

Our Mission

The Home Mortgage Bank was created through legislation and enacted by the Parliament of the Republic of Trinidad and Tobago by way of The Home Mortgage Bank Act, Chap. 79:08.

THE PURPOSES OF THE BANK ARE AS FOLLOWS:

- To develop and maintain a secondary mortgage market in Trinidad and Tobago;
- To contribute to the mobilization of long-term savings for investment in housing;
- To support the development of a system of housing finance and provide leadership in the housing and home finance industry;
- To promote the growth of the capital market.



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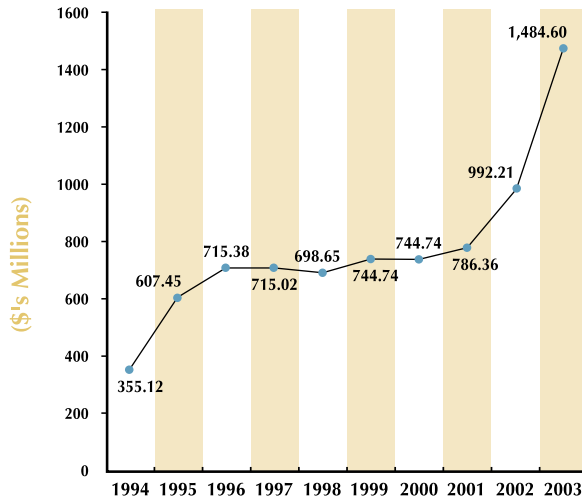
Five Year Financial Highlights

December 31st	2003 \$'000	2002 \$'000	2001 \$'000	2000 \$'000	1999 \$'000
Balance Sheet					
Mortgage Loans	881,498	684,407	710,671	654,704	620,277
Construction Loan Advances	28,939	24,230	17,776	26,066	24,574
Total Assets	1,630,643	1,140,747	885,896	837,216	829,771
Bonds in Issue	1,484,584	992,205	786,356	744,735	744,735
Total Liabilities	1,516,056	1,042,082	804,669	768,896	769,380
Share Capital	16,000	16,000	16,000	16,000	16,000
Retained Earnings	90,069	76,040	65,227	52,320	44,391
Income Statement					
Income	111,468	101,043	89,155	85,952	84,528
Income Before Taxation	24,013	17,399	14,213	13,989	15,204
Net Income	23,122	16,733	14,507	13,850	13,064
Operating Expenses	8,549	9,500	7,240	6,299	6,525
Earnings Per \$100 Share	\$144.51	\$104.58	\$90.67	\$86.56	\$81.65

