



## ANNUAL REPORT 2005



*Your Future Starts Here*

# 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 a mortgage market 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 real property and 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

## 5 YEAR REVIEW

December 31st,	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000	2001 \$'000
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### Balance Sheet

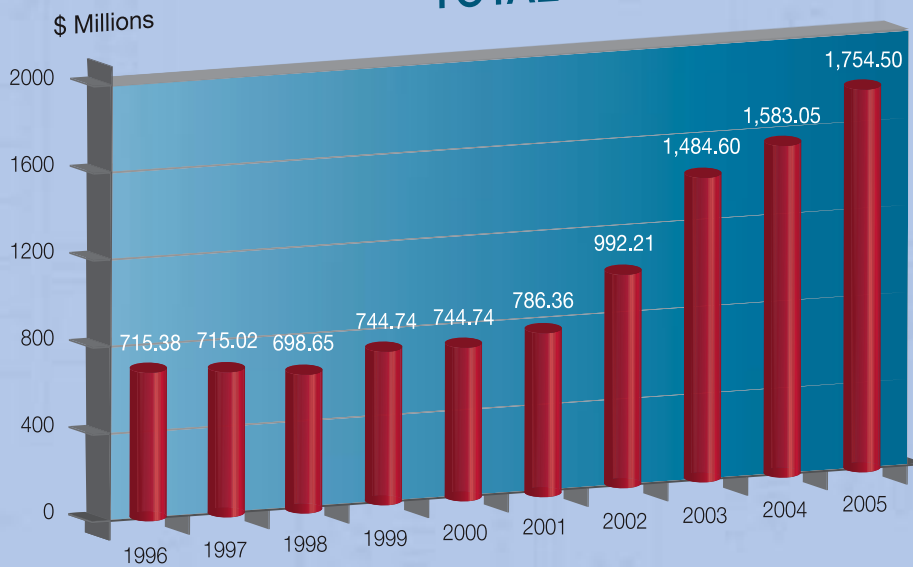
Mortgage Loans	746,799	802,322	881,498	684,407	710,671
Construction Loan Advances	31,650	25,486	28,939	24,230	17,776
Total Assets	1,944,428	1,748,960	1,630,643	1,140,747	885,896
Bonds in Issue	1,754,495	1,583,054	1,484,584	992,205	786,356
Total Liabilities	1,790,949	1,616,755	1,516,056	1,042,082	804,669
Share Capital	16,000	16,000	16,000	16,000	16,000
Retained Earnings	126,882	106,891	90,069	76,040	65,227

### Income Statement

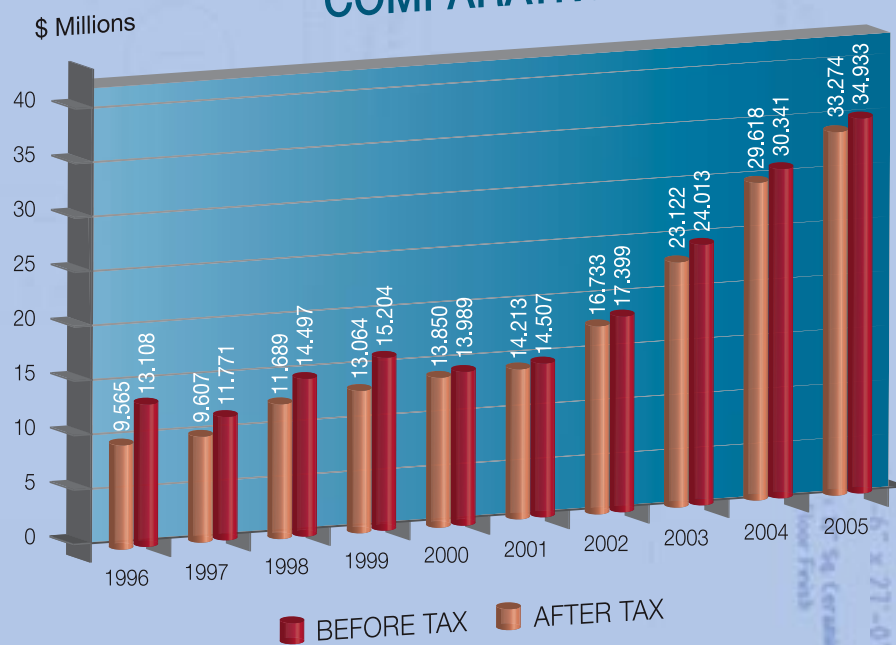
Income	154,481	143,159	111,468	101,043	89,155
Income Before Taxation	34,933	30,341	24,013	17,399	14,213
Net Income	33,274	29,618	23,122	16,733	14,507
Operating Expenses	12,239	11,913	8,549	9,500	7,240
Earnings Per \$100 Share	\$207.96	\$185.11	\$144.51	\$104.58	\$90.67

