

Letter of Transmittal

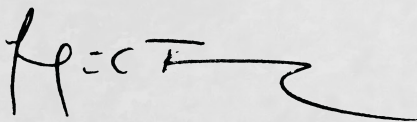
September 8, 2010

Hon. Dr. Horace Chang
Minister of Water & Housing
25 Dominica Drive
Kingston 5

Dear Sir:

In accordance with Section 15 (1) of the Jamaica Mortgage Bank Act, No. 16 of 1973, I have the honour of transmitting herewith the Bank's Report for the year ended March 31, 2010 and a copy of the Statement of the Bank's Accounts at March 31, 2010, duly certified by the Auditors.

Yours respectfully,



George Thomas
Chairman





*V*ision

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

*M*ission Statement

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

JMB *C*ore *V*alues

Respect

Accountability

Integrity

Service-oriented

Excellence



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at a Glance

The Jamaica Mortgage Bank (JMB) was established in 1971 as a limited liability company and was converted to a Statutory Corporation by an Act of parliament in 1973.

The main objective of the Bank is to foster the development of housing 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 developments;
- Sell investments of whatever kind when appropriate;
- Lend money on security to be used for the construction of premises for private residential purposes or of a commercial or industrial nature;
- Lend money on mortgages and carry out any other transaction involving mortgages;
- Furnish financial advice and provide or assist in obtaining managerial, technical and administrative services for persons engaged in building development in Jamaica.

The Bank's Current Operations fall into three categories: -

Primary Market - The granting of short-term financing for construction and infrastructure development.

Secondary Market - The buying of mortgages and securitizing into Mortgage Backed Securities (MBS) for sale on the capital markets.

Mortgage Insurance - The insuring of residential mortgage loans.





George Thomas

The performance of the Jamaica Mortgage Bank for the year 2009/2010 reflects the challenges in the economy due largely to the global recession. The Construction Sector experienced a decline of 4.5% over the year and interest rates started to decline in response to the Government's JDX initiative. However, the Bank's revenues remained stable due to prudent management of its investment funds.

During the year, disbursements on construction loans totalled \$405M, despite commitments of \$1.125 Billion, reflecting the slow take-up by the developers as they exercised great caution due to the protracted slump in the real estate market.

In 2008 the Bank established a Debt Recovery Unit, which worked aggressively and was successful in significantly

Chairman's Message

reducing the Bank's bad debt portfolio. Notwithstanding the success of the unit, the JMB decided to increase the provision for impairment of some old loans that were taking longer than expected to resolve, although the Bank expects substantial recovery of these loans in the long term. After making a provision of \$275M for underperforming loans in its portfolio, the JMB experienced a loss of \$313M for the year.

However, the Bank's Balance Sheet remains very strong with Total Assets of \$3.0 Billion, which is comprised of true, robust working assets. Strong and effective cost containment strategies implemented during the year resulted in a 10% reduction in operating expenses when compared with the previous year.

With the large bad debt portfolio now taken care of, stronger due diligence employed in processing loan applications, closer monitoring of projects and focus on cost containment, the Bank has projected a profit of \$52M for the next financial year; but with the expected upturn in the Real Estate Sector in the coming year, the JMB could exceed this projection.

The Bank has been working assiduously to restart the Secondary Mortgage Market, and has had advanced negotiations with two potential players in the Primary Mortgage Market, with a view to funding mortgage programmes by these two institutions. The immediate aim is to increase the number



of participants in the mortgage sector, thereby increasing competition, and eventually reducing mortgage rates. This will make mortgage more affordable and accessible to prospective homeowners.

The Mortgage Indemnity Insurance Fund recorded growth of 18% over the year, before distribution to the government in March 2010. The Bank continues to explore strategies aimed at making Mortgage Indemnity Insurance more accessible to prospective homeowners. Many of these require legislative amendments, which are presently being pursued.

The JMB has built a reputation for providing valuable advice to its clients to assist them in implementing successful projects. One way of achieving this is through the Bank's popular Housing Development Seminar, the most recent of which was held in March of this year. The seminar provided an avenue for interested parties to discuss and gather information on critical construction related issues. The feedback received from the participants indicated that the information disseminated would contribute to improved efficiency in planning and implementing construction projects.

The Jamaica Mortgage Bank has been restructured and re-organized to improve its level of expertise, which has transformed the Bank into an efficiently operating business.

The JMB is strong and stands ready to make a significant contribution to national development.

On behalf of the Board of Directors of the JMB, I would like to thank our portfolio Minister, the Minister of Water and Housing for his support of the Bank's efforts and to also thank the JMB management and staff for their continued hard work and dedication despite all the challenges.

The Board of Directors and Management of the JMB are confident that with the cooperation and support of all stakeholders, the Jamaica Mortgage Bank will continue to strengthen and fulfill its mandate to the benefit of all Jamaicans.

George Thomas
Chairman



Corporate Information

DEPARTMENTS

Finance & Accounts

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

Primary Market Financing

- Project Financing
- Mortgage-backed Securities
- Project Appraisal and Monitoring
- Risk Analysis

Secondary Mortgage Market & Mortgage Indemnity Insurance

- Evaluating proposals for insurance coverage for housing schemes
- Claims processing
- Issuing of Undertaking-to-Insure
- Preparation of mortgage insurance policies
- Promotion of mortgage insurance facilities
- Development of Promotion of the Secondary Mortgage Market

Human Resource, Administration & Corporate Services

- Human Resource Management
- Policy Development & Administration
- Management Information Systems
- General Administration
- Public Relations

Corporate Secretarial/Legal

- Legal Conveyancing including title registration
- Corporate Secretarial activities including Corporate Governance and Board of Directors issues
- General Legal Services





Corporate Information

REGISTERED OFFICE
33 Tobago Avenue
Kingston 5

AUDITORS
KPMG
6 Duke Street
Kingston

BANKERS
RBTT Bank Jamaica Ltd.
17 Dominica Drive
Kingston 5

National Commercial Bank
1 Knutsford Boulevard
Kingston 5

ATTORNEYS-AT -LAW
Myers, Fletcher & Gordon
21 East Street
Kingston

DunnCox
48 Duke Street
Kingston

Nicholson Phillips
2nd Floor
The Courtleigh Corporate Centre
8 St. Lucia Avenue
Kingston 5

Ramsay Stimpson
Swallowfield Office Park
Suite 3 North Block
3 South Avenue
Kingston 5





Directors Compensation

April 1, 2009 – March 31, 2010

Position of Director	Fees* (\$)	Motor Vehicle Upkeep/Travelling or Value of Assignment of Motor Vehicle (\$)	Honoraria (\$)	All Other Compensation including Non-Cash Benefits as applicable (\$)	Total (\$)
Board Chairman/ Sub-Committee Chairman	91,500.00	133,105.00	-	-	224,605.00
Director/ Sub-committee Chairman	87,750.00	220,850.00	-	-	308,600.00
Director	77,625.00	31,045.00	-	-	108,670.00
Director	41,625.00	10,115.00	-	-	51,740.00
Director	33,375.00	10,115.00	-	-	43,490.00
Director	61,125.00	17,615.00	-	-	78,740.00
Director	61,125.00	10,115.00	-	-	71,240.00

*Fees are shown net of taxes

Senior Executive Compensation

April 1, 2009 – March 31, 2010

Position of Senior Executive	Salary (\$)	Gratuity or Performance Incentive (\$)	Travelling Allowance or Value of Assignment of Motor Vehicle (\$)	Pension and Other Allowance Benefits (\$)	Other Allowances (\$)	Non-Cash (\$)	Total (\$)
General Manager	6,125,000	1,531,250	120,000	Nil	Nil	Nil	7,776,250
Director, Primary Market Financing	5,244,790	Nil	796,500	351,036	Nil	Nil	6,392,326
Corporate Secretary/Legal Officer	4,688,247	Nil	796,500	360,986	Nil	Nil	5,845,733
Director, Human Resource, Administration & Corporate Services	4,688,247	Nil	796,500	360,986	Nil	Nil	5,845,733
Director of Finance	4,050,445	Nil	796,500	192,671	Nil	Nil	5,039,616

Board of Directors





Management Team



Patrick Thelwell
General Manager



Patrick Peart
*Director-
Primary Market
Financing*



Donna Samuels Stone
*Corporate Secretary/
Legal Officer*



Hope Barnett
*Director-
Human Resource,
Administration &
Corporate Services*



Marion Ebanks
*Director-
Finance & Accounts*



Audited

Financial

Statements

**FINANCIAL STATEMENTS**

as at year ended

March 31, 2010

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INDEPENDENT AUDITORS' REPORT

To the Directors of
JAMAICA MORTGAGE BANK

Report on the financial statements

We have audited the financial statements of Jamaica Mortgage Bank ("Bank"), set out on pages 16 to 64, which comprise the Group and Bank balance sheets as at March 31, 2010, and the Group and Bank statements of comprehensive income, changes in equity and cash flows for the year then ended, 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 as to whether or not the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence relating to 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.

To the Directors of
JAMAICA MORTGAGE BANK

Report on the financial statements (cont'd)

Opinion

In our opinion, the financial statement give a true and fair view of the financial positions of the Group and the Bank as at March 31, 2010, and of the Group's and the Bank's financial performance, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards.



