

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 mobilisation 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.



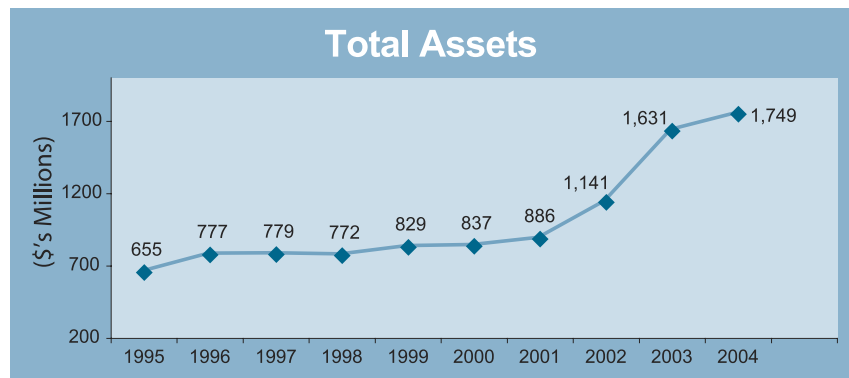
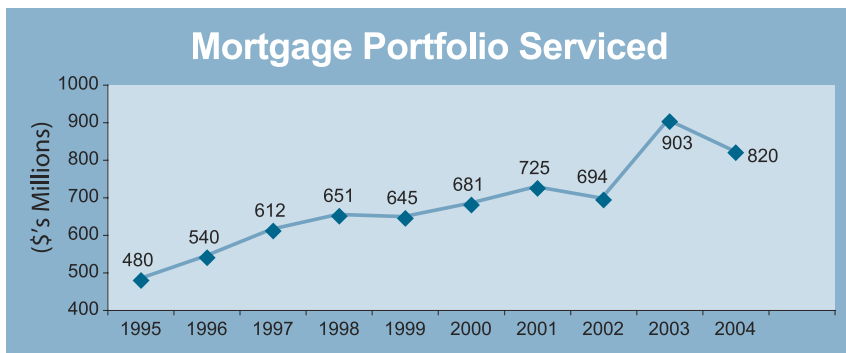
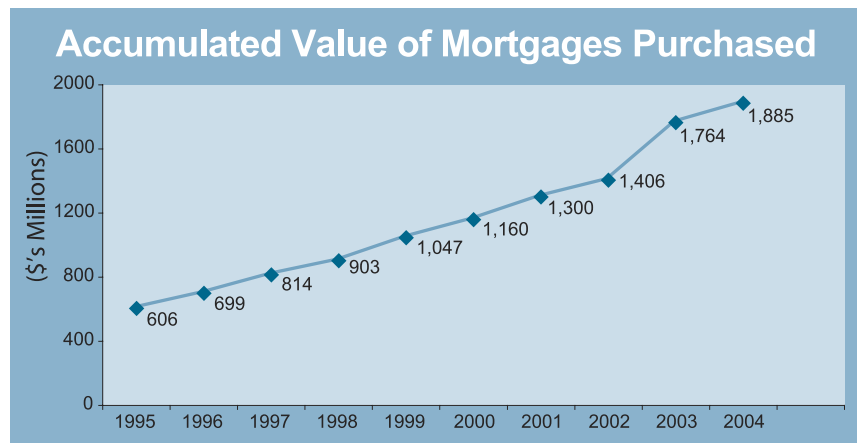
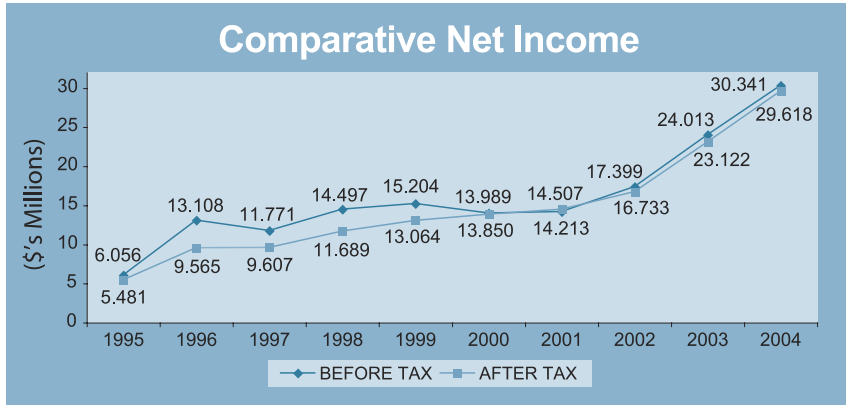
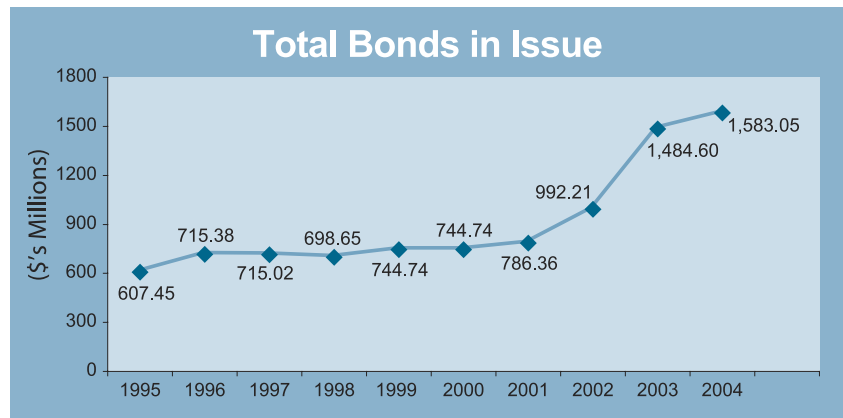
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Five Year Financial Highlights