# TEN YEAR 10 YEAR REVIEW

## TOTAL BONDS IN ISSUE

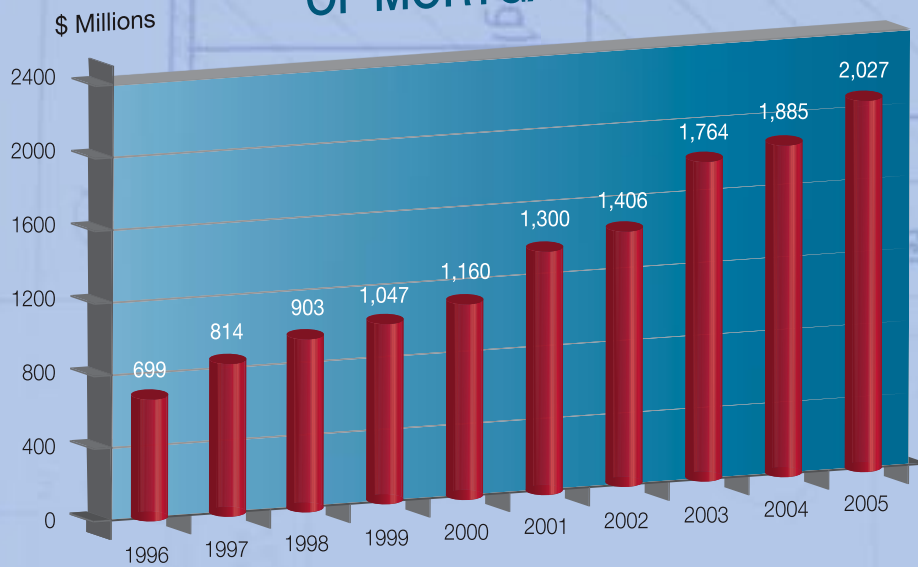


## COMPARATIVE NET INCOME

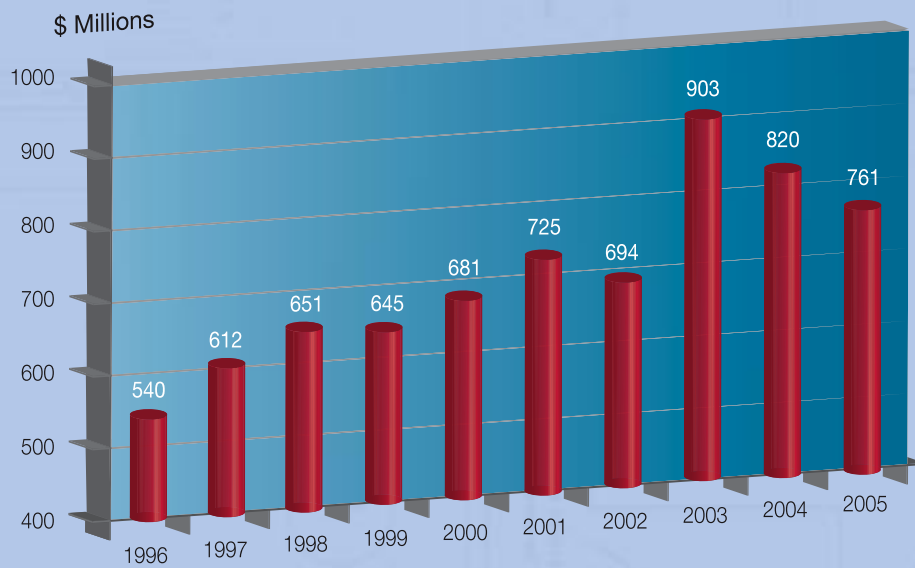




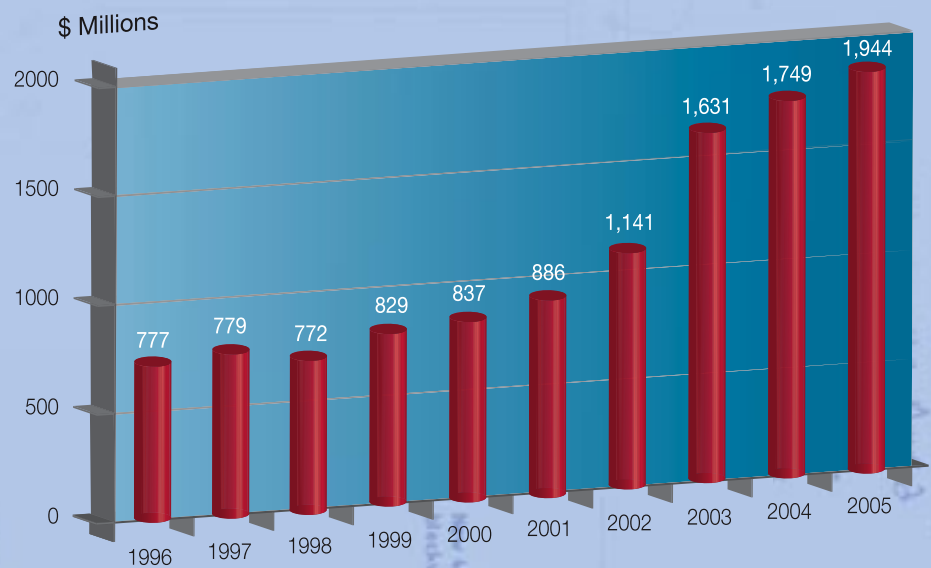
## ACCUMULATED VALUE OF MORTGAGES PURCHASED



## MORTGAGES PORTFOLIO SERVICED



## TOTAL ASSETS



# CHAIRMAN'S REVIEW



**L. André Monteil**  
Chairman

In my last review I indicated that we were seeking amendments to the Home Mortgage Bank Act so that the institution would be better equipped to deal with the realities of the market place. I am pleased to report that these legislative amendments were made during the year under review. As a result of these changes the Bank can be expected to be more responsive in the market and play a greater role in providing affordable residential mortgage finance, consistent with the National Housing Policy.

Despite the challenging conditions, The Home Mortgage Bank has had another good year with profit after tax increasing by 12.3% from \$29.6M to \$33.3M. Our shareholders continue to receive a high return on their investment with dividends at 75% while we continue to provide residential mortgage finance at attractive rates.

Notwithstanding the high liquidity in the Banking system there continues to be factors causing interest rates to increase with commercial banks' prime lending rates increasing by 1.25% from 9% to 10.25% over the last twelve (12) months. A combination of inflationary pressures in the economy, currency issues and rising US interest rates have contributed towards this increase and there is every indication that this will continue in the foreseeable future.

However, The Home Mortgage Bank has adopted a strategy of raising its funding through medium and long term fixed rate instruments and as a result we are optimistic that the Bank is equipped to deal with the pressures of increasing interest rates. We are committed to maintaining our interest rate structure into the foreseeable future so as to ensure that prospective homeowners obtain affordable mortgage financing.

