamaica dollar balances of overseas loans, for the repayment of which the Ministry of Finance took responsibility, on their original terms, with the Bank thereby becoming indebted to the Ministry (see note 5):

Loan Schedules	Rate % per annum	Year of final repayment	Group and Bank 2007 $'000	Group and Bank 2006 $'000
532-HG-010 Schedule L3	9.23	2008	2,549	4,879
532-HG-011 Schedule L4	10.00	2012	9,790	11,570
532-HG-012A Schedule L5	10.00	2014	11,784	13,257
532-HG-012B Schedule L6	10.00	2016	9,900	11,000
Garveymeade Schedule L11	8.00	2017	5,588	5,941
			39,611	46,647
Amounts due within 12 months of the balance sheet date			7,285	7,036
Due thereafter			32,326	39,611
			39,611	46,647

15. Other loan payable

This represents a loan from JN Fund Managers Limited, which bears interest at 21% per annum, on the reducing balance, and was repayable over 10 years. The loan was repaid during the year.

	Group and Bank 2007 $'000	Group and Bank 2006 $'000
Amounts due within 12 months of the balance sheet date	-	642
Due thereafter	-	13,148
	-	13,790

16. Deferred tax asset/(liability)

(a) The deferred tax asset and liability are attributable to the following:

Group and Bank

	Asset		Liability		Net	
	2007	2006	2007	2006	2007	2006
	$'000	$'000	$'000	$'000	$'000	$'000
Property, plant and equipment	1,395	926	-	-	1,395	926
Employee benefits	-	-	(6,070)	(787)	(6,070)	(787)
Accounts payable and accrued charges	10,024	7,761	-	-	10,024	7,761
General bad debt provision	30,587	-	-	-	30,587	-
Loss carried forward	97,783	-	-	-	97,783	-
Accounts receivable and prepaid expenses	-	-	(164,248)	(106,190)	(164,248)	(106,190)
	139,789	8,687	(170,318)	(106,977)	(30,529)	(98,290)
Comprising:						
Bank					(30,529)	(98,277)
Subsidiary					-	(13)
Group					(30,529)	(98,290)

(b) Movement on deferred tax liability during the year is as follows:

	Group		Bank	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Net deferred tax liability at beginning of year	(98,290)	(71,543)	(98,277)	(71,530)
Net movement for the year (note 22)	67,761	(26,747)	67,748	(26,747)
Net deferred tax liability at end of year	(30,529)	(98,290)	(30,529)	(98,277)

17. Share capital

	Group and Bank	
	2007	2006
	$'000	$'000
Authorised, issued and fully paid:		
500,000,000 ordinary shares of $1 each	500,000	500,000

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 18), 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. Staff number and cost

The number of persons in the Group's and the Bank's employment at the end of the year was 27 (2006: 29).

The aggregate cost of these employees was as follows:

	Group and Bank	
	2007 $'000	2006 $'000
Salaries and wage-related expenses	54,669	41,750
Statutory payroll contributions	3,035	2,208
Employee benefit expense [note 10(b)(iii)]	(235)	134
Staff welfare	2,930	2,934
	60,399	47,026

21. Profit before income tax

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

		Group		Bank	
		2007 $'000	2006 $'000	2007 $'000	2006 $'000
Depreciation		4,102	6,104	4,091	6,081
Directors emoluments	- fees (note 24)	456	487	456	487
	- management remuneration	Nil	Nil	Nil	Nil
Auditors' remuneration	- current year	2,003	1,825	1,623	1,475

22. Income tax

(a) The income tax charge is computed at the rate of 33⅓% of the Group's and Bank's results for the year as adjusted for tax purposes, and is made up as follows:

	Group		Bank	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(i) Current:				
Provision for charge on current year's results	-	26,149	-	26,149
Over provision for prior year's tax charge	-	(573)	-	(573)
(ii) Deferred:				
Origination and reversal of temporary differences [note 16(b)]	(67,761)	26,747	(67,748)	26,747
Total income tax (credit)/charge recognised in the income statements	(67,761)	52,323	(67,748)	52,323