December 31st	2004	2003	2002	2001	2000
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance Sheet					
Mortgage Loans	802,322	881,498	684,407	710,671	654,704
Construction Loan Advances	25,486	28,939	24,230	17,776	26,066
Total Assets	1,748,960	1,630,643	1,140,747	885,896	837,216
Bonds in Issue	1,583,054	1,484,584	992,205	786,356	744,735
Total Liabilities	1,616,755	1,516,056	1,042,082	804,669	768,896
Share Capital	16,000	16,000	16,000	16,000	16,000
Retained Earnings	106,891	90,069	76,040	65,227	52,320
Income Statement					
Income	143,159	111,468	101,043	89,155	85,952
Income Before Taxation	30,341	24,013	17,399	14,213	13,989
Net Income	29,618	23,122	16,733	14,507	13,850
Operating Expenses	11,913	8,549	9,500	7,240	6,299
Earnings Per \$100 Share	\$185.11	\$144.51	\$104.58	\$90.67	\$86.56

Ten Year Overview



Chairman's Review



“The Home Mortgage Bank must continue to focus on and specialize in the residential mortgage market industry and by so doing will achieve greater efficiencies in the market place as well as broadening the base of home ownership in the country.”

L. André Monteil
Chairman

2004 Performance

The Home Mortgage Bank has had yet another year of solid performance and indications are that this trend will continue into the foreseeable future.

I am pleased to report that the Company's net profit amounted to \$29.6M, an increase of 28% over the previous year. Shareholders' equity grew by \$17.6M or 15.3%, with dividends to Shareholders increasing from 60% in 2003 to 75% in 2004. This performance is attributable to the strong contributions of the Bank's mortgage portfolio and its capital market activities.

Accordingly, the Directors have recommended a final dividend of \$45 per share, making a total dividend of \$75 per share for the year.