The real estate market in Trinidad and Tobago continues to be buoyant. There is a strong demand for the purchase of homes in all residential areas and this is reflected by the strong price support in the market.

Government's housing initiatives continue on pace with the Housing Development Corporation setting a target of 8,000 units to be built in 2006. Both the Urban Development Corporation of Trinidad & Tobago (UDeCOTT) and the Housing Development Corporation (HDC) are working towards the target of eliminating the shortfall of housing stock for the middle and lower income groups. On the private sector side, there are also several new projects taking place with the larger house builders in the country accelerating their own developments.

The existing housing stock is also being upgraded with homeowners renovating and remodelling their homes as the increased price support in the market place provides ample justification for this. The upgrading of existing units has also contributed to the growth in construction employment and the stimulation of the economy. As a result, mortgage institutions must play a greater role in ensuring that affordable finance is available for this increase in demand for home improvement financing.

Ways of reducing legal and other upfront costs and more creative mortgage products must be developed so that more of the citizens of the country will be able to access affordable finance and housing. The Home Mortgage Bank fully intends to play its role.

Tobago has also seen a strong increase in construction activity both in the residential market as well as in the tourism sector. This increase in construction activity augers well for the growth of the economy in that island and will contribute to the growth of tourism as there is a need for an increase in all types of accommodation in Tobago. The Home Mortgage Bank will also play its role in providing affordable financing in Tobago.