JAMAICA MORTGAGE BANK

Notes to the Financial Statements (Continued)
March 31, 2007

22. Income tax (cont'd)

(b) The effective tax rate was 30.78% (2006: 31.85%) for the Group and 30.83% (2006:31.65%) for the Bank compared to a statutory rate of $33^{1}/3\%$ (2006:$33^{1}/3\%$). The actual tax charge differed from the expected tax charge for the year as follows:

	Group		Bank	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(Loss)/profit before income tax	(220,113)	164,267	219,763	165,296
Computed "expected" tax expense	(73,371)	54,756	73,255	55,098
Tax effect of treating the following items differently for financial statement purposes than for tax reporting purposes:				
Depreciation and capital allowances	(670)	(2,088)	(670)	(2,088)
Other	6,280	228	6,177	(114)
Over provision of prior year's tax charge	-	(573)	-	(573)
Actual tax (credit)/charge recognised in the income statement	(67,761)	52,323	(67,748)	52,323

(c) At the balance sheet date, taxation losses, subject to the agreement of the Commissioner of Taxpayer Audit and Assessment, available for set-off against future taxable profits, amounted to approximately $389,000,000 (2006: $96,000,000) for the Group and $293,000,000 (2006: Nil) for the Bank.

No deferred tax asset is recognised in respect of taxation losses in the books of the subsidiary as management believes that it is unlikely that, in the foreseeable future, the subsidiary will have sufficient taxable profits against which the asset can be utilised.

23. Dividends paid

	Group and Bank	
	2007 $'000	2006 $'000
Final paid in respect of 2006 @ $0.02259 per share	11,297	-

24. Related party balances and transactions

A party is related to an entity if:

(a) directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
(ii) has an interest in the entity that gives it significant influence over the entity; or
(iii) has joint control over the entity;

(b) the party is an associate (as defined in IAS 28, *Investments in Associates*) of the entity;

(c) the party is a joint venture in which the entity is a venturer (see IAS 31, *Interests in Joint Ventures*);

(d) the party is a member of the key management personnel of the entity or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity 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 entity, or of any entity that is a related party of the entity.

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

Balances (payable to) / receivable from key management are as follows:

	Group and Bank	
	2007	2006
	$'000	$'000
Accounts payable	1,698	995
Staff loans	16,046	11,742

Key management compensation is as follows:

	Group and Bank	
	2007	2006
	$'000	$'000
Directors fees (note 21)	456	487
Short-term employee benefits	27,378	21,665
Post-employment benefits	(65)	44
	18,135	34,933

25. Financial instruments

A financial instrument is any 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, financial assets have been determined to include cash and cash equivalents, resale agreements, accounts receivable, other investments and loans receivable. Financial liabilities have been determined to include accounts payable, bonds payable, loan payable to Ministry of Finance, other loan payable and due to Mortgage Insurance Fund.

25. Financial instruments (cont'd)

(a) Fair value:

Definition of 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. Where quoted market prices are not available, the fair values of financial instruments have been determined using a generally accepted alternative method. However, considerable judgement is required in obtaining and interpreting market data to develop estimates of fair value and even greater judgement where there is no public or over-the-counter market. Accordingly, the estimates presented in these financial statements, having been determined using, where practicable, alternative valuation techniques, given the absence of an active trading market for the instruments, are not necessarily indicative of the amounts that the Group would receive on realisation of its financial assets or pay to settle its financial liabilities in a current market exchange.

Determination of fair value:

The amounts included in the financial statements for cash and cash equivalents, resale agreements, accounts receivable, due to Mortgage Insurance Fund and accounts payable are considered to approximate their fair values because of their relatively short-term nature.

The estimated fair value of investments is determined by discounting future cash flows to their present values using estimated rates prevailing at balance sheet date for instruments with similar risk profiles. The estimated fair values of the Group's and the Bank's other financial instruments have not been computed due to the unavailability of quoted market prices or sufficient other relevant market information.