Bank Operations

While the surplus liquidity in the Banking system continues, the Bank was unable to achieve a further reduction in its borrowing cost in 2004 as it had done in the previous year. The market has

seen both a leveling off in borrowing cost and a reduction in demand for residential mortgage credit. Mortgagors are exercising their option to reduce their borrowings by utilizing their savings as interest rates are low. The anticipated demand for mortgage activity from the Government housing thrust is now expected to flow into the market in 2005. The Home Mortgage Bank fully intends to play its role in supporting the resultant growth in mortgage demand.

The Bank's mortgage products continue to be very attractive in the market place. We have seen a steady demand for our fixed rate mortgage facility as mortgagors are taking advantage of the option to fix their borrowing cost for the next 10 years.

The funding operations of the Bank continue to be very successful as the Bank has achieved a growth in its investor base as individuals continue to invest in our Mortgage Participation Fund (MPF) which is fully securitized by the mortgage portfolio. We anticipate that this investment product will see a substantial growth in the years to come.

Chairman's Review

Changes to the Home Mortgage Bank Act

The Home Mortgage Bank was created by the Home Mortgage Bank Act 1985 and since then the financial landscape has seen substantial changes both locally and internationally. The Companies Act has been amended to recognize this and it is also necessary to have amendments to the Home Mortgage Bank Act so that the institution is better equipped to deal with the challenges of the current day business environment.

The Home Mortgage Bank is a special purpose institution patterned after similar successful institutions such as Freddie Mac and FannieMae in the United States.

Since inception, the Bank has managed to introduce:

1. A lower mortgage interest rate.
2. Bridging interest rate equal to the mortgage rate, whereas previously bridging rates offered were at a very high rate in comparison to the mortgage rate.
3. Elimination of prepayment penalties, lower upfront fees, higher loan to value ratios e.g 95%, without mortgage indemnity insurance.
4. Recently introduced fixed rate financing for the first 10 years of the loan.
5. Land and home improvement loans as well as other homeowner facilities at the prime homeowner interest rate.
6. Reverse Mortgages so that the elderly can access equity in their homes for day to day living expenses, medical expenses etc.
7. The training of mortgage personnel of its Approved Lenders. The Bank has conducted several underwriting seminars with the assistance of FannieMae in the USA and Canada Mortgage & Housing Corporation (CMHC) of Canada. These programmes have contributed to the development of modern day underwriting techniques and risk assessment, as well as the exposure to international mortgage lending practices.

The Home Mortgage Bank must continue to focus on and specialize in the residential mortgage market industry and by so doing will achieve greater efficiencies in the market place as well as broaden-

ing the base of home ownership in the country. We often need to be reminded of the fact that residential mortgage lending has evolved into a highly specialized industry of special purpose institutions as opposed to financial institutions who participate in a wide range of consumer, commercial and business products.

The evolution of special purpose mortgage institutions in the United States, Canada and now in Europe supports this.

The proposed amendments have already been laid in Parliament and we anticipate that these will be enacted in the first half of 2005. As a result of these amendments, the Bank will be positioned to be a listed company on the Stock Exchange of Trinidad & Tobago, a model that was envisioned when the Bank was in its formative stages with its then major shareholders the Central Bank of Trinidad and Tobago and the International Finance Corporation, the private financing arm of the World Bank.

The Economy

The economy continues on its path of improved performance over the previous year registering a healthy growth rate. The fiscal and external current accounts have also recorded large surpluses in the context of low inflation and low exchange rates. The balance of payment surplus continues to increase while Government's debt both local and external continues to decline. The international rating agencies in recognition of this have upgraded the sovereign ratings. These are all very positive signs for continued growth and an even stronger economy. Of concern will be our ability to manage the inflationary pressures that will inevitably follow.