#### **In Appreciation:**

Since our last report, two (2) of our Directors – our Deputy Chairman Ms. Amoy Chang Fong and Mr. Ronald Huggins have retired from the Board. They were replaced by Mr Hollis De Four – Senior Manager, Finance and Administration, Central Bank of Trinidad & Tobago, our new Deputy Chairman and Mr. Gregory Thomson, Deputy Managing Director, Republic Bank Limited. I would like to thank our retiring Directors for their substantial contribution to Board deliberations, and I would also welcome Mr. De Four and Mr. Thomson, and we look forward to working with them to advance the performance of the Bank.

The size of the Board has also been increased from six (6) to eight (8) Directors. Effective January 01, 2006 Mrs. Lucille Mair – Corporate Secretary and Mr. Peter Johnson – Chief Operating Officer were both invited to join the Board as Directors and we welcome them to the Board. Both Mrs. Mair and Mr. Johnson have been with the Bank from its inception.

In closing, 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.



# DIRECTORS



## **L. ANDRÉ MONTEIL** Chairman

A Fellow of the Association of Chartered Certified Accountants and Chartered Accountants, Mr. Louis André Monteil is no stranger to serving on Company Boards and his repertoire is an impressive one. He is presently a Director of several group related companies of CL Financial Limited and Caribbean Communications Network.

In addition to holding the position as Chairman of the Bank, he is presently Chairman of several Boards including the Housing Development Corporation and the Education Facilities Limited and Deputy Chairman of Trinidad and Tobago Mortgage Finance Company Limited.

## **PETER JOHNSON** Director/C.O.O

A Fellow of the Association of Chartered Certified Accountants and a member of the Institute of Chartered Accountants of Trinidad and Tobago, Mr. Johnson was appointed Chief Operating Officer in 2005.

A Director of the Eastern Caribbean Home Mortgage Bank, he has considerable experience in the Capital and mortgage markets in Trinidad and Tobago.

Mr. Johnson accredits his training to his time spent at the International Finance Corporation, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae) and the Canada Mortgage and Housing Corporation.

## **GREGORY I. THOMSON** Director

Mr. Thomson, a career banker with over 25 years experience in banking and finance, is the Deputy Managing Director of Republic Bank Limited.

He holds a Bachelor of Science Degree in Mathematics and Physics from The University of the West Indies and a Master of Business Administration degree from the University of Western Ontario, Canada.

Mr. Thomson is also a member of the Boards of Directors of Republic Finance and Merchant Bank Limited, Republic Bank (Grenada) Limited and several other Republic Bank subsidiaries.

## **CHERYL F. GREAVES** Director

Cheryl F. Greaves, brings to the Board over twenty years experience in banking, finance and public sector development.

She is a Fellow of the Institute of Chartered Certified Accountants and a Member of the Institute of Chartered Accountants of Trinidad and Tobago. She holds a B.Sc. in Industrial Management and is a graduate of the Harvard Business School Advanced Management Program for Senior Executives.

Mrs. Greaves is Managing Director of Republic Finance and Merchant Bank Limited and is the Deputy Chairman of the National Library and Information System Authority.



**LUCILLE MAIR**  
Director/Corporate Secretary

Lucille Mair is an Attorney-at-Law and a Partner in the firm, Mair and Company, specializing in company, commercial and banking law. She was previously Corporate Secretary to the Board and Senior Manager at the Central Bank of Trinidad and Tobago.

Mrs. Mair was closely involved in the establishment of The Home Mortgage Bank and has been Corporate Secretary since inception. She has vast experience in the regulation and development of the financial and securities sectors. She was made an honorary Fellow of The Institute of Banking and Finance of Trinidad and Tobago.

**WALTON HILTON-CLARKE**  
Director

First Vice President of the Caribbean Employers Confederation and Vice Chairman of the Employers Consultative Association of Trinidad and Tobago, Mr. Hilton-Clarke is also a Director of the National Insurance Board and Trinidad and Tobago Unit Trust Corporation.

He is a member of the Standing Cabinet, appointed Committee International Labour Organization Convention 144 Committee.

He serves as Deputy Chairman of the Labour Market Council of Trinidad and Tobago and is a proud recipient of the Chaconia Medal for Public Service and for Service to Business.