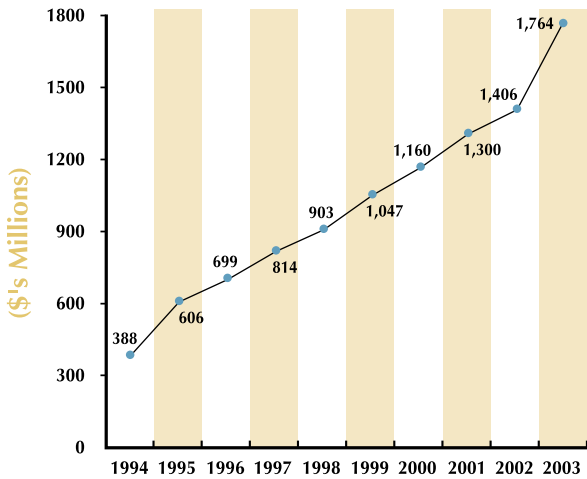


Ten Year Overview

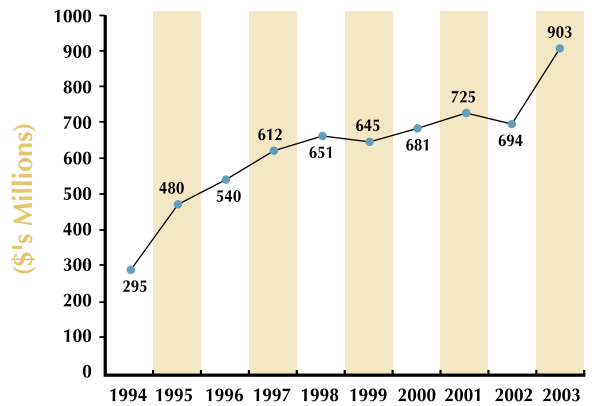
Total Bonds in Issue



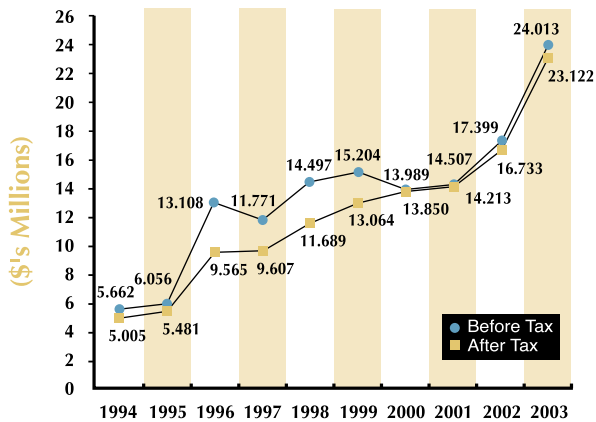
Accumulated Value of Mortgages Purchased



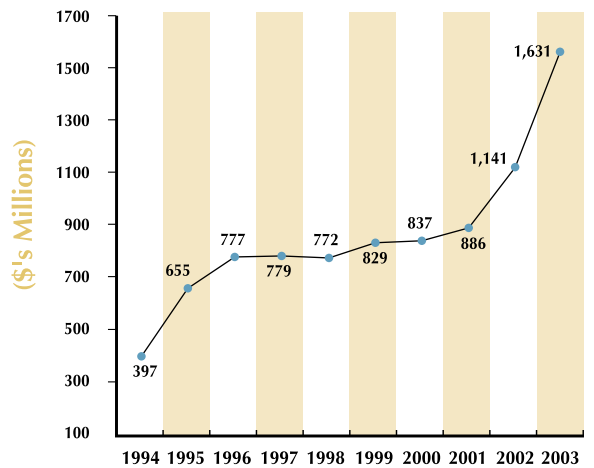
Mortgage Portfolio Serviced



Comparative Net Income



Total Assets



Chairman's Review

2003 Performance

I am pleased to report that The Home Mortgage Bank enjoyed another profitable year in 2003 with net profit (after taxation) increasing by 38.2% (2002 – 15.3%) to \$23.1 million. Earnings per share increased by 38% to \$144.51 per share. The asset base of the Bank grew by 43% from \$1.1 billion to more than \$1.6 billion at year end. These improvements are attributable to a reduction in the Bank's borrowing costs together with an increased profitability from the operations of the Bank's mortgage and capital market activities.

Bank Operations

The substantial surplus liquidity in the banking system continues to provide challenges to The Home Mortgage Bank



André Monteil
CHAIRMAN

“ Housing production at all levels is a high priority of the Government and demand for mortgage facilities will remain high in 2004 as both public and private house building initiatives are undertaken or come to completion. ”

Chairman's Review

and continues to drive product and policy development within the spirit and intent of our legislative mandate.

While the mortgage market is increasingly competitive, the Bank managed to purchase approximately \$358 million in mortgages (2002 - \$106 million) from its approved lenders, thereby increasing the size of its gross mortgage portfolio to just over \$1 billion. It is felt that the current mortgage interest rate regime is sustainable and, if any changes are likely, we will see a modest reduction in rates possible this year.

In my last report I dealt with the efforts of The Home Mortgage Bank to reduce the upfront costs associated with the purchasing of a residential mortgage. In 2004 I expect to see the Bank move into a service oriented mode to facilitate faster and more efficient service to our citizens in need of residential mortgages.

We live in a highly automated world where our systems and technology must be used not only to reduce costs but also to improve the timeliness and efficiency with which we conduct our business operations with our customers.

Funding operations by the Bank were very successful in 2003 and all bond issues were heavily over-subscribed. The mortgage participation fund has proven to be a highly successful mortgage money market fund and the Bank has in issue securitized mortgage investment certificates amounting to approximately \$185 million in 2003—an increase of approximately 30% over the previous year.

Future Outlook

The real estate market in Trinidad and Tobago continues to be extremely buoyant, and while it remains a very competitive landscape, The Home Mortgage Bank has progressively positioned itself to ensure its relevance to the changing financial roadmap.

Housing production at all levels is a high priority of the Government and demand for mortgage facilities will remain high in 2004 as both public and private house building initiatives are undertaken or come to completion.

The Home Mortgage Bank has a substantial role to play in assisting Government to improve its financing mechanisms, enhance affordability of homeownership, and to detail housing and mortgage initiatives that will be required of a growing and progressive nation.

In my first report of last year, I predicted that 2003 would be a highly successful year for the Bank; needless to say, 2003 was a very successful year. However in my view this has only served to raise the bar about what our expectations of The Home Mortgage Bank should be.