Chartered Accountants
Kingston, Jamaica

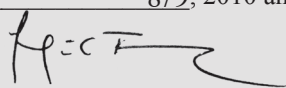
September 8, 2010

BALANCE SHEETS

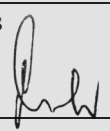
March 31, 2010

		Group		Bank	
	Notes	2010	2009	2010	2009
		\$'000	\$'000	\$'000	\$'000
ASSETS					
Cash and cash equivalents:					
Short-term deposits		33,292	1,698	33,292	1,698
Resale agreements	4	713,523	720,758	713,523	720,758
Accounts receivable and prepaid expenses	5	134,697	142,254	134,557	142,234
Investments securities	6	297,776	367,211	297,776	367,211
Income tax recoverable		182,970	147,579	182,970	147,579
Interest in subsidiary	7	-	-	136,035	135,739
Loans receivable	8	1,505,049	1,681,470	1,505,049	1,681,470
Land held for development and sale	9	146,640	147,169	146,639	147,168
Employee benefits	10(b)	30,807	22,594	30,807	22,594
Property, plant and equipment	11	53,459	56,118	53,459	56,118
		<u>3,098,213</u>	<u>3,286,851</u>	<u>3,234,107</u>	<u>3,422,569</u>
LIABILITIES AND EQUITY					
LIABILITIES					
Accounts payable and accrued charges	12	193,612	64,419	193,402	64,209
Bonds payable	13	1,500,000	1,500,000	1,500,000	1,500,000
Loan payable to Ministry of Finance and the Public Service	14	22,758	27,559	22,758	27,559
		<u>1,716,370</u>	<u>1,591,978</u>	<u>1,716,160</u>	<u>1,591,768</u>
EQUITY					
Share capital	15	500,000	500,000	500,000	500,000
Reserve fund	16	500,000	500,000	500,000	500,000
Special reserve fund	17	340,083	340,083	340,083	340,083
Retained profits		41,760	354,790	177,864	490,718
		<u>1,381,843</u>	<u>1,694,873</u>	<u>1,517,947</u>	<u>1,830,801</u>
		<u>3,098,213</u>	<u>3,286,851</u>	<u>3,234,107</u>	<u>3,422,569</u>

The financial statements on pages 16 to 64 were approved for issue by the Board of Directors on 8/9, 2010 and signed on its behalf by:

 Chairman

Mr. George Thomas

 Director

Mr. Osmond Clarke

STATEMENTS OF COMPREHENSIVE INCOME

March 31, 2010

	<u>Notes</u>	<u>Group</u>		<u>Bank</u>	
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
		<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
REVENUE					
Interest from loans		160,655	154,157	160,655	154,157
Interest from deposits		28,926	49,434	28,926	49,434
Interest from other investments		<u>159,082</u>	<u>115,556</u>	<u>159,082</u>	<u>115,556</u>
Total interest income		348,663	319,147	348,663	319,147
Other income		<u>6,737</u>	<u>35,698</u>	<u>6,497</u>	<u>35,458</u>
		<u>355,400</u>	<u>354,845</u>	<u>355,160</u>	<u>354,605</u>
EXPENSES					
Staff costs	18	(79,898)	(75,886)	(79,898)	(75,886)
Provision for impairment	5,8(b)	(275,332)	(251,958)	(275,332)	(251,958)
Other administrative and general expenses		(50,948)	(69,828)	(50,532)	(68,683)
Finance costs:					
Interest on bonds		(256,211)	(253,086)	(256,211)	(253,086)
Interest on loans		(6,041)	(2,600)	(6,041)	(2,600)
		<u>(668,430)</u>	<u>(653,358)</u>	<u>(668,014)</u>	<u>(652,213)</u>
Loss before taxation	19	(313,030)	(298,513)	(312,854)	(297,608)
Income tax	20	<u>-</u>	<u>70,890</u>	<u>-</u>	<u>70,890</u>
Loss being total comprehensive income for the year		<u>(313,030)</u>	<u>(227,623)</u>	<u>(312,854)</u>	<u>(226,718)</u>

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

STATEMENTS OF CHANGES IN EQUITY

Year ended March 31, 2010

Group

	Share capital (Note 15) \$'000	Reserve fund (Note 16) \$'000	Special reserve fund (Note 17) \$'000	Retained profits \$'000	Total \$'000
Balances at March 31, 2008	500,000	500,000	340,083	582,413	1,922,496
Loss being total comprehensive losses for the year	-	-	-	(227,623)	(227,623)
Balances at March 31, 2009	500,000	500,000	340,083	354,790	1,694,873
Loss, being total comprehensive income for the year	-	-	-	(313,030)	(313,030)
Balances at March 31, 2010	<u>500,000</u>	<u>500,000</u>	<u>340,083</u>	<u>41,760</u>	<u>1,381,843</u>

Bank

	Share capital (Note 15) \$'000	Reserve fund (Note 16) \$'000	Special reserve fund (Note 17) \$'000	Retained profits \$'000	Total \$'000
Balances at March 31, 2008	500,000	500,000	340,083	717,436	2,057,519
Loss being total comprehensive losses for the year	-	-	-	(226,718)	(226,718)
Balances at March 31, 2009	500,000	500,000	340,083	490,718	1,830,801
Loss, being total comprehensive income for the year	-	-	-	(312,854)	(312,854)
Balances at March 31, 2010	<u>500,000</u>	<u>500,000</u>	<u>340,083</u>	<u>177,864</u>	<u>1,517,947</u>

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

STATEMENT OF GROUP CASH FLOWS

Year ended March 31, 2010

	<u>Notes</u>	<u>2010</u> \$'000	<u>2009</u> \$'000
Cash flows from operating activities			
Loss for the year		(313,030)	(227,623)
Adjustments to reconcile loss for the year to net cash provided by operating activities:			
Depreciation	11	4,853	4,636
Provision for impairment losses on loans and other receivables	5,8(b)	275,332	251,958
Gain on sales of land		(2,598)	-
Deferred taxation	20	-	(70,890)
Unrealised gain on foreign exchange		(1,851)	(16,561)
Unrealised loss on foreign exchange		880	-
Employee benefits		(8,213)	(6,108)
		(44,627)	(64,588)
Interest income		(348,663)	(319,147)
Interest expense		<u>262,252</u>	<u>255,684</u>
		(131,038)	(128,051)
(Increase)/decrease in operating assets:			
Accounts receivable and prepaid expenses		(85,900)	(64,076)
Income tax recoverable		(35,391)	(41,284)
Loans receivable		26,421	185,959
(Decrease)/increase in operating liabilities:			
Accounts payable and accrued charges		145,901	8,189
Loan payable to Ministry of Finance		(4,801)	(4,767)
Interest received		317,759	368,240
Interest paid		<u>(278,960)</u>	<u>(271,066)</u>
Net cash (used)/provided by operating activities		<u>(46,009)</u>	<u>53,144</u>
Cash flows from investing activities			
Resale agreements		7,235	232,724
Investment securities		69,435	(285,708)
Proceeds of disposal of land held for development and sale		3,127	-
Additions to property, plant and equipment	11	(2,194)	(974)
Net cash provided/(used) by investing activities		<u>77,603</u>	<u>(53,958)</u>
Cash flows from financing activities			
Issue of bearer bonds		-	1,000,000
Redemption of bearer bonds		<u>-</u>	<u>(1,000,000)</u>
Net cash provided by financing activities		<u>-</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents		31,594	(814)
Cash and cash equivalents at beginning of year		<u>1,698</u>	<u>2,512</u>
Cash and cash equivalents at end of year		<u><u>33,292</u></u>	<u><u>1,698</u></u>

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

STATEMENT OF BANK CASH FLOWS

March 31, 2010

	<u>Notes</u>	<u>2010</u> \$'000	<u>2009</u> \$'000
Cash flows from operating activities			
Loss for the year		(312,854)	(226,718)
Adjustments to reconcile loss for the year to net cash provided by operating activities:			
Depreciation	11	4,853	4,625
Provision for impairment losses on loans and other receivables	5,8(b)	275,332	251,958
Gain on sale of land		(2,598)	-
Deferred taxation	20	-	(70,890)
Unrealised gain on foreign exchange		(1,851)	(16,561)
Unrealise loss on foreign exchange		880	-
Employee benefits		(8,213)	(6,108)
		(44,451)	(63,694)
Interest income		(348,663)	(319,147)
Interest expense		<u>262,252</u>	<u>255,684</u>
		(130,862)	(127,157)
(Increase)/decrease in operating assets:			
Accounts receivable and prepaid expenses		(85,780)	(64,056)
Income tax recoverable		(35,391)	(41,284)
Loans receivable		26,421	185,959
Increase/(decrease) in operating liabilities:			
Accounts payable and accrued charges		145,901	8,169
Loan payable to Ministry of Finance		(4,801)	(4,767)
Interest received		317,759	368,240
Interest paid		<u>(278,960)</u>	<u>(271,067)</u>
Net cash (used)/provided by operating activities		(45,713)	<u>54,037</u>
Cash flows from investing activities			
Resale agreements		7,235	232,724
Investment securities		69,435	(285,708)
Interest in subsidiary		(296)	(893)
Proceeds of disposal of land for development and sale		3,127	-
Additions to property, plant and equipment	11	<u>(2,194)</u>	<u>(974)</u>
Net cash provided/(used) by investing activities		<u>77,307</u>	<u>(54,851)</u>
Cash flows from financing activities			
Issue of bearer bonds		-	1,000,000
Redemption of bearer bonds		<u>-</u>	<u>(1,000,000)</u>
Net cash provided by financing activities		<u>-</u>	<u>-</u>
Net increase/decrease in cash and cash equivalents		31,594	(814)
Cash and cash equivalents at beginning of year		<u>1,698</u>	<u>2,512</u>
Cash and cash equivalents at end of year		<u><u>33,292</u></u>	<u><u>1,698</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2010

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, which is its principal place of business.
- (b) The Bank has a wholly-owned subsidiary, JMB Developments Limited, whose stated principal activity is carrying on the business of residential, commercial and industrial real estate development. However, this company is currently inactive.
- (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
- administration of, including investment management for the Government of Jamaica (GOJ) mortgage insurance fund.