**CALDER HART**  
Director/C.E.O

Recruited to set up the Bank in 1986, Mr. Hart had occupied field management positions at Canada Mortgage & Housing Corporation. He also served as Chairman of the Saskatchewan Securities Commission and Canadian General Standards Board.

He is currently the Chairman of the Urban Development Corporation of Trinidad and Tobago, the Trinidad and Tobago Mortgage Finance Company Limited, the National Insurance Board and the National Insurance Properties Development Company Limited.

**HOLLIS DE FOUR**  
Deputy Chairman

Mr. De Four possesses a wealth of financial, banking and management experience having been with the Central Bank for over 35 years.

A Fellow of the Association of Chartered Certified Accountants and an Associate of the Chartered Accountants of Trinidad and Tobago, he holds the position of Senior Manager, Corporate Services in the Central Bank of Trinidad and Tobago with responsibility for Finance and Accounting, General and Facilities Services and Security.

Mr. De Four is an Alternate Director of the Deposit Insurance Corporation since 1997.



# MORTGAGE DEPARTMENT

## MORTGAGE DEPARTMENT

Mortgage Department  
From left to right

Sharmila Mahase – Manager, Mortgage Operations  
Anna Gonzales – Mortgage Officer  
Cynthia Caruth – Mortgage Officer  
Lisa Escalante – Mortgage Marketing Officer  
Yolanda Roy – Administrative Assistant, Mortgages  
Padma Bhual-Ali – Mortgage Officer  
Aeleen Plaza-Wilcox – Systems Administrator

# CORPORATE INFORMATION

## CORPORATE INFORMATION

### **MANAGEMENT**

Calder Hart  
Director/Chief Executive Officer

Peter Johnson  
Director/Chief Operating Officer

Rawle Ramlogan  
Manager, Securities and Investments

Sharmila Mahase  
Manager, Mortgage Operations

Laurette Kam Hong  
Manager, Accounting and Administration

### **COMPANY SECRETARY/DIRECTOR**

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, 2005

### FINANCIAL RESULTS

\$000's

Net Profit before taxation	34,933
Taxation	<u>(1,659)</u>
Net Profit for the year	33,274
Retained earnings at the beginning of the year	<u>106,891</u>
	140,165
Less:	
Transfer to mortgage risk reserve	(1,283)
Dividends - Final (2004) 45%	(7,200)
Dividends - Interim (2005) 30%	<u>(4,800)</u>
Retained earnings at the end of the year	<u><u>126,882</u></u>

### DIVIDENDS

An interim dividend of \$30.00 per share was paid on the 6th September, 2005 and the Directors have declared a final dividend of \$45.00 per share making a total distribution of \$75.00 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 31st January, 2006.

### 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  
Company Secretary

April 07, 2006



## SHAREHOLDERS

The stated capital is 160,000 ordinary shares to a value of \$16,000,000, subscribed as follows at December 31st, 2005:

Institution	Amount \$	%
Central Bank of Trinidad and Tobago	2,400,000	15.0
The National Insurance Board	1,200,000	7.5
Republic Bank Limited	3,840,000	24.0
The Bank of Nova Scotia Trinidad and Tobago Limited	960,000	6.0
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
	<u>\$16,000,000</u>	<u>100.0</u>

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

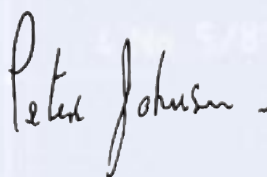
These financial statements have been prepared by Management, which is responsible for the reliability, integrity and objectivity of the information provided. They have been prepared in accordance with the disclosed basis of accounting as described in the notes.

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



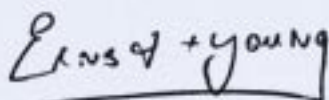
Peter Johnson  
Director/Chief Financial Officer

## 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, 2005 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, as set out on pages 15 to 35. 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, 2005 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:  
31st January, 2006

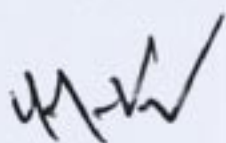
**BALANCE SHEET AT 31ST DECEMBER, 2005**