In Appreciation

I want to thank my fellow Directors for their continued support and assistance. Our management and staff are to be commended for the effective and professional 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



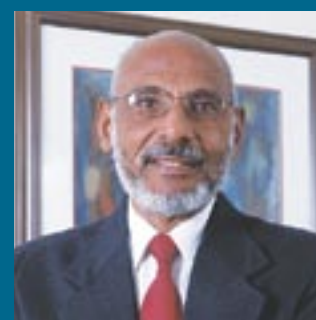
Lucille Mair
Secretary



Ronald Huggins



Cheryl Greaves



Walton Hilton-Clarke

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 & 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

Directors' Report

The Directors have pleasure in submitting their Report and the Audited Financial Statements for the year ended 31st December, 2004

FINANCIAL RESULTS	\$000's
Net Profit before taxation	30,341
Taxation	(723)
	<hr/>
Net Profit for the year	29,618
Retained earnings at the beginning of the year	90,069
	<hr/>
	119,687
Less:	
Transfer to mortgage risk reserve	(796)
Dividends - Final (2003) 45%	(7,200)
Dividends - Interim (2004) 30%	(4,800)
	<hr/>
Retained earnings at the end of the year	106,891
	<hr/>

DIVIDENDS

An interim dividend of \$30 per share was paid on the 20th August, 2004 and the Directors have declared a final dividend of \$45 per share making a total distribution of \$75 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 14th February, 2005.

DIRECTORS' 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

April 04, 2005

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 December 31st, 2004:

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

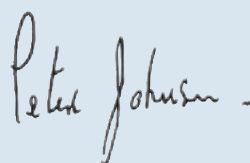
These financial statements have been prepared by Management, which is responsible for the reliability, integrity and objectivity of the information provided. They have been prepared in accordance with the disclosed basis of accounting as described in the notes.

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 safe-guarded, 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



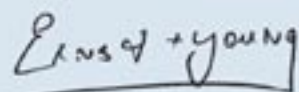
Peter Johnson
Chief Financial Officer/Manager, Corporate Finance

Report of the Auditors to the Shareholders of The Home Mortgage Bank

We have audited the consolidated balance sheet of The Home Mortgage Bank and its subsidiaries (the 'Group') as at 31st December, 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, as set out on pages 11 to 30. 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 audits.

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 Group as at 31st December, 2004, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.



Ernst & Young

Port of Spain,
TRINIDAD:
14th February, 2005

Balance Sheet

AT 31ST DECEMBER, 2004

Expressed in thousands of Trinidad & Tobago dollars (\$'000)

	Notes	2004	2003
Assets			
Cash and short term funds	3	390,564	427,649
Investment securities	4	480,899	260,000
Interest receivable and sundry debtors		19,600	21,029
Retained mortgage portfolio	5	802,322	881,498
Construction loan advances	6	25,486	28,939
Lands for development	7	19,904	–
Investment in associated bank	8	6,701	6,086
Property and equipment	9	2,495	3,920
Capitalised bond issue costs	10	989	1,058
Deferred income tax asset	13	–	464
Total assets		1,748,960	1,630,643
Liabilities			
Other liabilities	11	33,345	31,062
Bonds in issue	12	1,583,054	1,484,584
Deferred income tax liability	13	356	410
		1,616,755	1,516,056
Shareholders' equity			
Stated capital	14	16,000	16,000
Retained earnings		106,891	90,069
		122,891	106,069
Mortgage risk reserves	15	9,314	8,518
		132,205	114,587
Total liabilities and shareholders' equity		1,748,960	1,630,643

The accompanying notes on pages 16 to 30 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 14th February, 2005 and signed on its behalf by:



André Monteil
Director



Amoy Chang-Fong
Director

Statement of Income

FOR THE YEAR ENDED 31ST DECEMBER, 2004
Expressed in thousands of Trinidad & Tobago dollars (\$'000)

	Notes	2004	2003
Income			
Mortgage interest (net)		77,471	71,113
Interest on cash and short term funds		65,688	40,355
		<u>143,159</u>	<u>111,468</u>
Expenditure			
Bond expenses and other costs		102,274	79,715
General and administrative expenses	16	11,913	8,549
Provision for loan losses	5	(304)	–
		<u>113,883</u>	<u>88,264</u>
Operating profit		29,276	23,204
Share of profits from associated bank		1,065	809
		<u>30,341</u>	<u>24,013</u>
Net profit before taxation		30,341	24,013
Taxation	17	(723)	(891)
		<u>29,618</u>	<u>23,122</u>
Net profit after taxation		29,618	23,122
Earnings per share (\$)		185.11	144.51
Number of shares ('000)		160	160

The accompanying notes on pages 16 to 30 form an integral part of these financial statements.