(b) Financial instrument risks:

Exposure to credit, interest rate, foreign currency, market, liquidity and cash flow risks arises in the ordinary course of the Group's business. Derivative financial instruments are not presently used to manage exposure to financial instrument risks.

(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.

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

25. Financial instruments (cont'd)

(b) Financial instrument risks (cont'd):

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. As there are no off-balance sheet financial instruments, the Group's maximum exposure to credit risk, i.e., the loss that would be suffered by the Group if all counterparties were to default at once, is limited to the carrying values of the financial assets in the balance sheet.

(ii) 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 Group manages this risk by monitoring interest rates daily, and ensuring that the maturity profile of its financial assets is matched by that of its financial liabilities to the extent practicable, given the nature of the business.

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

Group

	2007					
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	5,361	3,780	-	618	9,759
Resale agreements	36,183	101,893	171,042	-	-	309,118
Accounts receivable	-	-	-	-	589,746	589,746
Loans receivable	-	269,964	392,913	1,138,024	-	1,800,901
Total financial assets	36,183	377,218	567,735	1,138,024	590,364	2,709,524
Accounts payable	-	-	-	-	46,279	46,279
Bonds payable	-	-	-	1,000,000	-	1,000,000
Loan payable to Ministry of Finance	-	-	-	39,611	-	39,611
Total financial liabilities	-			1,039,611	46,279	1,085,890
Interest rate sensitivity gap*	36,183	377,218	567,735	98,413	544,085	1,623,634
Cumulative gap	36,183	413,401	981,136	1,079,549	1,623,634	-

JAMAICA MORTGAGE BANK

Notes to the Financial Statements (Continued)
March 31, 2007

25. Financial instruments (cont'd)

(b) Financial instrument risks (cont'd):

(ii) Interest rate risk (cont'd):

Group

	2006					
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	105,282	3,566	-	1,136	109,984
Resale agreements	39,994	151,024	684,550	-	-	875,568
Accounts receivable	-	-	-	-	428,531	428,531
Other investments	-	-	14,000	-	-	14,000
Loans receivable	-	478,145	678,688	537,061	-	1,693,894
Total financial assets	39,994	734,451	1,380,804	537,061	429,667	3,121,977
Accounts payable	-	-	-	-	34,574	34,574
Bonds payable	-	-	250,000	900,000	-	1,150,000
Loan payable to Ministry of Finance	-	-	-	46,647	-	46,647
Other loan payable	-	13,790	-	-	-	13,790
Total financial liabilities	-	13,790	250,000	946,647	34,574	1,245,011
Interest rate sensitivity gap*	39,994	720,661	1,130,804	(409,586)	395,093	1,876,966
Cumulative gap	39,994	760,655	1,891,459	1,481,873	1,876,966	-

* The gap relates to balance sheet items; there are no off-balance sheet financial instruments.

Bank

	2007					
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	5,361	3,780	-	618	9,759
Resale agreements	36,183	101,893	171,042	-	-	309,118
Accounts receivable	-	-	-	-	589,746	589,746
Loans receivable	-	269,964	392,913	1,138,024	-	1,800,901
Total financial assets	36,183	377,218	567,735	1,138,024	590,364	2,709,524
Accounts payable	-	-	-	-	46,119	46,119
Bonds payable	-	-	-	1,000,000	-	1,000,000
Loan payable to Ministry of Finance	-	-	-	39,611	-	39,611
Total financial liabilities				1,039,611	46,119	1,085,730
Interest rate sensitivity gap*	36,183	377,218	567,735	98,413	544,245	1,623,794
Cumulative gap	36,183	413,401	981,136	1,079,549	1,623,794	-

25. Financial instruments (cont'd)

(b) Financial instrument risks (cont'd):

(ii) Interest rate risk (cont'd):