2. Statement of compliance and basis of preparation

- (a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

New and revised standards and interpretations that became effective during the year:

In preparing these financial statements, the Group adopted the standards and interpretations which became effective during the year, none of which had any significant impact on the financial statements, viz:

- IAS 23 (Amendment), *Borrowing Costs* requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e., one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

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

(a) Statement of compliance (cont'd):

New and revised standards and interpretations that became effective during the year: (cont'd)

- IAS 1 (Revised), *Presentation of Financial Statements* and IAS 1 (Amendment), *Presentation of Financial Statements* requires recognised income and expenses to be presented in a single statement (a statement of comprehensive income) or in two statements (an income statement and a statement of comprehensive income), separately from owner changes in equity. Components of other comprehensive income may not be presented in the statement of changes in equity. Both the statement of comprehensive income and the statement of changes in equity are to be included as primary statements and the balance sheet will be referred to as the 'statement of financial position' and the cash flow statement is referred to as the 'statement of cash flows'. The Group will be required to disclose the income tax related to each component of other comprehensive income either in the statement of comprehensive income or in the notes. Entities should present a statement of financial position (that is, a balance sheet) as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassifies items in the financial statements. The standard also clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39 are examples of current assets and liabilities, respectively. The Group has adopted a single statement of comprehensive income.
- IAS 32 (Amendment), *Financial Instruments: Presentation* and IAS 1 (Amendment), *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*. These amendments introduce a limited exception to the principles in IAS 32 for certain puttable financial instruments and certain instruments containing obligations arising on liquidation. Where such instruments meet the strict criteria set out in the amendment, they are classified as equity, rather than as financial liabilities, despite the contractual obligation to deliver cash or another financial asset. IAS 32 also prohibits designating inflation as a hedgeable component of a fixed rate debt.
- IAS 36 (Amendment), *Impairment of Assets*, This amendment requires that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculations should be made.
- IAS 38 (Amendment), *Intangible Assets*, This amendment states that an asset may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. It has also deleted wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

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

(a) Statement of compliance (cont'd):

New and revised standards and interpretations that became effective during the year: (cont'd)

- IAS 39 (Amendment), *Financial Instruments: Recognition and Measurement*, This clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge; or financial assets are reclassified following a change in policy by an insurance company in accordance with IFRS 4. It also amends the definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading. It clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition. It also removes a segment as an example of what may be considered a party external to the reporting entity. When re-measuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.
- Amendments to IFRS 7 *Financial Instruments: Disclosures* require enhanced disclosures in respect of two aspects: disclosures over fair value measurement for financial instruments specifically in relation to disclosures over the inputs used in valuation techniques and the uncertainty associated with such valuations; and improving disclosures over liquidity risk, to address current diversity in practice. The additional disclosures are shown in note 22.

New and revised standards and interpretations that are not yet effective:

At the date of authorisation of the financial statements, there were certain new standards, amendments to standards, and interpretations which were in issue but were not yet effective, and not adopted early, and have therefore not been applied in preparing these financial statements. Those which management considers may have an impact on the financial statements or are relevant are as follows:

- IAS 27 (Revised), *Consolidated and Separate Financial Statements*, is effective for annual reporting periods beginning on or after January 1, 2010. IAS 27 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. It further specifies the accounting when control is lost, requiring that any remaining interest in the entity be re-measured to fair value, and a gain or loss be recognised in profit or loss. The amendment is not expected to have any impact on the financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

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

(a) Statement of compliance (cont'd):

New and revised standards and interpretations that are not yet effective (cont'd):

- IFRS 3 (Revised), *Business Combinations*, is effective for annual reporting periods beginning on or after January 1, 2010. The amendment continues to apply the acquisition method to business combinations, with some significant changes. It requires that all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt, subsequently re-measured through profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The amendment is not expected to have any impact on the financial statements of the Group.
- IFRIC 17, *Distribution of Non-Cash Assets to Owners*, is effective for annual reporting periods beginning on or after January 1, 2010. IFRIC 17 states that a dividend payable should be recognised when appropriately authorised and no longer at the entity's discretion. Where an owner has a choice of a dividend of a non-cash asset or cash, the dividend payable is estimated considering both the fair value and probability of the owners selecting each option. The dividend payable is measured at the fair value of the net assets to be distributed. The difference between fair value of the dividend paid and the carrying amount of the net assets distributed is recognised in profit or loss. The amendment is not expected to have any impact on the financial statements of the Group.
- IFRS 5 (Amendment), *Non-current Assets Held-for-sale and Discontinued Operations* (and consequential amendment to IFRS 1, 'First-time adoption') is effective for annual reporting periods beginning on or after January 1, 2010. The amendment requires that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. If such a subsidiary is a disposal group meeting the definition of a discontinued operation, the relevant disclosures should be made. The amendment is not expected to have any impact on the financial statements of the Group.
- IAS 19 (Amendment), *Employee Benefits*, is effective for annual reporting periods beginning on or after January 1, 2010. The amendment states that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. It amends the definition of return on plan assets to state that plan administration costs be deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. It also makes the distinction between short term and long term employee benefits which is now based on whether benefits are due to be settled within or after 12 months of employee service being rendered. The amendment provides further guidance that states that IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' requires contingent liabilities to be recognised. The Group will apply this amendment from April 1, 2010.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

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

(a) Statement of compliance (cont'd):

New and revised standards and interpretations that are not yet effective (cont'd):

- IFRS 24, *Related Party Disclosures*, revised (effective January 1, 2011) introduces changes to the related party disclosure requirements for government-related entities and amends the definition of a related party. The standard also expands the list of transactions that require disclosure. This amendment is not expected to have any significant impact on the Group's financial statements.
- IFRS 9, *Financial Instruments* (effective January 1, 2013) introduces new requirements for classifying and measuring financial assets. The standard also amends some of the requirements of IFRS 7 *Financial Instruments: Disclosures* including added disclosures about investments in equity instruments designated as fair value through other comprehensive income. This amendment is not expected to have any significant impact on the Group's financial statements.

(b) Basis of measurement:

These financial statements are prepared on the historical cost basis, modified for the revaluation of available-for-sale investment securities.

(c) Functional and presentation currency:

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

(d) 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.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements and, therefore, have a significant risk of material adjustment in the next year are as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

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

(d) Critical accounting judgements and key sources of estimation uncertainty (cont'd):

(i) Critical judgements in applying the Group's accounting policies

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

• Pension and other post-employment benefits:

The amounts recognised in the balance sheets and the statements of comprehensive income 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 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.

• 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

3. Significant accounting policies

(a) Revenue recognition:

(i) Interest income

Interest income is recognised in the statement of comprehensive income 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. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discount on instruments purchased at a discount, and amortization 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 the statement of comprehensive income when the applicant for credit accepts the terms of the credit in writing. Other amounts included in other income are generally recognised on the accrual basis.

(b) Interest expense:

Interest expense is recognised in the statement of comprehensive income 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. The effective interest rate is established on initial recognition of the financial liability and is not revised subsequently. Interest expense includes coupons paid on fixed rate instruments and accretion of discount or amortization of premium on instruments issued at other than par.

(c) Financial assets and liabilities:

(i) Recognition

The Group initially recognises loans receivable and debt securities issued on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date – the date on which the Group becomes a party to the contractual provisions of the instrument.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

3. Significant accounting policies (cont'd)

(c) Financial assets and liabilities (cont'd):

(ii) Derecognition

The Group derecognises a financial asset when its contractual rights to the cash flows from the assets expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which all the risks and rewards of ownership of the financial asset are transferred. Any interest in the financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group also derecognises certain assets when it charges off balances pertaining to the assets deemed to be uncollectible.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(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.

(v) Identification and measurement of impairment:

At each balance sheet date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

3. Significant accounting policies (cont'd)

(c) Financial assets and liabilities (cont'd):

(v) Identification and measurement of impairment (cont'd):

Objective evidence that financial assets (including equity securities) 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.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against the financial asset. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of the impairment loss to decrease, the impairment loss is reversed through profit or loss.

(d) Investment securities:

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for on the basis of their classification as loans and receivables, held-to-maturity, fair value through profit or loss, or available-for-sale.

All of the Group's investment securities are designated as loans and receivables [see note 3(e)].

(e) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

3. Significant accounting policies (cont'd)

(f) Resale agreements:

Securities purchased under agreements to resell them on a specified future date and at a specified price ("resale agreements") are accounted for as short-term collateralised lending, classified as loans and receivables [see note 3(e)], and the underlying asset is not recognised in the Group's financial statements. The difference between the purchase price and the amount receivable on resale is recognised as interest income over the term of the agreement using the effective interest method. It is the policy of the Group to obtain possession of collateral with a market value equal to, or in excess of, the principal amount loaned and interest to be earned.

(g) 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, 2010, after eliminating all material intra-group amounts.

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

(h) Property, plant and equipment and depreciation:

(i) Property, plant and equipment are stated at cost, less accumulated depreciation and, if any, impairment losses.

(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 their expected useful lives. The depreciation rates are as follows:

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

(i) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

3. Significant accounting policies (cont'd)

(j) Income tax:

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income 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.

(k) 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.
- (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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

3. Significant accounting policies (cont'd)

(k) Employee benefits (cont'd):

(ii) (cont'd)

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 statement of comprehensive income 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 statement of comprehensive income.

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 statement of comprehensive income 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.

(l) Impairment of non-financial assets:

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax 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. 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 of comprehensive income.

(i) Calculation of recoverable amount

The recoverable amount of the asset or its cash-generating units is the greater of its 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

3. Significant accounting policies (cont'd)

(l) Impairment of non-financial assets (cont'd):

(ii) Reversals of impairment

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.

(m) Investment in subsidiary:

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

(n) Land held for development and sale:

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

(o) 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.

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.

(p) Investment properties:

Investment properties are carried at cost less impairment losses.