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

	Notes	2005	2004
<b>Assets</b>			
Cash and short term funds	3	804,118	390,564
Investments – available for sale	4	140,131	–
Investment securities	5	166,344	480,899
Interest receivable and sundry debtors		24,638	19,600
Construction loan advances	6	31,650	25,486
Retained mortgage portfolio	7	746,799	802,322
Lands for development	8	20,392	19,904
Investment in associated bank	9	7,325	6,701
Property and equipment	10	2,066	2,495
Capitalised bond issue costs	11	<u>965</u>	<u>989</u>
<b>Total assets</b>		<u><u>1,944,428</u></u>	<u><u>1,748,960</u></u>
<b>Liabilities</b>			
Taxation payable		343	–
Other liabilities	12	35,816	33,345
Bonds in issue	13	1,754,495	1,583,054
Deferred income tax liability	14	<u>295</u>	<u>356</u>
		<u><u>1,790,949</u></u>	<u><u>1,616,755</u></u>
<b>Shareholders' equity</b>			
Stated capital	15	16,000	16,000
Retained earnings		<u>126,882</u>	<u>106,891</u>
		142,882	122,891
Mortgage risk reserves	16	<u>10,597</u>	<u>9,314</u>
		<u><u>153,479</u></u>	<u><u>132,205</u></u>
<b>Total liabilities and shareholders' equity</b>		<u><u>1,944,428</u></u>	<u><u>1,748,960</u></u>

The accompanying notes on pages 20 to 35 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 31st January, 2006 and signed on its behalf by:



Director



Director



# STATEMENT OF INCOME FOR THE YEAR ENDED 31ST DECEMBER, 2005

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

	Notes	2005	2004
<b>Income</b>			
Mortgage interest (net)		71,766	77,471
Interest on cash and short term funds		<u>82,715</u>	<u>65,688</u>
		<u>154,481</u>	<u>143,159</u>
<b>Expenditure</b>			
Bond expenses and other costs		108,951	102,274
General and administrative expenses	17	12,239	11,913
Provision for loan losses	7	<u>(568)</u>	<u>(304)</u>
		<u>120,622</u>	<u>113,883</u>
Operating profit		33,859	29,276
Share of profits from associated bank		<u>1,074</u>	<u>1,065</u>
Net profit before taxation		34,933	30,341
Taxation	18	<u>(1,659)</u>	<u>(723)</u>
Net profit after taxation		<u>33,274</u>	<u>29,618</u>
Earnings per share (\$)		<u>207.96</u>	<u>185.11</u>
Number of shares ('000)		<u>160</u>	<u>160</u>

The accompanying notes on pages 20 to 35 form an integral part of these financial statements.

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
Expressed in thousands of Trinidad & Tobago dollars (\$'000)

	Stated capital	Retained earnings	Mortgage risk reserves	Shareholders' equity
<b>Balance at 31st December, 2003</b>	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)
<b>Balance at 31st December, 2004</b>	16,000	106,891	9,314	132,205
Net profit for the year	–	33,274	–	33,274
Transfer to mortgage risk reserve	–	(1,283)	1,283	–
Dividends – Final (2004) 45%	–	(7,200)	–	(7,200)
Dividends – Interim (2005) 30%	–	(4,800)	–	(4,800)
<b>Balance at 31st December, 2005</b>	<u>16,000</u>	<u>126,882</u>	<u>10,597</u>	<u>153,479</u>

The accompanying notes on pages 20 to 35 form an integral part of these financial statements.



**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
**Expressed in thousands of Trinidad & Tobago dollars (\$'000)**

	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities</b>		
Net profit before taxation	34,933	30,341
Adjustments for:		
Depreciation (net)	714	1,697
Mortgage premiums amortised	–	10
Bond issue costs amortised	132	147
Write-off of fixed assets	149	789
Gain on sale of fixed assets	(7)	(106)
Share of profits from associated bank	(624)	(615)
Operating profit before working capital changes	35,297	32,263
(Increase)/decrease in interest receivable and sundry debtors	(5,066)	1,457
Increase in other liabilities	2,471	3,097
Corporation taxes paid	(1,426)	(1,118)
Taxation recovered	77	–
Net cash generated from operating activities	<u>31,353</u>	<u>35,699</u>
<b>Cash flows from investment activities</b>		
Net (increase)/decrease in short term funds	(224,550)	116,999
Purchase of investments – available for sale	(140,131)	–
Decrease/(increase) in investment securities	314,555	(220,899)
Net decrease in guaranteed mortgage securities	(8,462)	(11,008)
Net increase in mortgage participation certificate	51,185	64,080
Purchase of mortgages	(143,163)	(112,069)
Proceeds from repayment on mortgages	155,963	138,163
Purchase of fixed assets	(448)	(1,942)
Proceeds from sale of fixed assets	21	987
Purchase of lands for development	(488)	(19,904)
(Increase)/decrease in construction loan advances	(6,164)	3,453
Net cash used in investing activities	<u>(1,682)</u>	<u>(42,140)</u>

The accompanying notes on pages 20 to 35 form an integral part of these financial statements.