Bank

	2006					
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	105,282	3,566	-	1,136	109,984
Resale agreements	39,994	151,024	684,550	-	-	875,568
Accounts receivable	-	-	-	-	428,531	428,531
Other investments	-	-	14,000	-	-	14,000
Loans receivable	-	478,145	678,688	537,061	-	1,693,894
Total financial assets	39,994	734,451	1,380,804	537,061	429,667	3,121,977
Accounts payable	-	-	-	-	34,020	34,020
Bonds payable	-	-	250,000	900,000	-	1,150,000
Loan payable to Ministry of Finance	-	-	-	46,647	-	46,647
Loan payable	-	13,790	-	-	-	13,790
Total financial liabilities	-	13,790	250,000	946,647	34,020	1,244,457
Interest rate sensitivity gap*	39,994	720,661	1,130,804	(409,586)	395,647	1,877,520
Cumulative gap	39,994	760,655	1,891,459	1,481,873	1,877,520	-

* The gap relates to balance sheet items; there are no off-balance sheet financial instruments.

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

	2007				
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Total
	%	%	%	%	%
Cash and cash equivalents	-	2.00	8.00	-	4.48
Resale agreements	-	6.06	11.81	-	10.67
Loans receivable	-	18.20	19.09	17.87	18.11
Bonds payable	-	-	13.30	-	13.30
Loan payable to Ministry of Finance	-	-	0.01	9.07	9.67

25. Financial instruments (cont'd)

(b) Financial instrument risks (cont'd):

(ii) Interest rate risk (cont'd):

Group and Bank

	2006				
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Total
	%	%	%	%	%
Cash and cash equivalents	8.00	12.86	-	-	12.82
Resale agreements	12.85	15.27	15.42	-	15.35
Other investments	-	-	16.88	-	16.88
Loans receivable	-	18.67	19.35	15.67	17.74
Bonds payable	-	-	14.55	14.41	14.44
Loan payable to Ministry of Finance	-	-	-	9.60	9.60
Loan payable	-	-	-	21.00	21.00

(iii) 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 main currency giving rise to this risk is the US$.

The Group has limited exposure to foreign currency risk on transactions that are denominated in foreign currencies. The Group manages this risk by keeping abreast of exchange rates on a daily basis. The exposure to foreign exchange rate changes is in respect of a deposit of US$460,064 (2006:US$156,815).

(iv) 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. The directors and management believe that the Group has no significant exposure to market risk as it has no financial assets which are to be realised by trading in the securities market.

(v) Liquidity risk:

Liquidity risk, also referred to as funding risk, is the risk that the Group 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 ensuring the availability of funding through an adequate amount of committed credit facilities.

The directors and management of the Group manage this risk by maintaining an adequate level of liquid funds.

25. Financial instruments (cont'd)

(b) Financial instrument risks (cont'd):

(vi) Cash flow risk:

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The Group has no significant exposure to cash flow risk.

26. New and revised IFRS and interpretations effective during the year

The following standards and interpretations which became effective during the year did not result in any change in accounting policies or had any effect on the Group's financial position or operating results:

IAS 19 Amendments	Actuarial Gains & Losses, Group Plans and Disclosures
IAS 39 Amendments	The Fair Value Option
IAS 39 Amendments	Cash Flow Hedge Accounting for Forecast Intra group Transactions
IAS 39 Amendments	Financial Guarantee Contracts
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRIC 4	Determining whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

28. New and revised IFRS and interpretations not yet effctive

At the date of authorisation of the financial statements, there were certain new standards and interpretations which were in issue but were not yet effective. The standards and interpretations, which are effective for accounting periods beginning on, or after, the dates indicated below are as follows:

IFRS 7	Financial Instruments: Disclosure	January 1, 2007
IFRS 8	Operating Segments	January 1, 2009
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste, Electrical and Electronic Equipment	December 1, 2006
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyper-Inflationary Economies	March 1, 2006

27. New and revised IFRS and interpretations not yet effective (cont'd)

IFRIC 8	Scope of IFRS 2	May 1, 2006
IFRIC 9	Reassessment of Embedded Derivatives	June 1, 2006
IFRIC 10	Interim Financial Reporting and Impairment	November 1, 2006
IFRIC 11	Group and Treasury Share Transactions	March 1, 2007
IFRIC 12	Service Concession Arrangement	January 1, 2008
IAS 23 (Revised)	Borrowing Costs	January 1, 2009

The adoption of IFRS 7 is expected to result in additional disclosures for financial instruments. Except for these additional disclosures, the adoption of these standards and interpretations are not expected to have a material impact on the financial statements.