4. Resale agreements

At March 31, 2010, securities obtained and held under resale agreements had a fair value of \$731,802,000 (2009: \$636,453,000) for the Group and the Bank.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

5. Accounts receivable and prepaid expenses

	<u>Group</u>		<u>Bank</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Accrued interest on loans receivable	34,019	10,100	34,019	10,100
Accrued interest on deposits and investments	<u>7,523</u>	<u>39,082</u>	<u>7,523</u>	<u>39,082</u>
	<u>41,542</u>	<u>49,182</u>	<u>41,542</u>	<u>49,182</u>
Other receivables and prepaid expenses	96,501	96,418	96,361	96,398
Provision for impairment	(<u>3,346</u>)	(<u>3,346</u>)	(<u>3,346</u>)	(<u>3,346</u>)
	<u>93,155</u>	<u>93,072</u>	<u>93,015</u>	<u>93,052</u>
	<u>134,697</u>	<u>142,254</u>	<u>134,557</u>	<u>142,234</u>

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 Water and Housing [note 8(c)] which fall due during the year under review, with the net amount being (receivable from)/payable to the Ministry of Finance and the Public Service. The accumulated net effect of the offset is a receivable from the Ministry of Finance and the Public Service of \$29,391,000 (2009: \$21,774,000), which is included in other receivables (above), made up substantially as follows:

	<u>Group and Bank</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
Balance with Ministry of Finance and the Public service:		
Amount receivable at beginning of year	(21,774)	(14,614)
Current year portion of amount due to		
Ministry of Finance - Principal (see note 14)	4,801	4,767
- Interest	2,543	3,012
- Other	<u>108</u>	<u>130</u>
	<u>7,452</u>	<u>7,909</u>
	(14,322)	(6,705)
Current year portion of amount due from		
Ministry of Water and Housing [note 8(c)]	(15,069)	(15,069)
Net amount receivable from the Ministry of Finance and the		
Public service at end of year	(29,391)	(21,774)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

6. Investment securities

	<u>Group and Bank</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
Bank of Jamaica Certificates of Deposit	-	39,587
Government of Jamaica securities:		
Investment bond 2008/2009 Series AP	-	19,139
Investment bond 2010/2011 Series AU	-	20,000
Investment bond 2010/2011 Series Bb	-	25,255
Investment bond 2010/2011 Series Be	-	15,670
Investment bond 2010 Series Bg	-	14,309
Investment bond 2010 Series Bk	-	23,251
Investment bond 2012/2013 Series Aw	-	100,000
GOJ Fixed rate Investment notes	193,676	-
GOJ Fixed rate Treasury bonds	27,100	-
AIC Barbados Bonds	<u>77,000</u>	<u>110,000</u>
	<u>297,776</u>	<u>367,211</u>

7. Interest in subsidiary

	<u>Bank</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
Ordinary shares *	-	-
Long-term loan	<u>136,035</u>	<u>135,739</u>
	<u>136,035</u>	<u>135,739</u>

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

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

The long-term loan, which represents draw-downs under a \$250,000,000 facility, should have been repaid over the 5 years ended March 31, 2006, after a moratorium of 24 months on principal. The balance shown includes past-due amount of \$136,035,000 (2009: \$135,739,000). The loan is interest-free. It is supported by a promissory note and is to be secured on land owned by the subsidiary.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

8. Loans receivable

	<u>Group and Bank</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
Construction loans – non-governmental borrowers [see (a) below]	1,901,277	1,798,801
Accrued interest capitalized	<u>465,366</u>	<u>425,066</u>
	2,366,643	2,223,867
Less: Allowance for impairment losses [see (b) below]	<u>(1,146,764)</u>	<u>(872,453)</u>
	1,219,879	1,351,414
Construction loans – Ministry of Environment and Housing [see (c) below]	39,323	48,375
Mortgages [see (d) below] - Staff	22,207	24,305
- Other	<u>223,640</u>	<u>257,376</u>
	<u>1,505,049</u>	<u>1,681,470</u>

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

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

	<u>Group and Bank</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
At beginning of year	872,453	678,900
Charged against revenue during the year	302,074	251,098
Recoveries during the year	<u>(26,742)</u>	<u>(2,486)</u>
	1,147,785	927,512
Bad debts written off	<u>(1,021)</u>	<u>(55,059)</u>
At end of year	<u>1,146,764</u>	<u>872,453</u>

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

9. Land held for development and sale

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

(i) The property held by the subsidiary was 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

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

The property concerned is "The Reserves" – Non Pariel, with a valuation of \$76,850,000.

The property was valued on the open market basis at the amount shown, by Edwin Tulloch-Reid and Associates in July 2004.

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

(ii) There are three other properties held by the Bank, as follows:

	<u>2010</u> \$'000	<u>2009</u> \$'000
Phoenix Park	81,110	81,110
Mount Gotham	65,000	65,000
Bridge Water	<u>529</u>	<u>1,058</u>
	<u>146,639</u>	<u>147,168</u>
(iii) Bank	146,639	147,168
Subsidiary	<u>1</u>	<u>1</u>
Group	<u>146,640</u>	<u>147,169</u>

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.

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 was 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 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 Board in August 2007.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

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 sheets

	<u>Group and Bank</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
Present value of funded obligations	(47,433)	(34,474)
Fair value of plan assets	<u>104,332</u>	<u>76,425</u>
	56,899	41,951
Unrecognised actuarial losses	(26,092)	(19,357)
Recognised asset	<u>30,807</u>	<u>22,594</u>

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

	<u>Group and Bank</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
Net asset at beginning of year	22,594	16,486
Contributions paid	3,629	3,026
Income recognised in the statements of comprehensive income	<u>4,584</u>	<u>3,082</u>
Net asset at end of year	<u>30,807</u>	<u>22,594</u>

(iii) Income/(expense) recognised in the statements of comprehensive income:

	<u>Group and Bank</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
Current service cost	2,203	4,937
Interest on obligation	4,772	6,434
Actuarial loss recognised	(617)	(4,295)
Expected return on plan assets	<u>(10,942)</u>	<u>(10,158)</u>
(Income)/expense recognised in the statements of comprehensive income (note 18)	<u>(4,584)</u>	<u>(3,082)</u>
Actual return on plan assets	<u>9%</u>	<u>4%</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

10. Employee benefits (cont'd)

(c) Movements in fair value of plan assets:

	<u>Group and Bank</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
Fair value of plan assets at beginning of year	76,425	76,720
Contributions paid	6,824	5,762
Expected return on plan assets	10,942	10,158
Benefits paid	(3,240)	(8,814)
Actuarial gain/(loss)	<u>13,381</u>	<u>(7,401)</u>
Fair value of plan assets at end of year	<u>104,332</u>	<u>76,425</u>
Plan assets consist of the following:		
Equities	7,761	5,782
Fixed income securities	87,455	59,983
Real estate	8,485	10,100
Bank balances	12	10
Other	<u>619</u>	<u>550</u>
	<u>104,332</u>	<u>76,425</u>

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

	<u>Group and Bank</u>	
	<u>2010</u>	<u>2009</u>
	<u>%</u>	<u>%</u>
Discount rate at March 31	11.50	16.00
Expected return on plan assets at March 31	9.00	14.00
Future salary increases	8.50	11.00
Future pension increases	<u>1.50</u>	<u>4.00</u>

(e) Historical information

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Present value of the defined obligation	47,433	34,474	60,234	49,464	33,794
Fair value of plan assets	(104,332)	(76,425)	(76,720)	(68,158)	(53,631)
Surplus in plan	<u>(56,899)</u>	<u>(41,951)</u>	<u>(16,486)</u>	<u>(18,694)</u>	<u>(19,837)</u>
Experience adjustments arising on plan liabilities	6,030	(31,053)	2,070	6,279	(829)
Experience adjustments arising on plan assets	<u>13,381</u>	<u>7,401</u>	<u>2,708</u>	<u>(1,520)</u>	<u>353</u>

(f) The estimated contributions expected to be paid into the pension fund during the next financial year is \$5,825,000 (2009:\$ 6,326,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

11. Property, plant and equipment

Group

	Freehold <u>land</u> \$'000	Freehold <u>buildings</u> \$'000	Furniture, fixtures and <u>equipment</u> \$'000	Plant and <u>machinery</u> \$'000	Motor <u>vehicles</u> \$'000	<u>Total</u> \$'000
Cost:						
March 31, 2008	3,000	60,782	23,544	110	5,450	92,886
Additions	<u>-</u>	<u>-</u>	<u>974</u>	<u>-</u>	<u>-</u>	<u>974</u>
March 31, 2009	3,000	60,782	24,518	110	5,450	93,860
Additions	-	-	2,194	-	-	2,194
Disposals	<u>-</u>	<u>-</u>	<u>(817)</u>	<u>-</u>	<u>-</u>	<u>(817)</u>
March 31, 2010	<u>3,000</u>	<u>60,782</u>	<u>25,895</u>	<u>110</u>	<u>5,450</u>	<u>95,237</u>
Depreciation:						
March 31, 2008	-	15,185	17,559	99	263	33,106
Charge for the year	<u>-</u>	<u>1,610</u>	<u>1,925</u>	<u>11</u>	<u>1,090</u>	<u>4,636</u>
March 31, 2009	-	16,795	19,484	110	1,353	37,742
Charge for the year	-	1,610	2,153	-	1,090	4,853
Eliminated on disposals	<u>-</u>	<u>-</u>	<u>(817)</u>	<u>-</u>	<u>-</u>	<u>(817)</u>
March 31, 2010	<u>-</u>	<u>18,405</u>	<u>20,820</u>	<u>110</u>	<u>2,443</u>	<u>41,778</u>
Net book values:						
March 31, 2010	<u>3,000</u>	<u>42,377</u>	<u>5,075</u>	<u>-</u>	<u>3,007</u>	<u>53,459</u>
March 31, 2009	<u>3,000</u>	<u>43,987</u>	<u>5,034</u>	<u>-</u>	<u>4,097</u>	<u>56,118</u>
March 31, 2008	<u>3,000</u>	<u>45,597</u>	<u>5,985</u>	<u>11</u>	<u>5,187</u>	<u>59,780</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