Housing remains one of the critical social benchmarks of a nation's well being. Adequate shelter, a sound and secure place to raise our families and the prospect that purchasing a home will provide that future nest egg of savings as well as a gilt-edged protection against inflation are all considerations that must be addressed for our citizens.

The economy continues to perform on a high level and 2004 should see a return to performance by the non oil sector. Needless to say, housing and real estate development is expected to be a major component of this improvement. It is our belief that The Home Mortgage Bank is well positioned to deal with the challenges that we are likely to face in 2004.

Accordingly the Directors have recommended a final dividend of \$45 per share, making a total dividend of \$60 per share for the year.

In Appreciation

I want to thank my fellow directors for their continuing support and assistance. Our Management and staff are to be commended for the effective and profitable manner in which the business of The Home Mortgage Bank has been carried out.



ANDRE MONTEIL
CHAIRMAN

Board of Directors and Corporate Information



L. André Monteil
Chairman



Amoy Chang-Fong
Deputy Chairman



Calder Hart
Director/Chief Executive Officer

MANAGEMENT

Calder Hart

Director/Chief Executive Officer

Peter Johnson

Chief Financial Officer/
Manager, Corporate Finance

Rawle Ramlogan

Manager, Securities and
Investments

Sharmila Mahase

Manager, Mortgage Operations

Laurette Kam Hong

Manager, Accounting and
Administration

COMPANY SECRETARY

Lucille Mair

REGISTERED OFFICE

The Home Mortgage Bank
14th Floor, Central Bank Tower,
Independence Square, Port of Spain

AUDITORS

Ernst & Young
5-7 Sweet Briar Road, Port of Spain

ATTORNEYS-AT-LAW

Pollonais, Blanc, de la Bastide and Jacelon
17-19 Pembroke Street, Port of Spain

BANKERS

Republic Bank Limited
Independence Square, Port of Spain

TRUSTEE, REGISTRAR AND PAYING AGENTS FOR BOND ISSUES

Republic Bank Limited
Trust and Asset Management Division
(TRUSTEE)
Republic Finance and Merchant Bank Limited
(REGISTRAR AND PAYING AGENTS)
Republic House,
9-17 Park Street, Port of Spain



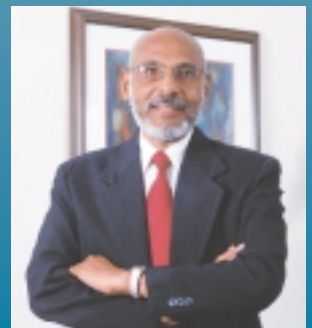
Lucille Mair
Secretary



Ronald Huggins



Cheryl Greaves



Walton Hilton-Clarke

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report and the Audited Financial Statements for the year ended 31st December, 2003

Financial Results

	\$000's
Net Profit before taxation	24,013
Taxation	(891)
Net Profit for the year	23,122
Retained earnings at the beginning of the year	76,040
	99,162
Less:	
Transfer to mortgage risk reserve	(1,893)
Dividends - Final (2002) 30%	(4,800)
Dividends - Interim (2003) 15%	(2,400)
Retained earnings at the end of the year	90,069

Dividends

An interim dividend of \$15 per share was paid on the 13th August, 2003 and the Directors have declared a final dividend of \$45 per share making a total distribution of \$60 per share for the financial year. The final dividend has not been booked in these Financial Statements as they were declared at a Directors' meeting held on the 3rd February, 2004.

Director's Interest

None of the Directors holds shares in the Bank.

No Director had, during the year, or at the end of the year, any interest in any contract pertaining to the Bank's business.

Auditors

The auditors, Ernst & Young, retire and being eligible, offer themselves for re-appointment.

BY ORDER OF THE BOARD



LUCILLE MAIR
SECRETARY
MARCH 29, 2004



SHAREHOLDERS

The Home Mortgage Bank is authorised to issue 500,000 shares of no par value.

The stated capital is 160,000 shares to a value of \$16,000,000, subscribed as follows at 31st December, 2003:

Class	Institution	Amount	
		\$	%
A	Central Bank of Trinidad and Tobago	2,400,000	15.0
B	The National Insurance Board	1,200,000	7.5
C	Republic Bank Limited	3,840,000	24.0
	The Bank of Nova Scotia Trinidad and Tobago Limited	960,000	6.0
D	Colonial Life Insurance Company (Trinidad) Limited	7,000,000	43.8
	TATIL Life Assurance Limited	500,000	3.1
	British American Insurance Company (Trinidad) Limited	100,000	0.6
		\$16,000,000	100.0

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

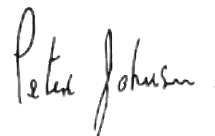
These financial statements have been prepared by Management, which is responsible for the reliability, integrity and objectivity of the information provided. They have been prepared in accordance with the disclosed basis of accounting as described in the notes.