28. Commitments

Loans approved but not disbursed by the Group and the Bank at March 31, 2007 amounted to $1,577,243,000 (2006: $1,096,325,000).

29. Costs of and Funding for Administration of Mortgage Insurance Act

	2007 $'000	2006 $'000
Cost of Administration of Mortgage Insurance Act		
Bank charges and interest	19	24
Salaries and related expenses	1,477	1,374
Pension scheme contributions	117	98
Commission	-	122
Other	59	90
Audit fees	220	200
Legal fees	-	350
Total costs	1,892	2,258
Funded by:		
Contribution of:		
One-fifth of Mortgage Loan Insurance fees	529	474
One-half of investment income of Mortgage (Government Guaranteed Loans) Insurance Reserve Fund	3	3
	532	477
Contributed by the Mortgage Insurance Fund	1,360	1,781
Total funding	1,892	2,258

29. Costs of and Funding for Administration of Mortgage Insurance Act (cont'd)

Notes:

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

The employees of the Bank manage the operations of the Mortgage Insurance Fund and the Mortgage (Government Guaranteed Loans) Insurance Reserve Fund. Section 14 of the Mortgage Insurance Act provides for the Bank to meet its costs of administering the 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 *one-fifth of the insurance fees* received; and, if not adequate, then by-
- withdrawals from the Mortgage Insurance Fund of *up to one-half* of the return on investment and assets of the Fund for that year; and, if more is still required, then by-
- advances from the Consolidated Fund.

30. Litigation

A claim has been brought by a former employee against the Bank for alleged breach of his contract of employment.

No provision has been made in the financial statements in this regard.

KPMG
Chartered Accountants
The Victoria Mutual Building
6 Duke Street
Kingston
Jamaica, W.I.

P.O. Box 76
Kingston
Jamaica, W.I.
Telephone +1 (876) 922-6640
Fax +1 (876) 922-7198
+1 (876) 922-4500
e-Mail firmmail@kpmg.com.jm

INDEPENDENT AUDITORS' REPORT

To the Directors of
JAMAICA MORTGAGE BANK
MORTGAGE INSURANCE FUND AND MORTGAGE (GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND

Report on the Financial Statements

We have audited the financial statements of Jamaica Mortgage Bank Mortgage Insurance Fund and Mortgage (Government Guaranteed Loans) Insurance Reserve Fund ("the funds"), set out on pages 38 to 48, which comprise the balance sheet as at March 31, 2007, the statements of changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and consistently applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

KPMG

To the Directors of
JAMAICA MORTGAGE BANK
MORTGAGE INSURANCE FUND AND MORTGAGE (GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND

Report on the Financial Statements, cont'd

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the funds as at March 31, 2007, and of the changes in funds' balances for the year then ended in accordance with International Financial Reporting Standards.

KPMG

January 30, 2008

JAMAICA MORTGAGE BANK

MORTGAGE INSURANCE FUND
[Established under the Mortgage Insurance Act]

Balance Sheet
March 31, 2007

	Note	2007 $'000	2006 $'000
ASSETS			
Cash and cash equivalents		106	200
Investments	4	854,656	740,355
Accounts receivable		53,510	50,618
		908,272	791,173
LIABILITIES			
Accounts payable		260	656
Due to Mortgage (Government Guaranteed Loans) Insurance Reserve Fund		46	35
		306	691
Net assets		907,966	790,482
Financed by:			
ACCUMULATED SURPLUS		907,966	790,482