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

Bank

	Freehold <u>land</u> \$'000	Freehold <u>buildings</u> \$'000	Furniture, fixtures and <u>equipment</u> \$'000	Motor <u>vehicles</u> \$'000	<u>Total</u> \$'000
Cost:					
March 31, 2008	3,000	60,782	23,544	5,450	92,776
Additions	-	-	974	-	974
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
March 31, 2009	3,000	60,782	24,518	5,450	93,750
Additions	-	-	2,194	-	2,194
Disposals	<u>-</u>	<u>-</u>	<u>(817)</u>	<u>-</u>	<u>(817)</u>
March 31, 2010	<u>3,000</u>	<u>60,782</u>	<u>25,895</u>	<u>5,450</u>	<u>95,127</u>
Depreciation:					
March 31, 2008	-	15,185	17,559	263	33,007
Charge for the year	-	1,610	1,925	1,090	4,625
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
March 31, 2009	<u>-</u>	<u>16,795</u>	<u>19,484</u>	<u>1,353</u>	<u>37,632</u>
Charge for the year	-	1,610	2,153	1,090	4,853
Disposals	<u>-</u>	<u>-</u>	<u>(817)</u>	<u>-</u>	<u>(817)</u>
March 31, 2010	<u>-</u>	<u>18,405</u>	<u>20,820</u>	<u>2,443</u>	<u>41,668</u>
Net book values:					
March 31, 2010	<u>3,000</u>	<u>42,377</u>	<u>5,075</u>	<u>3,007</u>	<u>53,459</u>
March 31, 2009	<u>3,000</u>	<u>43,987</u>	<u>5,034</u>	<u>4,097</u>	<u>56,118</u>
March 31, 2008	<u>3,000</u>	<u>45,597</u>	<u>5,985</u>	<u>5,187</u>	<u>59,769</u>

12. Accounts payable and accrued charges

	<u>Group</u>		<u>Bank</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	\$'000	\$'000	\$'000	\$'000
Interest payable	29,644	46,352	29,644	46,352
Mortgage Insurance Fund	138,884	-	138,884	-
Other	<u>25,084</u>	<u>18,067</u>	<u>24,874</u>	<u>17,857</u>
	<u>193,612</u>	<u>64,419</u>	<u>193,402</u>	<u>64,209</u>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

March 31, 2010

13. Bonds payable

	<u>Group and Bank</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
Shelter Bond VI [see (a) below]	400,000	400,000
Shelter Bond VII [see (b) below]	100,000	100,000
Shelter Bond X [see (c) below]	500,000	500,000
Shelter Bond XI [see (d) below]	<u>500,000</u>	<u>500,000</u>
	<u>1,500,000</u>	<u>1,500,000</u>

	<u>Group and Bank</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
Due within 12 months of the balance sheet date	500,000	500,000
Due thereafter	<u>1,000,000</u>	<u>1,000,000</u>
	<u>1,500,000</u>	<u>1,500,000</u>

The Bank maintains a segregated sinking fund for the redemption of the Bonds. This comprises designated investments that it holds in particular financial institutions as the sinking fund; this fund is managed internally by the Bank.

- (a) 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 June 30, 2010.
- (b) In May 2006, the Bank issued Shelter Bond VII at 1% above the weighted average treasury bill rate. These bonds are repayable in full on June 30, 2010.
- (c) In March 2009, the Bank issued Shelter Bond X at 1.124% above the weighted average Treasury bill rate. These bonds are repayable in full on February 28, 2014.
- (d) In March 2009, the Bank issued Shelter Bond XI at 1.5% above the weighted average Treasury bill rate. These bonds are repayable in full on February 28, 2016.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

14. Loan payable to Ministry of Finance and the Public Service

The amount due to the Ministry of Finance and the Public Service represents the following outstanding Jamaica dollar balances of overseas loans, the repayment of which the Ministry of Finance and the Public Service undertook responsibility, on their original terms, resulting in the Bank becoming indebted to the Ministry (see note 5):

<u>Loan Schedules</u>	<u>Rate % per annum</u>	<u>Year of final repayment</u>	<u>Group and Bank</u>				
			<u>2010</u> \$'000	<u>Paid during the year</u> \$'000	<u>2009</u> \$'000	<u>Paid during the year</u> \$'000	<u>2008</u> \$'000
532-HG-011 Schedule L4	10.00	2012	4,450	(1,780)	6,230	(1,780)	8,010
532-HG-012A Schedule L5	10.00	2014	7,365	(1,473)	8,838	(1,473)	10,311
532-HG-012B Schedule L6	10.00	2016	6,600	(1,100)	7,700	(1,100)	8,800
Garveymeade Schedule L11	8.00	2017	<u>4,343</u>	<u>(448)</u>	<u>4,791</u>	<u>(414)</u>	<u>5,205</u>
			<u>22,758</u>	<u>(4,801)</u>	<u>27,559</u>	<u>(4,767)</u>	<u>32,326</u>
Amounts due within 12 months of the balance sheet date			4,837		4,801		7,837
Due thereafter			<u>17,921</u>		<u>22,758</u>		<u>24,489</u>
			<u>22,758</u>		<u>27,559</u>		<u>32,326</u>

15. Share capital

	<u>Group and Bank</u>	
	<u>2010</u> \$'000	<u>2009</u> \$'000
Authorised, issued and fully paid:		
500,000,000 ordinary shares of no par value	<u>500,000</u>	<u>500,000</u>

16. Reserve fund

The reserve fund was created in accordance with the provisions of Section 13 of the Jamaica Mortgage Bank Act 1973, which requires that a minimum of 25% of the Bank's profit after taxation (if any) be set aside in each calendar year towards a reserve fund to meet contingencies, until the total amount standing to the credit of the reserve fund equals the paid-up capital of the Bank. As the reserve fund is now equal to the paid up capital (note 15), no further transfers are required (see also note 17).

17. Special reserve fund

By resolution of the Board, a special reserve fund was created to deal with any unforeseen contingencies that might occur above the amount of the existing reserve fund (note 16).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

18. Staff number and cost

The number of persons in the Group's and the Bank's employment at the end of the year was 29 (2009: 27).

The aggregate cost of these employees was as follows:

	<u>Group and Bank</u>	
	<u>2010</u>	<u>2009</u>
	\$'000	\$'000
Salaries and wage-related expenses	77,613	72,147
Statutory payroll contributions	6,249	5,534
Employee benefit (income)/expense [note 10(b)(iii)]	(4,584)	(3,082)
Staff welfare	<u>620</u>	<u>1,287</u>
	<u>79,898</u>	<u>75,886</u>

19. Loss before taxation

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

	<u>Group</u>		<u>Bank</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	\$'000	\$'000	\$'000	\$'000
Depreciation	4,853	4,636	4,853	4,625
Directors emoluments - fees (note 21)	606	562	606	562
Auditors' remuneration - current year	2,700	2,650	2,500	2,450
- prior year	<u>350</u>	<u>-</u>	<u>350</u>	<u>-</u>

20. Income tax

- (a) The income tax charge is computed at the rate of 33¹/₃% of the Group's and Bank's results for the year as adjusted for tax purposes, and is made up as follows:

	<u>Group</u>		<u>Bank</u>	
	<u>2010</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>
	\$'000	\$'000	\$'000	\$'000
Deferred:				
Origination and reversal of temporary differences	-	(70,890)	-	(70,890)
Total income tax credit recognised in the statements of comprehensive income	<u>-</u>	<u>(70,890)</u>	<u>-</u>	<u>(70,890)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

20. Income tax (cont'd)

- (b) The effective tax rate was Nil% (2009: 23.37%) for the Group and Nil%(2009: 23.38%) for the Bank, compared to a statutory rate of 33¹/3% (2009:33¹/3%). The actual tax charge differed from the expected tax charge for the year as follows:

	<u>Group</u>		<u>Bank</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	\$'000	\$'000	\$'000	\$'000
Loss before income tax	(313,030)	(298,513)	(312,854)	(297,608)
Computed "expected" tax expense	(104,343)	(99,504)	(104,285)	(99,202)
Tax effect of treating the following items differently for financial statement purposes than for tax reporting purposes:				
Depreciation and capital allowances	590	2,293	588	2,291
Interest receivable	33,017	(162,415)	33,017	(162,415)
Interest payable	(5,279)	16,727	(5,279)	16,727
Employee benefit	(2,737)	(7,531)	(2,737)	(7,531)
Capital income	(866)	-	(866)	-
Taxation losses	78,286	184,654	78,230	184,354
Other	<u>1,332</u>	<u>(5,114)</u>	<u>1,332</u>	<u>(5,114)</u>
Actual tax credit recognised in the statements of comprehensive income	<u>-</u>	<u>(70,890)</u>	<u>-</u>	<u>(70,890)</u>

- (c) At the balance sheet date, taxation losses, subject to the agreement of the Commissioner, Taxpayer Audit and Assessment, available for set-off against future taxable profits, amounted to approximately \$876,591,000 (2009: \$641,730,000) for the Group and \$782,797,000 (2009: \$548,108,000) for the Bank.

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

21. Related party balances and transactions

A party is related to the Bank if:

- (a) directly, or indirectly through one or more intermediaries, the party:
- (i) controls, is controlled by, or is under common control with, the Bank;
 - (ii) has an interest in the Bank that gives it significant influence over the Bank; or
 - (iii) has joint control over the Bank;

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

21. Related party balances and transactions (cont'd)

A party is related to the Bank if (cont'd):

- (b) the party is an associate (as defined in IAS 28, *Investments in Associates*) of the Bank;
- (c) the party is a joint venture in which the Bank is a venturer (see IAS 31, *Interests in Joint Ventures*);
- (d) the party is a member of the key management personnel of the Bank;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is a Bank that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such Bank resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Bank, or of any Bank that is a related party of the Bank.