The Bank's accounting system and related system of internal control are designed to provide reasonable assurance that transactions are properly authorised and recorded, assets are safeguarded, and financial records are properly maintained to ensure reliable information for use in the preparation of financial statements.

These financial statements have been approved by the board of directors and examined by the Bank's external auditors, whose report is set out below.



CALDER HART
DIRECTOR/CHIEF EXECUTIVE OFFICER



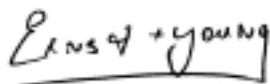
PETER JOHNSON
CHIEF FINANCIAL OFFICER AND
MANAGER, CORPORATE FINANCE

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF THE HOME MORTGAGE BANK

We have audited the balance sheet of the Bank as at 31st December, 2003 and the statements of income, changes in shareholder's equity and cash flows for the year then ended, as set out on pages 11 to 23. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with international standards on auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statement. An audit includes examining, on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31st December, 2003 and the results of its operations and cash flows for the year then ended in accordance with International Financial Accounting Standards.



ERNST & YOUNG

PORT OF SPAIN,
TRINIDAD:
3RD FEBRUARY, 2004

BALANCE SHEET

At 31st December, 2003

	Notes	2003 \$'000	2002 \$'000
Assets			
Cash and short term funds	3	427,649	343,673
Investment securities	4	260,000	67,000
Interest receivable and sundry debtors		21,029	11,036
Retained mortgage portfolio	5	881,498	684,407
Construction loan advances	6	28,939	24,230
Investment in associated bank	7	6,086	5,725
Property and equipment	8	3,920	4,346
Capitalised bond issue costs	9	1,058	330
Deferred income tax asset	12	464	–
Total assets		1,630,643	1,140,747
Liabilities			
Other liabilities	10	31,062	49,764
Bonds in issue	11	1,484,584	992,205
Deferred income tax liability	12	410	113
		1,516,056	1,042,082
Shareholders' equity			
Stated capital	13	16,000	16,000
Retained earnings		90,069	76,040
		106,069	92,040
Mortgage risk reserves		8,518	6,625
		114,587	98,665
Total liabilities and shareholders' equity		1,630,643	1,140,747

These financial statements were approved by the Board of Directors on 3rd February, 2004 and signed on its behalf by:



ANDRE MONTEIL
DIRECTOR



AMOY CHANG-FONG
DIRECTOR

The accompanying notes on pages 15 to 23 form an integral part of these financial statements.

STATEMENT OF INCOME

For The Year Ended 31st December, 2003

	Notes	2003 \$'000	2002 \$'000
Income			
Mortgage interest (net)		71,113	71,850
Interest on cash and short term funds		40,355	29,193
		<u>111,468</u>	<u>101,043</u>
Expenditure			
Bond expenses and other costs		79,715	74,884
General and administrative expenses	14	8,549	9,500
Provision for loan losses	5	-	(108)
		<u>88,264</u>	<u>84,276</u>
Operating profit		23,204	16,767
Share of profits from associated bank	7	809	632
Net profit before taxation		24,013	17,399
Taxation	15	(891)	(666)
Net profit for the year		<u>23,122</u>	<u>16,733</u>
Earnings per share (\$)		<u>144.51</u>	<u>104.58</u>
Number of shares ('000)		<u>160</u>	<u>160</u>

The accompanying notes on pages 15 to 23 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For The Year Ended 31st December, 2003

	Stated capital \$'000	Retained earnings \$'000	Mortgage risk reserves \$'000	Shareholders' equity \$'000
Balance at 31st December, 2001	16,000	65,227	–	81,227
Net profit for the year	–	16,733	–	16,733
Establishment of mortgage risk reserve	–	–	6,625	6,625
Dividends — Final (2001) — 27%	–	(4,320)	–	(4,320)
Dividends — Interim (2002) — 10%	–	(1,600)	–	(1,600)
Balance at 31st December, 2002	16,000	76,040	6,625	98,665
Net profit for the year	–	23,122	–	23,122
Transfer to mortgage risk reserve	–	(1,893)	1,893	–
Dividends — Final (2002) — 30%	–	(4,800)	–	(4,800)
Dividends — Interim (2003) — 15%	–	(2,400)	–	(2,400)
Balance at 31st December, 2003	16,000	90,069	8,518	114,587

The accompanying notes on pages 15 to 23 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For The Year Ended 31st December, 2003