Statement of Changes in Shareholders' Equity

FOR THE YEAR ENDED 31ST DECEMBER, 2004

Expressed in thousands of Trinidad & Tobago dollars (\$'000)

	Stated capital	Retained earnings	Mortgage risk reserves	Shareholders' equity
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
Net profit for the year	–	29,618	–	29,618
Transfer to mortgage risk reserve	–	(796)	796	–
Dividends – Final (2003) 45%	–	(7,200)	–	(7,200)
Dividends – Interim (2004) 30%	–	(4,800)	–	(4,800)
Balance at 31st December, 2004	16,000	106,891	9,314	132,205

The accompanying notes on pages 16 to 30 form an integral part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 31ST DECEMBER, 2004
Expressed in thousands of Trinidad & Tobago dollars (\$'000)

	2004	2003
Cash flows from operating activities		
Net profit before taxation	30,341	24,013
Adjustments for:		
Depreciation (net)	1,697	635
Mortgage premiums amortised	10	5
Bond issue costs amortised	147	147
Write-off of software costs	789	–
Gain on sale of fixed assets	(106)	(23)
Share of profits from associated bank	(615)	(361)
	<hr/>	<hr/>
Operating profit before working capital changes	32,263	24,416
Decrease/(increase) in interest receivable and sundry debtors	1,457	(9,993)
Increase/(decrease) in other liabilities	3,097	(19,392)
Corporation taxes paid	(1,118)	(355)
Taxation recovered	–	1
	<hr/>	<hr/>
Net cash generated from/(used in) operating activities	35,699	(5,323)
Cash flows from investment activities		
Net decrease/(increase) in short term funds	116,999	(255,796)
Increase in investment securities	(220,899)	(193,000)
Net decrease in guaranteed mortgage securities	(11,008)	(18,141)
Net increase in mortgage participation certificate	64,080	55,112
Purchase of mortgages	(112,069)	(358,196)
Proceeds from repayment on mortgages	138,163	124,129
Additions to fixed assets	(1,942)	(209)
Proceeds from sale of fixed assets	987	23
Purchase of lands for development	(19,904)	–
Decrease/(increase) in construction loan advances	3,453	(4,709)
	<hr/>	<hr/>
Net cash used in investing activities	(42,140)	(650,787)

The accompanying notes on pages 16 to 30 form an integral part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 31ST DECEMBER, 2004
 Expressed in thousands of Trinidad & Tobago dollars (\$'000)
 (Continued)

	2004	2003
Cash flows from financing activities		
Proceeds from bonds issued	170,640	635,514
Redemption of bonds	(72,170)	(143,135)
Bond issue costs incurred	(78)	(875)
Dividends paid on share capital	(12,000)	(7,200)
	<hr/>	<hr/>
Net cash generated from financing activities	86,392	484,304
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	79,951	(171,806)
Cash and cash equivalents		
- at the beginning of the year	134,816	306,622
	<hr/>	<hr/>
- at the end of the year	214,767	134,816
	<hr/>	<hr/>
Represented by:		
Cash and cash equivalents	214,767	134,853
Bank overdraft	-	(37)
	<hr/>	<hr/>
	214,767	134,816
	<hr/>	<hr/>

The accompanying notes on pages 16 to 30 form an integral part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

1. Incorporation and principal activities

The parent, The Home Mortgage 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.