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

Balances receivable from key management personnel are as follows:

	<u>Group and Bank</u>	
	<u>2010</u>	<u>2009</u>
	\$'000	\$'000
Staff loans	<u>5,724</u>	<u>6,863</u>

Key management compensation is as follows:

	<u>Group and Bank</u>	
	<u>2010</u>	<u>2009</u>
	\$'000	\$'000
Directors fees' (note 19)	606	562
Short-term employee benefits	34,998	32,570
Post-employment benefits	<u>-</u>	<u>(931)</u>
	<u>35,604</u>	<u>32,201</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

22. Fair value estimation

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. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The source of the input parameter for the Jamaica Sovereign yield curve is various local brokers.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The company considers relevant and observable market prices in its valuations where possible.

	<u>Level 1</u> \$'000	<u>Level 2</u> \$'000	<u>Level 3</u> \$'000	<u>Total</u> \$'000
March 31, 2010				
Financial assets	<u>-</u>	<u>731,802</u>	<u>-</u>	<u>731,802</u>
March 31, 2009				
Financial assets	<u>-</u>	<u>636,453</u>	<u>-</u>	<u>636,453</u>

23. Financial Risk Management

Introduction and overview

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

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

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

23. Financial Risk Management (cont'd)***Risk management framework***

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

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

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

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

(a) Credit risk:

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

The Group has credit policies aimed at minimising exposure to credit risk, which policies include, *inter alia*, obtaining collateral in respect of loans made, and performing credit evaluations on all applicants for credit. In respect of investments and related interest receivable, these are 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

23. Financial Risk Management (cont'd)

(a) Credit risk (cont'd):

(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 balance sheets, as follows:

	Group		Bank	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	33,292	1,698	33,292	1,698
Loans receivable	1,505,049	1,681,470	1,505,049	1,681,470
Resale agreements	713,523	720,758	713,523	720,758
Investment securities	297,776	367,211	297,776	367,211
Accounts receivable	<u>132,446</u>	<u>140,459</u>	<u>132,306</u>	<u>140,439</u>

(ii) Management of credit risk

(1) Loans receivable:

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

(2) Cash and cash equivalents:

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

(3) Investment securities:

With regard to investments, there is a significant concentration in securities issued or guaranteed by Government of Jamaica. The Group manages the level of risk it undertakes by investing substantially in short-term investments which are Government of Jamaica securities.

No investment securities were considered impaired at the balance sheet date.

(4) Resale agreements and certificates of deposit:

Collateral is held for all resale agreements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

23. Financial Risk Management (cont'd)

(a) Credit risk (cont'd):

(ii) Management of credit risk (cont'd)

(5) Accounts receivable:

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

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

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

(iii) Credit quality of loans

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

	2010		2009	
	Gross \$'000	Impairment \$'000	Gross \$'000	Impairment \$'000
Not past due and not impaired	961,509	-	509,068	-
Past due but not impaired				
Within 3 months	21,072	-	174,916	-
Past due and impaired				
Under 12 months	-	-	347,605	97,605
Over 12 months	<u>1,669,232</u>	<u>1,146,764</u>	<u>1,522,334</u>	<u>774,848</u>
	<u>2,651,813</u>	<u>1,146,764</u>	<u>2,553,923</u>	<u>872,453</u>

The management of the Bank believes that no impairment allowance is necessary in respect of other financial assets.

The movement on the allowance for impairment is presented in note 8(b).

(1) *Impaired loans:*

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

23. Financial Risk Management (cont'd)

(a) Credit risk (cont'd):

(iii) Credit quality of loans (cont'd):

(2) *Past due but not impaired loans:*

These are loans where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security available and/or the stage of collection of amounts owed to the Group.

(3) *Loans with renegotiated terms:*

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

(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 specifically covers the loss that relates to individual loans assessed as being impaired.

(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 loans by summarising the credit exposure to borrowers, by category:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

23. Financial Risk Management (cont'd)

(a) Credit risk (cont'd):

(iv) Concentration of loans (cont'd)

Group and Bank:

	2010		
	Construction loans	Mortgage loans	Total
	\$'000	\$'000	\$'000
Developers	2,366,643	223,640	2,590,283
Government	39,323	-	39,323
Staff	-	22,207	22,207
	<u>2,405,966</u>	<u>245,847</u>	<u>2,651,813</u>
	2009		
	Construction loans	Mortgage loans	Total
	\$'000	\$'000	\$'000
Developers	2,223,867	257,376	2,481,243
Government	48,375	-	48,375
Staff	-	24,305	24,305
	<u>2,272,242</u>	<u>281,681</u>	<u>2,553,923</u>

Substantially all the Group's lending is to parties in Jamaica.

(v) Collateral:

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Collateral is not generally held against deposits and investment securities, and no such collateral was held at March 31, 2010 or 2009.

(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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

23. Financial Risk Management (cont'd)

(b) Market risk (cont'd):

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

(i) Interest rate risk:

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

The following table summarises the carrying amounts of balance sheet 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

	2010					Total
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Non-rate sensitive	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	-	-	-	-	33,292	33,292
Resale agreements	125,444	534,622	47,061	-	6,396	713,523
Accounts receivable	-	-	-	-	134,697	134,697
Investment securities	27,100	16,135	32,270	222,271	-	297,776
Loans receivable	-	171,838	752,873	580,338	-	1,505,049
Total financial assets	152,544	722,595	832,204	802,609	174,385	2,684,337
Accounts payable	-	-	-	-	193,612	193,612
Bonds payable	-	-	1,000,000	-	500,000	1,500,000
Loan payable to Ministry of Finance	-	736	4,065	17,957	-	22,758
Total financial liabilities	-	736	1,004,065	17,957	693,612	1,716,370
Interest rate sensitivity gap*	152,544	721,859	(171,861)	784,652	(519,227)	967,967
Cumulative gap	152,544	874,403	702,542	1,487,194	967,967	-

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

23. Financial Risk Management (cont'd)

(b) Market risks (cont'd):

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

Group

	2009				
	Immediately	Within	Three to	Over 12	Non-rate
	rate sensitive	3 months	12 months	months	sensitive
	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	-	-	-	-	1,698
Resale agreements	47,607	160,924	512,227	-	-
Accounts receivable	-	-	-	-	142,254
Investment securities	-	110,000	113,960	143,251	-
Loans receivable	-	39,437	149,104	1,492,929	-
Total financial assets	47,607	310,361	775,291	1,636,180	143,952
Accounts payable	-	-	-	-	64,419
Bonds payable	-	-	500,000	1,000,000	-
Loan payable to Ministry of Finance	-	736	4,064	22,759	-
Total financial liabilities	-	736	504,064	1,022,759	64,419
Interest rate sensitivity gap*	47,607	309,625	271,227	613,421	79,533
Cumulative gap	47,607	357,232	628,459	1,241,880	1,321,413

Bank

	2010				
	Immediately	Within	Three to	Over 12	Non-rate
	rate sensitive	3 months	12 months	months	sensitive
	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	-	-	-	-	33,292
Resale agreements	125,444	534,622	47,061	-	6,396
Accounts receivable	-	-	-	-	134,557
Investment securities	27,100	16,135	32,270	222,271	-
Loans receivable	-	171,838	752,873	580,338	-
Total financial assets	152,544	722,595	832,204	802,609	174,245
Accounts payable	-	-	-	-	193,402
Bonds payable	-	-	1,000,000	-	500,000
Loan payable to Ministry of Finance	-	736	4,065	17,957	-
Total financial liabilities	-	736	1,004,065	17,957	693,402
Interest rate sensitivity gap*	152,544	721,859	(171,861)	784,652	(519,157)
Cumulative gap	152,544	874,403	702,542	1,487,194	968,037

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

23. Financial Risk Management (cont'd)

(b) Market risks (cont'd):

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

Bank

	2009					Total \$'000
	Immediately rate sensitive \$'000	Within 3 months \$'000	Three to 12 months \$'000	Over 12 months \$'000	Non-rate sensitive \$'000	
Cash and cash equivalents	-	-	-	-	1,698	1,698
Resale agreements	47,607	160,924	512,227	-	-	720,758
Accounts receivable	-	-	-	-	142,234	142,234
Investment securities	-	110,000	113,960	143,251	-	367,211
Loans receivable	-	39,437	149,104	1,492,929	-	1,681,470
Total financial assets	<u>47,607</u>	<u>310,361</u>	<u>775,291</u>	<u>1,636,180</u>	<u>143,932</u>	<u>2,913,371</u>
Accounts payable	-	-	-	-	64,209	64,209
Bonds payable	-	-	500,000	1,000,000	-	1,500,000
Loan payable to Ministry of Finance	-	736	4,064	22,759	-	27,559
Total financial liabilities	<u>-</u>	<u>736</u>	<u>504,064</u>	<u>1,022,759</u>	<u>64,209</u>	<u>1,591,768</u>
Interest rate sensitivity gap*	<u>47,607</u>	<u>309,625</u>	<u>271,227</u>	<u>613,421</u>	<u>79,723</u>	<u>1,321,603</u>
Cumulative gap	<u>47,607</u>	<u>357,232</u>	<u>628,459</u>	<u>1,241,880</u>	<u>1,321,603</u>	<u>-</u>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

23. Financial Risk Management (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

	2010				Total
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 12 months	
	%	%	%	%	%
Resale agreements	9.63	10.02	6.25	-	9.62
Loans receivable	-	20.00	19.00	20.01	19.83
Bonds payable	-	-	8.63	8.63	8.63
Loan payable to Ministry of Finance	<u>-</u>	<u>-</u>	<u>9.50</u>	<u>9.50</u>	<u>9.50</u>

Group and Bank

	2009				Total
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 12 months	
	%	%	%	%	%
Resale agreements	14.91	14.81	20.23	-	16.65
Loans receivable	-	20.00	20.00	19.57	19.64
Bonds payable	-	-	25.45	22.05	24.78
Loan payable to Ministry of Finance	<u>-</u>	<u>-</u>	<u>9.50</u>	<u>9.50</u>	<u>9.50</u>

Sensitivity analysis

An increase of 200 basis points (2%) in interest rates would have decreased loss for the year by \$14,270,000 (2009: \$21,759,000). An increase would have an equal but opposite effect on the losses for the year.