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
**Expressed in thousands of Trinidad & Tobago dollars (\$'000)**  
**(Continued)**

	<b>2005</b>	<b>2004</b>
<b>Cash flows from financing activities</b>		
Proceeds from bonds issued	305,259	170,640
Redemption of bonds	(133,818)	(72,170)
Bond issue costs incurred	(108)	(78)
Dividends paid on share capital	<u>(12,000)</u>	<u>(12,000)</u>
Net cash generated from financing activities	<u>159,333</u>	<u>86,392</u>
<b>Net increase in cash and cash equivalents</b>	<b>189,004</b>	<b>79,951</b>
<b>Cash and cash equivalents</b>		
- at the beginning of the year	<u>214,767</u>	<u>134,816</u>
- at the end of the year	<u><u>403,771</u></u>	<u><u>214,767</u></u>
<b>Represented by:</b>		
Cash and cash equivalents	403,771	214,767
Bank overdraft	<u>-</u>	<u>-</u>
	<u><u>403,771</u></u>	<u><u>214,767</u></u>
<b>Supplemental information:</b>		
Interest received during the year	118,996	123,537
Interest paid during the year	108,488	100,719
Dividends received	450	450

The accompanying notes on pages 20 to 35 form an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
**Expressed in thousands of Trinidad & Tobago dollars (\$'000)**

**1. Incorporation and principal activities**

The Home Mortgage Bank is incorporated in the Republic of Trinidad and Tobago under the Home Mortgage Bank Act 1985 ("the Act"). Its principal activities are the trading of mortgages made by primary mortgage lenders and the issue of bonds for investment in housing.

During the year certain legislative amendments were made to the Act through Act No. 17 of 2005 (the Amending Act). These amendments provide among matters, that the Financial Institutions Act, 1993 shall apply to the Bank.

The Amending Act did not however include the necessary deeming provisions which would in substance exempt the Bank from having to comply with certain sections of the Financial Institutions Act.

To date these provisions have not been made, and the Bank is currently in discussions with the Ministry of Finance and the Central Bank of Trinidad and Tobago to remedy this oversight. It is expected that this exercise will be completed in the ensuing financial year.

The Company has two 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 Towers, 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 thousands of Trinidad and Tobago dollars and are prepared under the historical cost convention, except for available for sale investments that have been measured at fair value. The financial statements have been prepared in accordance with International Financial Reporting Standards. No account is taken of the effects of inflation.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
**Expressed in thousands of Trinidad & Tobago dollars (\$'000)**  
**(Continued)**

**2. Statement of accounting policies (continued)**

**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.

*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 de-consolidated 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 company*

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 investment in the associated company is accounted for under the equity method of accounting. This investment is carried in the balance sheet at cost plus post acquisition changes in the Group's share of the associate's net assets, less any impairment in value. The statement of income reflects the share of the results of operations of the associate.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
**Expressed in thousands of Trinidad & Tobago dollars (\$'000)**  
**(Continued)**

**2. Statement of accounting policies (continued)**

**c) Use of estimates**

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. Actual results could differ from those estimates.

**d) Revenue recognition**

Income and expenditure are accounted for on the accruals basis with the exception of impaired mortgages.

Accrual of mortgage income ceases when recoverability is doubtful. In these circumstances income is recognised on a cash receipts 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.

Mortgages are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of future cash flows discounted at the original interest rate.

The policy of the Bank is to make specific provisions for impaired mortgages considered doubtful and these are taken to the statement of income and disclosed under mortgages. Other loan loss requirements that exceed these amounts are dealt with in the mortgage risk reserve as an appropriation of equity.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
**Expressed in thousands of Trinidad & Tobago dollars (\$'000)**  
**(Continued)**

**2. Statement of accounting policies (continued)**

**f) Guaranteed mortgage investment certificates (Gareemics) and Mortgage Participation Fund (MPF)**

These represent beneficial interests in pools of mortgages held in trust by the Bank. The pools of mortgages are not assets of the Bank, except when reacquired in the event of default.