During the financial year the parent formed two new subsidiary companies, Tobago Fairways Villas Limited, and Tobago Plantation House Limited. These subsidiaries are 100% owned and are incorporated in Trinidad & Tobago under the Companies Act, 1995. The principal activity of these subsidiaries is real estate development.

The registered office of the parent and its subsidiaries 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 preparation

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

b) Basis of consolidation

Group

The consolidated financial statements comprise the financial statements of The Home Mortgage Bank and its subsidiaries as at 31st December each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

(Continued)

2. Statement of accounting policies *(continued)*

b) Basis of consolidation *(continued)*

Group *(continued)*

Subsidiary companies

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than 50% of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments given, and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Associated companies

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The Group's investments in associates are accounted for under the equity method of accounting. The investments in associates are carried in the balance sheet at cost plus post acquisition changes in the Group's share of the associates' net assets, less any impairment in value. The statement of income reflects the share of the results of operations of the associates.

c) Use of estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

(Continued)

2. Statement of accounting policies *(continued)*

d) 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.

e) Mortgages

These mortgages are primarily personal residential mortgages and 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.

f) 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 and 22).

g) Lands for development

Lands for development are accounted for at cost plus other direct expenses incurred in the acquisition of these properties.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

(Continued)

2. Statement of accounting policies (continued)

h) 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.

The rates used are as follows:

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

i) 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 10).

j) 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 \$271,060 (2003: \$238,340).

k) 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

Expressed in thousands of Trinidad & Tobago dollars (\$'000)

(Continued)

2. Statement of accounting policies (continued)

D) 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.

m) 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.

n) Investment securities

Investment securities are originated loans and 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.

o) 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.

p) 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.

	2004	2003
3. Cash and short term funds		
Cash and cash equivalents	214,767	134,853
Fixed deposits with original maturities greater than three months	175,797	292,796
	<hr/> 390,564 <hr/>	<hr/> 427,649 <hr/>

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

Expressed in thousands of Trinidad & Tobago dollars (\$'000)

(Continued)

	2004	2003
4. Investment securities		
Investment in corporate bonds	<u>480,899</u>	<u>260,000</u>
<p>These investments are for periods ranging between four to five years and earn interest at rates ranging between 7.75% to 8.50%.</p>		
5. Retained mortgage portfolio		
Principal balances and unamortised premiums and discounts:		
	2004	2003
Balance at the beginning of the year	1,062,776	828,814
Purchases	120,784	358,090
Less: Principal repayments	<u>(138,163)</u>	<u>(124,128)</u>
	1,045,397	1,062,776
Less: Provision for doubtful mortgages	(9,484)	(759)
Less: Guaranteed Mortgage Investment Certificates (Gareemics)	(72,924)	(83,932)
Less: Mortgage Participation Fund	<u>(160,667)</u>	<u>(96,587)</u>
Balance at the end of the year	<u>802,322</u>	<u>881,498</u>
Provision for loan losses		
Provision brought forward	759	858
Net charges against income	(304)	(99)
Transfer from discount to establish initial provision (see note below)	<u>9,029</u>	<u>–</u>
Provision carried forward	<u>9,484</u>	<u>759</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004
Expressed in thousands of Trinidad & Tobago dollars (\$'000)
(Continued)

	2004	2003
5. Retained mortgage portfolio (continued)		
Represented by:		
Mortgages with recourse	83,198	135,168
Mortgages without recourse	719,124	746,330
	<hr/>	<hr/>
Balance at the end of the year	802,322	881,498
	<hr/>	<hr/>

In the latter part of 2003, the Bank purchased a pool of mortgages from a related party with a principal balance outstanding of \$55,646,040 for a total consideration of \$41,273,400. This difference on purchase of \$14,372,640 has been accounted for as a specific provision of \$9,029,000 and a discount of \$5,343,640.

The remaining discount will be amortized over the life of the pool of related mortgages in accordance with the Bank's accounting policy.

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.