The analysis assumes that all other variables, in particular, foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

23. Financial Risk Management (cont'd)

(b) Market risk (cont'd):

(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 is exposed to foreign currency risk due to fluctuations in exchange rates on transactions and balances that are denominated in currencies other than the Jamaica dollar. The main currency giving rise to this risk is the United States dollar.

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\$1,019,330 (2009: US\$964,000).

Sensitivity analysis

A 5 percent strengthening or weakening of the Jamaica dollar against the US\$ at March 31 would, respectively, have increased or decreased profit by \$4,534,000 (2009: \$ 4,238,000). The analysis assumes that all other variables, in particular, interest rates, remain constant.

The analysis is performed on the same basis as for 2009.

(c) Liquidity risk:

Liquidity 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 requires the Group to maintain sufficient cash and marketable securities, monitoring future cash flows and liquidity on a daily basis and have funding available through an adequate amount of committed facilities.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

23. Financial Risk Management (cont'd)

(c) Liquidity risk (cont'd):

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

Group

	2010				
	Within One month	One to 3 months	Three to 12 months	One to 5 years	over 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000
Accounts payable	675	22,578	170,359	-	-
Due to Min. of Finance	-	-	4,837	17,921	-
Bonds payable	-	<u>500,000</u>	-	<u>500,000</u>	<u>500,000</u>
	<u>675</u>	<u>522,578</u>	<u>175,196</u>	<u>517,921</u>	<u>1,716,370</u>

	2009				
	Within One month	One to 3 months	Three to 12 months	One to 5 years	over 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000
Accounts payable	14,236	-	50,183	-	-
Due to Min. of Finance	-	-	4,800	22,759	-
Bonds payable	-	-	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
	<u>14,236</u>	<u>-</u>	<u>554,983</u>	<u>522,759</u>	<u>1,591,978</u>

Bank:

	2010				
	Within One month	One to 3 months	Three to 12 months	One to 5 years	over 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000
Accounts payable	675	22,318	170,409	-	-
Due to Min. of Finance	-	-	4,837	17,921	-
Bonds payable	-	<u>500,000</u>	-	<u>500,000</u>	<u>500,000</u>
	<u>675</u>	<u>522,318</u>	<u>175,246</u>	<u>517,921</u>	<u>1,716,160</u>

	2009				
	Within One month	One to 3 months	Three to 12 months	One to 5 years	over 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000
Accounts payable	14,026	-	50,183	-	-
Due to Min. of Finance	-	-	4,800	22,759	-
Bonds payable	-	-	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
	<u>14,026</u>	<u>-</u>	<u>554,983</u>	<u>522,759</u>	<u>1,591,768</u>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

23. Financial risk management (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 behavior. Operational risk arises from all of the Group's operations.

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

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

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

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

(e) Capital management:

The Bank is a statutory body and is not a regulated entity. Accordingly, there are no rules relating to capital that are imposed by regulations. However, by virtue of the provisions of the Act (see note 16) and stated Board policy (see note 17), the Bank is required to set aside retained profits in special reserves.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

23. Financial risk management (cont'd)

(e) Capital management (cont'd):

Capital allocation

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

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

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

24. Financial assets and liabilities – accounting classifications and fair values

Group

		2010			
	Notes	Loans and receivables \$'000	Other amortised cost \$'000	Total carrying amount \$'000	Fair value \$'000
ASSETS					
Cash and cash equivalents:					
Short-term deposits		<u>33,292</u>	<u>-</u>	<u>33,292</u>	<u>33,292</u>
Resale agreements	4	713,523	-	713,523	713,523
Accounts receivable and prepaid expenses	5	134,757	-	134,757	134,757
Investment securities	6	297,776	-	297,776	297,776
Loans receivable	8	<u>1,505,049</u>	<u>-</u>	<u>1,505,049</u>	<u>1,505,049</u>
		<u>2,684,397</u>	<u>-</u>	<u>2,684,397</u>	<u>2,684,397</u>
LIABILITIES					
Accounts payable and accrued charges	12	-	193,612	193,612	193,612
Bonds payable	13	-	1,500,000	1,500,000	1,500,000
Loan payable to Ministry of Finance	14	<u>-</u>	<u>22,758</u>	<u>22,758</u>	<u>22,758</u>
		<u>-</u>	<u>1,716,370</u>	<u>1,716,370</u>	<u>1,716,370</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

24. Financial assets and liabilities – accounting classifications and fair values (cont'd)

Group

		2009		
	Notes	Loans and receivables \$'000	Other amortised cost \$'000	Total carrying amount \$'000
				Fair value \$'000
ASSETS				
Cash and cash equivalents:				
Short-term deposits		<u>1,698</u>	<u>-</u>	<u>1,698</u>
Resale agreements	4	720,758	-	720,758
Accounts receivable and prepaid expenses	5	142,254	-	142,254
Investment securities	6	367,211	-	367,211
Loans receivable	8	<u>1,681,470</u>	<u>-</u>	<u>1,681,470</u>
		<u>2,913,391</u>	<u>-</u>	<u>2,913,391</u>
LIABILITIES				
Accounts payable and accrued charges	12	-	64,419	64,419
Bonds payable	13	-	1,500,000	1,500,000
Loan payable to Ministry of Finance	14	<u>-</u>	<u>27,559</u>	<u>27,559</u>
		<u>-</u>	<u>1,591,978</u>	<u>1,591,978</u>

Bank

		2010		
	Notes	Loans and receivables \$'000	Other amortised cost \$'000	Total carrying amount \$'000
				Fair value \$'000
ASSETS				
Cash and cash equivalents:				
Short-term deposits		<u>33,292</u>	<u>-</u>	<u>33,292</u>
Resale agreements	4	713,523	-	713,523
Accounts receivable and prepaid expenses	5	134,557	-	134,557
Investment securities	6	297,776	-	297,776
Loans receivable	8	<u>1,505,049</u>	<u>-</u>	<u>1,505,049</u>
		<u>2,684,197</u>	<u>-</u>	<u>2,684,197</u>
LIABILITIES				
Accounts payable and accrued charges	12	-	193,402	193,402
Bonds payable	13	-	1,500,000	1,500,000
Loan payable to Ministry of Finance	14	<u>-</u>	<u>22,758</u>	<u>22,758</u>
		<u>-</u>	<u>1,716,160</u>	<u>1,716,160</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

24. Financial assets and liabilities – accounting classifications and fair values (cont'd)

Bank

		2009		
Notes	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
	\$'000	\$'000	\$'000	\$'000
ASSETS				
Cash and cash equivalents:				
Short-term deposits	1,698	-	1,698	1,698
Resale agreements	4	720,758	720,758	720,758
Accounts receivable and prepaid expenses	5	142,234	142,234	142,234
Investment securities	6	367,211	367,211	367,211
Loans receivable	8	1,681,470	1,681,470	1,681,470
	<u>2,913,371</u>	<u>-</u>	<u>2,913,371</u>	<u>2,913,371</u>
LIABILITIES				
Accounts payable and accrued charges	12	-	64,209	64,209
Bonds payable	13	-	1,500,000	1,500,000
Loan payable to Ministry of Finance	14	-	27,559	27,559
	<u>-</u>	<u>1,591,768</u>	<u>1,591,768</u>	<u>1,591,768</u>

25. Commitments

Loans approved but not disbursed by the Group and the Bank at March 31, 2010 amounted to \$1,187,212,000 (2009: \$486,765,000).

26. Contingent liability

In the prior period a claim for damages was filed against the Bank for approximately \$26 Million by the owner of a housing development against which the Bank had lodged a caveat. In an earlier suit, the Court ruled that the Bank had erred in lodging the caveat, ordered its removal and further ordered the Bank to pay damages to be assessed. These damages were assessed to be approximately \$5.3 Million. This has been provided for by the Bank. However, subsequent to year end the claimant has appealed the judgement which is yet to be heard in court.

27. Costs of and Funding for Administration of Mortgage Insurance Fund

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

27. Costs of and Funding for Administration of Mortgage Insurance Fund (cont'd)

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

	<u>2010</u> \$'000	<u>2009</u> \$'000
Cost of Administration of Mortgage Insurance Fund		
Bank charges and interest	3	6
Salaries and related expenses	2,700	1,152
Redundancy cost	-	3,957
Pension scheme contributions	82	59
Other	2,705	92
Audit fees	<u>270</u>	<u>270</u>
Total costs	<u>5,760</u>	<u>5,536</u>
Funded by:		
Contribution of:		
One-fifth of Mortgage Loan Insurance fees	-	150
Two-fifths of Mortgage Insurance fees	466	605
Loan investigation fees	38	43
One-half of investment income of Mortgage (Government Guaranteed Loans) Insurance Reserve Fund	<u>3</u>	<u>3</u>
	507	801
Contributed by the Mortgage Insurance Fund	<u>5,253</u>	<u>4,735</u>
Total funding	<u>5,760</u>	<u>5,536</u>



JMB Annual Report 2010

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2010

Other Administrative and General Expenses - Bank only

Year ended March 31, 2010

	<u>2010</u> \$'000	<u>2009</u> \$'000
Advertising	490	961
Auditors' remuneration	2,805	2,450
Bank charges and interest	144	149
Computer expenses	668	1,890
Consulting and other professional fees	5,866	2,666
Depreciation	4,853	4,624
Directors' fees	606	562
Donations	1,529	176
Electricity	3,914	3,696
General insurance	727	634
General office expenses	4,242	5,135*
Group health and group life insurance	3,818	3,296
Legal expenses	7,174	6,459
Settlement of legal claims	-	20,000
Local travelling and incidentals	1,564	1,362
Motor vehicle expenses	637	458
Overseas travelling and incidentals	-	1,116
Printing and stationery	2,770	1,170*
Property taxes	477	82
Public relations	2,959	3,177
Conference, seminar and retreat expenses	1,816	4,207
Repairs and maintenance	2,076	1,780
Subscriptions and publications	418	485
Telephone, cables and postage	<u>979</u>	<u>2,148</u>
	<u>50,532</u>	<u>68,683</u>

*Reclassified to conform with current year presentation.