	2003 \$'000	2002 \$'000
Cash flows from operating activities		
Net profit before taxation	24,013	17,399
Adjustments for:		
Depreciation (net)	635	697
Mortgage premiums amortised	5	7
Bond issue costs amortised	147	294
Gain on sale of fixed assets	(23)	–
Share of profits from associated bank	(361)	(192)
Operating profit before working capital changes	<u>24,416</u>	<u>18,205</u>
Increase in interest receivable and sundry debtors	(9,993)	(5,365)
(Decrease)/increase in other liabilities	(19,392)	35,480
Corporation taxes paid	(355)	(309)
Taxation recovered	1	132
Net cash (used in)/generated from operating activities	<u>(5,323)</u>	<u>48,143</u>
Cash flows from investment activities		
Net (increase)/decrease in short term funds	(255,796)	26,720
Increase in investment securities	(193,000)	(67,000)
Net decrease in guaranteed mortgage securities	(18,141)	(17,156)
Proceeds from sale of mortgage participation certificate	55,112	35,823
Purchase of mortgages	(358,196)	(106,346)
Proceeds from repayment on mortgages	124,129	116,669
Additions to fixed assets	(209)	(1,010)
Proceeds from sale of fixed assets	23	–
Increase in construction loan advances	(4,709)	(6,454)
Net cash used in investing activities	<u>(650,787)</u>	<u>(18,754)</u>
Cash flows from financing activities		
Proceeds from bonds issued	635,514	475,526
Redemption of bonds	(143,135)	(269,677)
Bond issue costs incurred	(875)	(178)
Dividends paid on share capital	(7,200)	(5,920)
Net cash generated from financing activities	<u>484,304</u>	<u>199,751</u>
Net (decrease)/increase in cash and cash equivalents	<u>(171,806)</u>	<u>229,140</u>
Cash and cash equivalents		
– at the beginning of the year	<u>306,622</u>	<u>77,482</u>
– at the end of the year	<u>134,816</u>	<u>306,622</u>
Represented by:		
Cash and cash equivalents	134,853	306,672
Bank overdraft	(37)	(50)
	<u>134,816</u>	<u>306,622</u>

The accompanying notes on pages 15 to 23 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2003

1. Incorporation and principal activities

The Bank is incorporated in the Republic of Trinidad and Tobago under the Home Mortgage Bank Act 1985. Its principal activities are the trading of mortgages made by primary mortgage lenders and the issue of bonds for investment in housing. Its registered office is located at 14th Floor, Central Bank Tower, Eric Williams Plaza, Port of Spain.

The Bank owns 20% of the Eastern Caribbean Home Mortgage Bank (ECHMB) which was formally established in August 1994, in accordance with the ECHMB Act. The principal activities of the associated bank are to buy and sell mortgage loans on residential properties in order to maintain a secondary market in mortgages.

2. Statement of accounting policies

(a) Basis of accounting

These financial statements are expressed in Trinidad and Tobago dollars and are prepared under the historical cost convention in accordance with International Accounting Standards, no account is taken of the effects of inflation.

(b) Use of estimates

The preparation of financial statements in conformity with International Accounting Standards requires management to make estimates and assumptions. These affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Revenue recognition

Income from mortgages is recognised on an amortised basis. Accrual of mortgage income ceases when recoverability is doubtful. In these circumstances income is recognised on a cash receipt basis.

(d) Mortgages

Mortgages are carried at principal outstanding net of adjustments for premiums and discounts on purchase. Premiums and discounts on the purchase of these mortgages are amortised over the remaining life of the related pool of mortgages using an amortisation method that in the aggregate, approximates a constant yield over the remaining life of the mortgages.

The policy of the Bank is to make specific provisions for mortgages considered doubtful, and in addition, amounts have been set aside as general provisions based on an evaluation of the portfolio in respect of losses which, although not specifically identified, are known from experience to be present in any such portfolio. Other loan loss requirements that exceed these amounts are dealt with in the mortgage risk reserve as an appropriation of equity.

(e) Guaranteed mortgage investment certificates (Gareemics)

Gareemics represent beneficial interest in pools of mortgages held in trust by the Bank. The Bank guarantees the timely payment of principal and interest on the underlying mortgages, whether or not received, together with the full principal balance of any foreclosed mortgages. The pools of mortgages are not assets of the Bank, except when reacquired in the event of default. (Refer to notes 5 & 18).

(f) Capitalised bond issue costs

The costs incurred in the issue of bonds for investment in housing are amortised over the duration of the respective bond issues (note 9).