The financial statements on pages 38 to 48 were approved for issue by the Board of Directors on January 30, 2008 and signed on its behalf by:

George Thomas — Chairman

Osmond Clarke — Director

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

JAMAICA MORTGAGE BANK

MORTGAGE INSURANCE FUND
[Established under the Mortgage Insurance Act]

Statement of Changes in Fund Balance
Year ended March 31, 2007

	Note	2007 $'000	2006 $'000
Increase in fund:			
Four-fifths of mortgage loan insurance fees		2,118	1,895
Investment income		116,851	105,350
		118,969	107,245
Decrease in fund:			
Transferred to the Bank as contribution towards the cost of administering the Mortgage Insurance Act		(1,360)	(1,782)
Administration charges paid to the Bank		(125)	(125)
		(1,485)	(1,907)
Net increase for year		117,484	105,338
At beginning of year		790,482	685,144
At end of year		907,966	790,482

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

JAMAICA MORTGAGE BANK

MORTGAGE (GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND
[Established under the Mortgage Insurance Act]

Balance Sheet
March 31, 2007

	2007 $'000	2006 $'000
ASSETS		
Due from Mortgage Insurance Fund	46	35
Government of Jamaica bond	19	15
Government of Jamaica investment debenture	15	27
	80	77
Financed by:		
ACCUMULATED SURPLUS	80	77

The financial statements on pages 38 to 48 were approved for issue by the Board of Directors on January 30, 2008 and signed on its behalf by:

____________________ Chairman
George Thomas

____________________ Director
Osmond Clarke

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

JAMAICA MORTGAGE BANK

MORTGAGE (GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND
[Established under the Mortgage Insurance Act]

Statement of Changes in Fund Balance
Year ended March 31, 2007

	2007 $'000	2006 $'000
Increase in fund:		
Investment income	6	6
Decrease in fund:		
One-half of investment income transferred to the Bank as contribution towards the cost of administering the Mortgage Insurance Act	(3)	(3)
Net increase for year	3	3
At beginning of year	77	74
At end of year	80	77

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

JAMAICA MORTGAGE BANK

MORTGAGE INSURANCE FUND AND MORTGAGE (GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND
[Established under the Mortgage Insurance Act]

Notes to the Financial Statements
March 31, 2007

1. Identification and purpose

(a) The Mortgage Insurance Fund

The Mortgage Insurance Fund was established under section 9 of the Mortgage Insurance Act, which also requires that *four-fifths of the insurance fees* received by the Bank be paid into that Fund. 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 income of the Fund belongs to the Fund and not to the Bank except as set out in note 1(c) below.

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

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

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

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

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

- *one-half of the return on the income and assets* of the Mortgage (Government Guaranteed Loans) Insurance Reserve Fund and *one-fifth 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 Funds is to provide mortgage indemnity insurance.

2. Statement of compliance and basis of preparation

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

JAMAICA MORTGAGE BANK

MORTGAGE INSURANCE FUND AND MORTGAGE
(GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND
[Established under the Mortgage Insurance Act]

Notes to the Financial Statements (Continued)
March 31, 2007

2. Statement of compliance and basis of preparation (cont'd)

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 balance sheet date and the income and expenses for the year then ended. Actual amounts could differ from those estimates.

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

There are no significant assumptions and judgements applied in these financial statements giving rise to a risk of material adjustments in the next financial year.

3. Significant accounting policies

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances including short-term deposits with maturities of between one and twelve months from the balance sheet date.

(b) Investments:

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

Government of Jamaica or other securities and loans which are made directly to a borrower are classified as loans and receivables, provided there is not an active market for the securities. These are initially measured at cost and subsequently at amortised cost, using the effective interest rate method, less impairment losses.

All other financial assets are classified as available-for-sale and carried at fair value, with changes in fair value taken to equity.

(c) Accounts receivable:

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

(d) Accounts payable:

Trade and other payables are stated at cost.