	2004	2003
Balance brought forward	28,939	24,230
New advances	102,526	121,584
Advances converted to mortgages	(105,979)	(116,875)
	<hr/>	<hr/>
Balance carried forward	25,486	28,939
	<hr/>	<hr/>
7. Lands for development		
Balance brought forward	—	—
Purchases for the year	19,904	—
	<hr/>	<hr/>
Balance carried forward	19,904	—
	<hr/>	<hr/>

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004
Expressed in thousands of Trinidad & Tobago dollars (\$'000)
(Continued)

				2004	2003
8. 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				2,248	1,633
				6,701	6,086
		Furniture, fixtures, office machinery & equip.	Motor vehicles		Total
9. Property and equipment	Freehold buildings			2004	2003
Cost					
Balance brought forward	817	4,371	1,749	6,937	6,803
Additions	–	544	1,398	1,942	209
Disposals	(817)	(1,357)	(1,193)	(3,367)	(75)
Cost carried forward	–	3,558	1,954	5,512	6,937
Depreciation					
Balance brought forward	201	1,686	1,130	3,017	2,457
Charge for the year	5	1,214	478	1,697	635
Disposals	(206)	(567)	(924)	(1,697)	(75)
Depreciation carried forward	–	2,333	684	3,017	3,017
Net book value	–	1,225	1,270	2,495	3,920
				2004	2003
10. Capitalised bond issue costs (note 2i)					
Balance at the beginning of the year				1,058	330
Add: Costs incurred during the year				78	875
				1,136	1,205
Less: Costs amortised during the year				(147)	(147)
Balance at the end of the year				989	1,058

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

Expressed in thousands of Trinidad & Tobago dollars (\$'000)

(Continued)

	2004	2003
11. Other liabilities		
Bank overdraft	–	37
Interest payable on bonds	25,934	22,966
Sundry creditors and accruals	6,565	5,410
Gareemic holders - instalments payable	846	1,872
Taxation payable	–	777
	33,345	31,062
12. Bonds in issue		
Balance at the beginning of the year	1,484,584	992,205
Add: Issues during the year	170,640	635,514
Less: Redemptions during the year	(72,170)	(143,135)
Balance at the end of the year	1,583,054	1,484,584

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 5.0% – 9.0% (2003: 4.9 – 9.0%).

(b) The amounts outstanding on bonds issued are redeemable as follows:

	2004	2003
Within 1 year	126,818	72,165
1 to 2 years	83,426	126,818
2 to 3 years	117,481	83,426
3 to 4 years	208,744	117,481
4 to 5 years	172,375	208,744
Over 5 years	874,210	875,950
	1,583,054	1,484,584
(c) Tax free bonds	527,835	600,000
Other bonds	1,055,219	884,584
	1,583,054	1,484,584

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

Expressed in thousands of Trinidad & Tobago dollars (\$'000)

(Continued)

12. Bonds in issue (continued)

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

	2004	2003
13. Components of deferred tax liability and deferred tax asset		
Deferred income tax liability:		
Bond issue costs	297	317
Property and equipment	59	90
Other	–	3
	<hr/> 356	<hr/> 410
Deferred income tax asset:		
Tax losses	–	464
	<hr/>	<hr/>

Notes:

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.

14. 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

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

Expressed in thousands of Trinidad & Tobago dollars (\$'000)

(Continued)

	2004	2003
14. Stated capital (continued)		
Issued and fully paid		
160,000 ordinary shares of no par value		
Class A	2,400	2,400
Class B	1,200	1,200
Class C	4,800	4,800
Class D	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.

15. Mortgage risk reserves

This represents amounts 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. These loan loss requirements are dealt with as appropriations of equity.