(g) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is provided at various rates which are estimated to write off the cost of the assets over their useful lives.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2003 (continued)

2. Statement of accounting policies (continued)

(g) Property and equipment (continued)

The rates used are as follows:

Freehold building	2% on cost
Furniture, fixtures, office machinery and equipment	7 ½% to 25% on reducing balance
Motor vehicles	25% on straight line

(h) Pension benefits

The Bank operates a defined contribution pension plan which covers all of its eligible employees. The Bank's contribution expense in relation to this plan for the year amounts to \$238,340 (2002:\$1,441,540).

(i) Taxation

Taxes are accounted for on the basis of deferred tax accounting using the liability method. The amount of taxation deferred on account of all material temporary differences is reflected in the taxation expense for the year.

Deferred tax assets related to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Under Section 5, Sub-section (1) and (2) of the ECHMB Act 1994, the associated bank is exempt from stamp duty and corporation tax.

(j) Earnings per share

Earnings per share for each year are computed by relating profit after taxation accruing to shareholders to the weighted average number of shares in issue during the year.

(k) Investment in associated bank

This investment is accounted for in these financial statements on the equity basis of accounting which reflects the investment at net asset value plus the Bank's share of post acquisition retained profits.

(l) Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less and are carried at cost, which approximates market value.

(m) Investment securities

Investment securities represent short and medium term investments in primary issues of bonds and other securities made by the Bank as part of its treasury function. These securities are accounted for at amortised cost.

(n) Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. A number of banking transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and conditions, at market rates.

(o) Comparative figures

Certain changes in the presentation have been made during the year and comparative figures have been restated accordingly. These changes had no effect on the profit and loss account in the prior year.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2003 (continued)

	2003 \$'000	2002 \$'000
3. Cash and short term funds		
Cash and cash equivalents	134,853	306,672
Fixed deposits with original maturities greater than three months	292,796	37,001
	<u>427,649</u>	<u>343,673</u>
4. Investment securities		
Investment in bonds	<u>260,000</u>	<u>67,000</u>

These investments are for periods ranging between four to five years and earn interest at rates ranging between 8% to 8.5%

	2003 \$'000	2002 \$'000
5. Retained mortgage portfolio		
Principal balances and unamortised premiums and discounts		
Balance at the beginning of the year	827,955	838,285
Purchases for the year	358,196	106,346
	1,186,151	944,631
Less: Principal repayments	(124,134)	(116,784)
Provision for loan losses	—	108
	1,062,017	827,955
Less: Guaranteed Mortgage Investment Certificates (Gareemics)	(83,932)	(102,073)
Less: Mortgage Participation Certificates	(96,587)	(41,475)
Balance at the end of the year	<u>881,498</u>	<u>684,407</u>
Provision for loan losses		
Provision brought forward	—	192
Net charges against income		
Specific	—	(108)
Write-offs	—	(84)
Provision carried forward	—	—
Represented by:		
Mortgages with recourse	135,168	239,844
Mortgages without recourse	746,330	444,563
Balance at the end of the year	<u>881,498</u>	<u>684,407</u>

6. Construction loan advances

These represent advances made through the Bank's approved lenders to mortgagors on new residential construction. These advances are for a maximum period of six (6) months and are secured in a similar manner to the mortgages purchased.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2003 (continued)

	2003 \$'000	2002 \$'000			
7. Investment in associated bank (note 2k)					
Shares at cost					
20,000 shares of EC\$100 each (20% shareholding)	4,453	4,453			
Cumulative share of post acquisition retained profits	1,633	1,272			
	6,086	5,725			
8. Property and equipment	Freehold buildings \$'000	Furniture, fixtures, office machinery & equip \$'000	Motor vehicles \$'000	Total 2003 \$'000	2002 \$'000
Cost					
Balance brought forward	817	4,218	1,768	6,803	5,793
Additions	-	153	56	209	1,010
Disposals	-	-	(75)	(75)	-
	817	4,371	1,749	6,937	6,803
Depreciation					
Balance brought forward	187	1,388	882	2,457	1,760
Charge for the year	14	298	323	635	697
Disposals	-	-	(75)	(75)	-
	201	1,686	1,130	3,017	2,457
Depreciation carried forward	201	1,686	1,130	3,017	2,457
Net book value	616	2,685	619	3,920	4,346
9. Capitalised bond issue costs (note 2f)			2003 \$'000	2002 \$'000	
Balance at the beginning of the year			330	446	
Add: Costs incurred during the year			875	178	
			1,205	624	
Less: Costs amortised during the year			(147)	(294)	
Balance at the end of the year			1,058	330	
10. Other liabilities					
Bank overdraft			37	50	
Interest payable on bonds			22,966	19,028	
Sundry creditors and accruals			5,410	2,420	
Remittances due to bank			-	26,756	
Gareemic holders - instalments payable			1,872	1,437	
Taxation payable			777	73	
			31,062	49,764	