3. Significant accounting policies (cont'd)

(e) Impairment:

The carrying amounts of the Funds' assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated at each balance sheet 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 changes in Fund balance.

(i) Calculation of recoverable amount

The recoverable amount of the Funds' investments in loans and receivables, available-for-sale securities 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.

The recoverable amount of other assets is the greater of their net selling price 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

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

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 assets carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

JAMAICA MORTGAGE BANK

MORTGAGE INSURANCE FUND AND MORTGAGE (GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND
[Established under the Mortgage Insurance Act]

Notes to the Financial Statements (Continued)
March 31, 2007

4. Investments – Mortgage Insurance Fund

	2007 $'000	2006 $'000
Loans and receivables – carried at amortised cost		
Government of Jamaica:		
Local registered stocks	112,008	124,160
Investment debentures	300,321	359,220
Investment bonds	388,772	218,285
	801,101	701,665
Resale agreements	53,555	38,690
	854,656	740,355

Resale agreements are amounts used by the Fund to acquire an interest in Treasury Bills and Government of Jamaica Local Registered Stocks for a specified period to provide a specified yield. Under the agreements, the securities will be repurchased from the Fund by the party to the contract on given dates, at given amounts. These are accounted for as short-term collateralised lending. The fair value of the underlying securities at the balance sheet date was $745,654,951 (2006: $214,620,192).

5. Financial instruments

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

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

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

(a) Fair value:

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

5. Financial instruments (cont'd)

(a) Fair value (cont'd):

Determination of fair value:

The estimated fair value of the Funds' financial instruments, except for investments, are all considered to approximate their carrying values because of their short-term nature.

The fair value of investments is considered to approximate their carrying value.

(b) Financial instrument risks:

Exposure to credit, interest rate, foreign currency, market, liquidity and cash flow risks arises in the ordinary course of the Funds' businesses. No derivative financial instruments are presently used to manage exposure to financial instrument risks.

(i) Credit risk:

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

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 balance sheets.

(ii) 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.

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 repricing dates occur. The interest-rate sensitive financial instruments of the Mortgage (Government Guaranteed Loans) Insurance Reserve Fund are immaterial.

JAMAICA MORTGAGE BANK

MORTGAGE INSURANCE FUND AND MORTGAGE
(GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND
[Established under the Mortgage Insurance Act]

Notes to the Financial Statements (Continued)
March 31, 2007

5. Financial instruments (cont'd)

(b) Financial instrument risks (cont'd)

(ii) Interest rate risk (cont'd):

	2007						
	Immediately rate sensitive $'000	Within 3 months $'000	Three to 12 months $'000	Over 12 months $'000	Non-rate sensitive	Total	Average effective yield %
Resale agreements	2,613	50,942	-	-	-	53,555	11.74
Investments	-	147,690	33,662	619,749	-	801,101	14.23
Cash and cash equivalents	-	-	-	-	106	106	0.00

	2006						
	Immediately rate sensitive $'000	Within 3 months $'000	Three to 12 months $'000	Over 12 months $'000	Non-rate sensitive	Total	Average effective yield %
Resale agreements	-	38,690	-	-	-	38,690	13.84
Investments	-	103,552	25,229	572,884	-	701,665	15.23
Cash and cash equivalents	-	-	-	-	200	200	0.00

(iii) 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.

At balance sheet date, the Funds had no balances denominated in foreign currencies and, as a result, there is no exposure to foreign currency risk.

(iv) 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.

Market risk is of little significance for the Funds as they do not hold any traded securities.

5. Financial instruments (cont'd)

(b) Financial instruments risks (cont'd):

(v) Liquidity risk:

Liquidity risk, also referred to as funding risk, is the risk that the Fund 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.

(vi) Cash flow risk:

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The Funds have no significant exposure to cash flow risk.

6. New and revised IFRS and interpretations that became effective during the year

During the year, certain new and revised IFRS and interpretations became effective, and their adoption had no effect on the funds' accounting policies.

7. New and revised IFRS and interpretations not yet effective

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