	2004	2003
16. General and administrative expenses		
Staff costs	4,963	4,109
Accommodation expenses	1,055	1,048
Other operating expenses	5,895	3,392
	11,913	8,549

Included within general and administrative expenses are the following charges:

	2004	2003
Depreciation (net)	1,697	635
Directors' fees	307	317

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

Expressed in thousands of Trinidad & Tobago dollars (\$'000)

(Continued)

	2004	2003
17. Taxation charge for the year		
Reconciliation between tax expense and the product of accounting profits multiplied by applicable tax rate		
Accounting profit	30,341	24,013
Tax at the statutory rate of 30% (2003:30%)	(9,102)	(7,204)
Tax effect of items that are adjustable in determining taxable profit:		
Tax exempt income	8,214	6,900
Other permanent differences	165	(587)
	(723)	(891)
Current year's tax provision:		
Corporation tax/business levy	(162)	(189)
Green fund levy	(151)	(119)
Deferred income tax	(410)	(583)
Taxation charge for the year	(723)	(891)
18. Related party transactions and balances (note 2(o))		
Transactions		
Interest on cash and short term funds	28,632	23,641
Bond expenses and other costs	23,011	21,532
Balances		
Cash and short term funds	154,001	124,002
Investment securities	120,000	120,000
Bonds in issue	334,051	343,761
19. Mortgage commitments		

The Bank has issued standby commitments to purchase mortgages, of which undrawn balances amount to \$46,677,270 at 31st December, 2004 (2003:\$43,777,117).

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

(Continued)

20. Financial instruments

(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.

(ii) Long term financial assets and liabilities

Retained mortgage portfolio and construction loan advances - are net of specific provisions for impairment. The carrying value of performing mortgages and advances is assumed to be equal to its estimated fair value, as the inherent rates of interest in the portfolios approximate market conditions.

Bonds in issue – the fair value of these securities are assumed to be equal to their carrying value.

21. Credit risk

Credit risk is the potential for loss due to the failure of a counter-party or borrower to meet its financial obligations. Credit risk arises in the Group's normal trading activity in mortgages (some of which are held with recourse), from settling payments between financial institutions, and from providing products that create replacement risk. The Group's maximum credit exposure may be assessed by considering the balance sheet carrying value for its financial assets.

The Bank's assets are concentrated in Trinidad & Tobago and, in evaluating credit risk, the Group has also considered significant concentrations of financial assets by sector.

22. 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, 2004 the outstanding balances of securitised mortgages and the related Gareemics issued amounts to \$72,923,924. (2003: \$83,932,218).

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

Expressed in thousands of Trinidad & Tobago dollars (\$'000)

(Continued)

22. Guaranteed Mortgage Investment Certificates (Gareemics) (continued)

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.

23. Mortgage Participation Fund (MPF)

This fund is backed by mortgage and/or other securities. At 31st December, 2004, the outstanding balance of securitised mortgages and related MPF outstanding amounts to \$160,667,281 (2003: \$96,587,254).

24. 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	Over 1 year	Total
	2004	2004	2004
Assets			
Cash and short term funds	390,564	–	390,564
Investment securities	–	480,899	480,899
Retained mortgage portfolio	55,075	747,247	802,322
Construction loan advances	25,486	–	25,486
Liabilities			
Bonds in issue	126,818	1,456,236	1,583,054
	2003	2003	2003
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
Construction loan advances	28,939	–	28,939
Liabilities			
Bonds in issue	72,165	1,412,419	1,484,584

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

(Continued)

25. 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 8.0% to 11%, whereas, interest rates on bonds vary between 5.0% to 9.0%.

26. Employees

At 31st December, 2004, the Bank had in its employ a staff complement of 20 people (2003:19).

27. The Board of Directors declared a final dividend of \$45 per share for the year ended 31st December, 2004. 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

NINETEENTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Nineteenth 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 26th day of April, 2005, 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, 2004.
2. To ratify the Final Dividend for the year.
3. To elect Directors
4. To elect Alternate Directors
5. To re-appoint the Auditors and to authorise the Directors to fix their remuneration.
6. Any other business.

Dated the 4th day of April, 2005.

By Order of the Board



Lucille Mair
Company Secretary