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2003 (continued)

	2003 \$'000	2002 \$'000
11. Bonds in issue		
Balance at the beginning of the year	992,205	786,356
Add: Issues during the year	635,514	475,526
Less: Redemptions during the year	(143,135)	(269,677)
Balance at the end of the year	1,484,584	992,205

Note:

- (a) These bonds are secured by debentures created at the time of issue and rank pari-passu over the fixed and floating assets of the Bank. Interest is payable semi-annually in arrears at rates varying between 4.90 – 9% (2002: 5 – 8.50%).
- (b) The amounts outstanding on bonds issued are redeemable as follows:

	2003 \$'000	2002 \$'000
Within 1 year	72,165	57,605
1 to 2 years	126,818	62,165
2 to 3 years	83,426	126,818
3 to 4 years	117,481	94,881
4 to 5 years	208,744	117,481
Over 5 years	875,950	533,255
	1,484,584	992,205
(c) Tax free bonds	600,000	531,226
Other bonds	884,584	460,979
	1,484,584	992,205

Under the Home Mortgage Bank Act 1985, the Bank has been authorised to issue tax-free bonds up to \$600 million.

	2003 \$'000	2002 \$'000
12. Components of deferred tax liability and deferred tax asset		
Deferred income tax liability:		
Bond issue costs	317	99
Property and equipment	90	9
Other	3	5
	410	113
Deferred income tax asset:		
Tax losses	464	–
	464	–

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2003 (continued)

12. Components of deferred tax liability and deferred tax asset (continued)

Notes:

- (a) The Bank has adopted the policy of writing off costs incurred in the issue of bonds over the duration of the respective bonds. However, for taxation purposes, these expenses are allowed in the year they are incurred.
- (b) The Bank has adopted the policy of writing off premiums paid on the purchase of mortgages over the average life of the pool of mortgages to which they relate. However, for taxation purposes, these expenses are allowed in the year they are incurred.

	2003 \$'000	2002 \$'000
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13. Stated capital

Authorised

- Class A – 75,000 at no par value
- Class B – 75,000 at no par value
- Class C – 150,000 at no par value
- Class D – 150,000 at no par value
- Class E – 50,000 at no par value

Issued and fully paid

160,000 ordinary shares of no par value

Class A

Class B 1,200

Class C

Class D

	2,400	2,400
	1,200	
	4,800	4,800
	7,600	7,600
	16,000	16,000

On 17th September, 1998 the Bank obtained its Certificate of Continuance under the Companies Act, 1995, the Article of which established its Authorised Share Capital as unlimited.

	2003 \$'000	2002 \$'000
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14. General and administrative expenses

Staff costs

Accommodation expenses

Other Operating expenses

	4,109	5,030
	1,048	1,068
	3,392	3,402
	8,549	9,500

Included within general and administrative expenses are the following charges:

	2003 \$'000	2002 \$'000
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Depreciation (net)

Directors' fees

	635	697
	317	321

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2003 (continued)

	2003 \$'000	2002 \$'000
15. Taxation charge for the year		
Reconciliation between tax expense and the product of accounting profits multiplied by applicable tax rate		
Accounting profit	24,013	17,399
Tax at the statutory rate of 30% (2002:35%)	(7,204)	(6,089)
Tax effect of items that are adjustable in determining taxable profit:		
Tax exempt income	6,900	5,629
Other permanent differences	(587)	(206)
	(891)	(666)
Current year's tax provision:		
Corporation tax/business levy	(189)	(258)
Green fund levy	(119)	(108)
Prior year under provision	-	(16)
Deferred income tax	(583)	(284)
Taxation charge for the year	(891)	(666)
16. Related party transactions and balances (note 2n)		
Transactions		
Interest on cash and short term funds	23,641	8,544
Bond expenses and other costs	21,532	26,389
Balances		
Cash and short term funds	124,002	134,015
Investment securities	120,000	67,000
Bonds in issue	343,761	294,836

17. Mortgage commitments

The Bank has issued standby commitments to purchase mortgages of which undrawn balances amount to \$43,777,117 at 31st December, 2003 (2002:\$58,787,560).