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INDEPENDENT AUDITORS' REPORT

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

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

Report on the financial statements

We have audited the financial statements of The Mortgage Insurance Fund and Mortgage (Government Guaranteed Loans) Insurance Reserve Fund ("the funds"), set out on pages 68 to 79 which comprise the balance sheet as at March 31, 2010, 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 as to whether or not the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence relating to the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal 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.

INDEPENDENT AUDITORS' REPORT (CONT'D)

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

(Established under the Mortgage Insurance Act

Administered by Jamaica Mortgage Bank)

Report on the financial statements (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, 2010, and of the changes in fund balances for the year then ended, in accordance with International Financial Reporting Standards.



Chartered Accountants
Kingston, Jamaica

September 8, 2010

**THE MORTGAGE INSURANCE FUND**

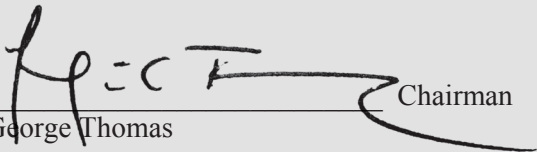
*[Established under the Mortgage Insurance Act
Administered by Jamaica Mortgage Bank]*

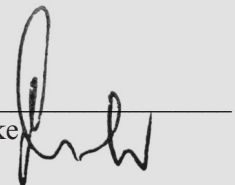
BALANCE SHEETS

March 31, 2010

	<u>Note</u>	<u>2010</u> \$'000	<u>2009</u> \$'000
ASSETS			
Cash and cash equivalents		3,503	258
Investments	4	730,872	1,053,932
Accounts receivable	5	124,218	135,492
Due from Jamaica Mortgage Bank		<u>138,884</u>	<u>-</u>
		<u>997,477</u>	<u>1,189,682</u>
LIABILITIES			
Accounts payable		399	399
Due to Mortgage (Government Guaranteed Loans) Insurance Reserve Fund		73	51
Due to Jamaica Mortgage Bank		<u>-</u>	<u>1,080</u>
		<u>472</u>	<u>1,530</u>
Net assets		<u>997,005</u>	<u>1,188,152</u>
Financed by:			
ACCUMULATED SURPLUS		<u>997,005</u>	<u>1,188,152</u>

The financial statements on pages 68 to 79 were approved for issue by the Board of Directors on September 8, 2010 and signed on its behalf by:


George Thomas Chairman


Osmond Clarke Director

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]*

STATEMENTS OF CHANGES IN FUND BALANCE

Year ended March 31, 2010

	<u>2010</u> \$'000	<u>2009</u> \$'000
Increase in fund:		
Three-fifths of mortgage loan insurance fees	699	908
Four-fifths of mortgage loan insurance fees	-	601
Investment income	<u>214,925</u>	<u>164,820</u>
	<u>215,624</u>	<u>166,329</u>
Decrease in fund:		
Transferred to the Bank as contribution towards the cost of administering the Mortgage Insurance Act	(5,253)	(4,735)
Administration charges paid to the Bank	(1,518)	(8,640)
Transferred to the Government of Jamaica as Distribution	<u>(400,000)</u>	<u>-</u>
	<u>(406,771)</u>	<u>(13,375)</u>
Net increase in fund balance for year	(191,147)	152,954
Fund balance at beginning of year	<u>1,188,152</u>	<u>1,035,198</u>
Fund balance at end of year	<u>997,005</u>	<u>1,188,152</u>

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]*

BALANCE SHEETS

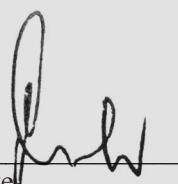
March 31, 2010

	<u>2010</u> \$'000	<u>2009</u> \$'000
ASSETS		
Due from Mortgage Insurance Fund	73	51
Government of Jamaica bond	-	19
Government of Jamaica investment debenture	<u>15</u>	<u>15</u>
	<u>88</u>	<u>85</u>
Financed by:		
ACCUMULATED SURPLUS	<u>88</u>	<u>85</u>

The financial statements on pages 70 to 79 were approved for issue by the Board of Directors on September 8, 2010 and signed on its behalf by:



George Thomas Chairman



Osmond Clarke Director

**MORTGAGE (GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND***[Established under the Mortgage Insurance Act**Administered by Jamaica Mortgage Bank]***STATEMENTS OF CHANGES IN FUND BALANCE**

Year ended March 31, 2010

	<u>2010</u> \$'000	<u>2009</u> \$'000
Increase in fund:		
Investment income	6	5
Decrease in fund:		
One-half of investment income transferred to the Bank as contribution towards the cost of administering the Mortgage Insurance Act	(3)	(2)
Net increase in fund for year	3	3
Fund balance at beginning of year	<u>85</u>	<u>82</u>
Fund balance at end of year	<u>88</u>	<u>85</u>

THE MORTGAGE INSURANCE FUND AND MORTGAGE (GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2010

1. Identification

(a) The Mortgage Insurance Fund

(i) Establishment and functions

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

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

(ii) Funding

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

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

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

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

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

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

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

**THE MORTGAGE INSURANCE FUND AND MORTGAGE
(GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND**

[Established under the Mortgage Insurance Act

Administered by Jamaica Mortgage Bank]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

2. Statement of compliance and basis of preparation

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

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the 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 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 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.

(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.

**THE MORTGAGE INSURANCE FUND AND MORTGAGE
(GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND**

*[Established under the Mortgage Insurance Act
Administered by Jamaica Mortgage Bank]*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

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.

(ii) Reversals of impairment

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

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

4. Investments – Mortgage Insurance Fund

	<u>2010</u> \$'000	<u>2009</u> \$'000
Loans and receivables – carried at amortised cost		
Government of Jamaica:		
Local registered stocks	-	35,116
Investment debentures	-	136,028
Investment bonds	<u>700,632</u>	<u>874,483</u>
	700,632	1,045,627
Resale agreements	<u>30,240</u>	<u>8,305</u>
	<u>730,872</u>	<u>1,053,932</u>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
March 31, 2010

4. Investments – Mortgage Insurance Fund (cont'd)

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 \$30,310,000 (2009:\$8,305,000). The difference between the purchase and resale considerations is recognised as interest income over the term of the contract using the effective interest method.

5. Accounts receivable

	<u>2010</u> \$'000	<u>2009</u> \$'000
Interest receivable	6,262	33,975
Withholding tax recoverable	117,953	101,513
Other	<u>3</u>	<u>4</u>
	<u>124,218</u>	<u>135,492</u>

6. Financial instruments and financial risk management

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

For the purpose of the financial statements of the Mortgage Insurance Fund, financial assets have been determined to include cash and cash equivalents, investments and 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.

**THE MORTGAGE INSURANCE FUND AND MORTGAGE
(GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND**

[Established under the Mortgage Insurance Act

Administered by Jamaica Mortgage Bank]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

6. Financial instruments and financial risk management (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.

(b) Financial risk management:

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

- credit risk
- market risk
- liquidity risk

The notes present information about the Funds' exposure to each of the above risks, and the Funds' objectives, policies and processes for measuring and managing risk.

Risk management framework

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

The risk management policies are established to identify and analyse the risks faced by the Funds, 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 MORTGAGE INSURANCE FUND AND MORTGAGE
(GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND**

[Established under the Mortgage Insurance Act

Administered by Jamaica Mortgage Bank]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

6. Financial instruments and financial risk management (cont'd)

(b) Financial risk management (cont'd)

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

(i) Credit risk:

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

The assets presented on the balance sheets 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 balance sheets.

There has not been any change in the Funds' management of credit risk during the year.

(ii) Market risk:

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

- Interest rate risk:

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

**THE MORTGAGE INSURANCE FUND AND MORTGAGE
(GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND**

[Established under the Mortgage Insurance Act

Administered by Jamaica Mortgage Bank]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

March 31, 2010

6. Financial instruments and financial risk management (cont'd)

(b) Financial risk management (cont'd):

(ii) Market risk (cont'd)

• Interest rate risk (cont'd):

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.

	2010						
	Immediately rate sensitive \$'000	Within 3 months \$'000	Three to 12 months \$'000	Over 12 months \$'000	Non-rate sensitive	Total	Average effective yield %
Investments	-	-	-	700,632	-	700,632	12.50
Resale agreements	30,240	-	-	-	-	30,240	10.05
Cash and cash equivalents	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,503</u>	<u>3,503</u>	<u>6.00</u>

	2009						
	Immediately rate sensitive \$'000	Within 3 months \$'000	Three to 12 months \$'000	Over 12 months \$'000	Non-rate sensitive	Total	Average effective yield %
Investments	-	49,962	200,097	795,815	-	1,045,874	20.96
Resale agreements	8,304	-	-	-	-	8,304	19.41
Cash and cash equivalents	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>258</u>	<u>258</u>	<u>-</u>

• Foreign currency risk:

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

The directors and management believe that the Funds have limited exposure to foreign currency risk as it has no foreign currency liabilities and limited foreign currency assets.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
March 31, 2010

6. Financial instruments and financial risk management (cont'd)

(b) Financial risk management (cont'd):

(ii) Market risk (cont'd)

- Other market price risks:

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

(iii) Liquidity risk:

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

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

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

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

8. 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.



NOTES