18. Financial instruments

Fair values

(i) Short term financial assets and liabilities

The carrying amount of short term financial assets and liabilities comprising cash and short term funds, interest receivable and sundry debtors and current liabilities, are a reasonable estimate of their fair values because of the short maturity of these instruments.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2003 (continued)

18. Financial instruments (continued)

Fair values (continued)

(ii) Long term financial assets and liabilities

In the absence of an active market for the Bank's long term financial assets and liabilities, it is not possible to determine the fair value of these financial instruments.

Credit risk

(i) Accounts receivable

The Bank trades in mortgages which represent the majority of total assets, some of which are held with recourse. Provisions have been set up for potential credit losses for mortgages without recourse.

(ii) Guaranteed Mortgage Investment Certificates (Gareemics)

As issuer and guarantor of Gareemics, the Bank is obligated to disburse scheduled monthly instalments of principal and interest (at the coupon rate) and the full unpaid principal balance of any foreclosed mortgage to Gareemics investors, whether or not any such amounts have been received. The Bank is also obligated to disburse unscheduled principal payments received from borrowers. At 31st December, 2003 the outstanding balances of securitised mortgages and the related Gareemics issued amounts to \$83,932,218. (2002: \$102,073,451).

The Bank's credit risk is mitigated to the extent that sellers of pools of mortgages elect to remain at risk for the loans sold to the bank or other credit enhancement was provided to protect against the risk of loss from borrower default. Lenders have the option to retain the primary default risk, in whole or in part, in exchange for a lower guarantee fee. The Home Mortgage Bank however, bears the ultimate risk of default.

(iii) Mortgage Participation Fund (MPF)

This fund is backed by mortgage and/or other securities. At 31st December, 2003 the outstanding balance of securitized mortgages and related MPF outstanding amounts to \$96,587,254 (2002: \$41,475,013).

19. Liquidity risk

Liquidity risk arises from fluctuations of cash flows. The liquidity risk management process ensures that the bank is able to honour all of its financial commitments as they fall due. The matching of the maturities and interest rates of assets and liabilities is fundamental to the liquidity risk management process.

The table below analyses major financial assets and liabilities of the Bank based on the remaining period at 31st December to the contractual maturity date.

Maturing	Within 1 year 2003 \$'000	Over 1 year 2003 \$'000	Total 2003 \$'000
Assets			
Cash and short term funds	427,649	-	427,649
Investment securities	-	260,000	260,000
Retained mortgage portfolio	53,639	827,859	881,498
Liabilities			
Bonds in issue	72,165	1,412,419	1,484,584

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2003 (continued)

19. Liquidity risk (continued)

Maturing	Within 1 year 2002 \$'000	Over 1 year 2002 \$'000	Total 2002 \$'000
Assets			
Cash and short term funds	343,673	–	343,673
Investment securities	–	67,000	67,000
Retained mortgage portfolio	39,288	645,119	684,407
Liabilities			
Bonds in issue	57,605	934,600	992,205

20. Interest rate risk

The bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. It manages this risk by maintaining a positive interest rate gap between its major financial assets and liabilities. The mortgage portfolio earns interest at rates between 8.5% to 11%, whereas, interest rates on bonds vary between 4.90% to 9.00%.

21. Purchase of Mortgage Pools

The Bank purchased a pool of mortgages from a related party in the latter part of the financial year with a principal balance outstanding of \$55,646,040 for an initial consideration of \$41,273,400. These mortgages are treated as held to maturity assets and the Bank's accounting policy is to carry these assets at amortized cost.

The Bank is in the process of conducting a complete analysis of the portfolio to take account of the potential effect of certain loans with special interest rate arrangements and other loans which were delinquent at the acquisition date. Upon completion of this analysis, the final purchase price will be determined.

22. Employees

At 31st December, 2003 the Bank had in its employ a staff complement of 19 people (2002:15).

23. The Board of Directors, declared a final dividend of \$45 per share for the year ended 31st December, 2003. This dividend amounted to \$7,200,000 and has not been recorded as a liability in the balance sheet.

NOTICE OF MEETING

To all Shareholders of The Home Mortgage Bank

EIGHTEENTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Eighteenth Annual General Meeting of The Home Mortgage Bank will be held in the Board Room of The Home Mortgage Bank, 14th Floor, Central Bank Building, on the 21st day of April, 2004, at 10 a.m. when the following business will be transacted:

1. To receive the Report of the Directors and the Audited Financial Statements including the Report of the Auditors for the year ended 31st December, 2003.
2. To ratify a Final Dividend for the year.
3. To re-appoint the Auditors and to authorise the Directors to fix their remuneration.
4. Any other business.

Dated the 29th day of March, 2004.

By Order of the Board



Lucille Mair
Company Secretary