For Gareemics, 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. (Refer to notes 7 & 23).

For MPF, the investors earn a stated rate of return (variable) and there are no repayments of capital until investors elect to redeem their investments. (Refer to notes 7 & 24).

**g) Lands for development**

Lands for development are accounted for at cost plus other direct expenses incurred in the acquisition and the development of these properties. (Refer to note 8).

**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:

Furniture, fixtures, office machinery and equipment	7 1/2% 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 11).

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
**Expressed in thousands of Trinidad & Tobago dollars (\$'000)**  
**(Continued)**

**2. Statement of accounting policies (continued)**

**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 \$323,944 (2004: \$271,060).

**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.

**l) 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.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
**Expressed in thousands of Trinidad & Tobago dollars (\$'000)**  
**(Continued)**

**2. Statement of accounting policies (continued)**

**n) Investments – available for sale**

Available-for-sale investments are securities which are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates. These investments are initially recognised at cost. After initial recognition, available-for-sale investments are measured at fair value. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is derecognised or until the investment is determined impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

**o) Investment securities**

Investment securities are 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.

**p) 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.

	<b>2005</b>	<b>2004</b>
<b>3. Cash and short term funds</b>		
Cash and cash equivalents	403,771	214,767
Fixed deposits with original maturities greater than three months	<u>400,347</u>	<u>175,797</u>
	<u><u>804,118</u></u>	<u><u>390,564</u></u>



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
Expressed in thousands of Trinidad & Tobago dollars (\$'000)  
(Continued)

	2005	2004
<b>4. Investment – available for sale</b>		
State owned company securities	108,600	–
Other	31,531	–
	<u>140,131</u>	<u>–</u>

These investments earn interest at rates ranging between 6.25% to 11%.

<b>5. Investment securities</b>		
Investment in corporate bonds	<u>166,344</u>	<u>480,899</u>

These investments are for periods ranging between four to five years and earn interest at rates ranging between 7.5% to 8.0%.

**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.

	2005	2004
Balance brought forward	25,486	28,939
New advances	145,584	102,526
Advances converted to mortgages	<u>(139,420)</u>	<u>(105,979)</u>
Balance carried forward	<u>31,650</u>	<u>25,486</u>



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
**Expressed in thousands of Trinidad & Tobago dollars (\$'000)**  
**(Continued)**

**7. Retained mortgage portfolio**

**Principal balances and unamortised premiums and discounts:**

	<b>2005</b>	<b>2004</b>
Balance at the beginning of the year	1,045,397	1,062,776
Purchases	142,000	120,784
Less: Principal repayments	<u>(155,963)</u>	<u>(138,163)</u>
	1,031,434	1,045,397
Less: Provision for doubtful mortgages	(8,321)	(9,484)
Less: Guaranteed Mortgage Investment Certificates (Gareemics)	(64,462)	(72,924)
Less: Mortgage Participation Fund	<u>(211,852)</u>	<u>(160,667)</u>
Balance at the end of the year	<u><u>746,799</u></u>	<u><u>802,322</u></u>

**Provision for loan losses**

Provision brought forward	9,484	759
Write offs	(595)	-
Net charges against income	(568)	(304)
Transfer from discount to establish initial provision (see note below)	<u>-</u>	<u>9,029</u>
Provision carried forward	<u><u>8,321</u></u>	<u><u>9,484</u></u>

**Represented by:**

Mortgages with recourse	63,985	83,198
Mortgages without recourse	<u>682,814</u>	<u>719,124</u>
Balance at the end of the year	<u><u>746,799</u></u>	<u><u>802,322</u></u>

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. During the financial year ended December 31, 2004 this difference on purchase of \$14,372,640 was accounted for as a specific provision of \$9,029,000 and a discount of \$5,343,640.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
Expressed in thousands of Trinidad & Tobago dollars (\$'000)  
(Continued)

**7. Retained mortgage portfolio (continued)**

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

	2005	2004
<b>8. Lands for development</b>		
Balance brought forward	19,904	-
Costs incurred for the year	488	19,904
Balance carried forward	<u>20,392</u>	<u>19,904</u>

**9. Investment in associated bank (note 2b)**

Shares at cost		
20,000 shares of EC\$100 each (20% shareholding)	4,453	4,453
Cumulative share of post acquisition retained profits	<u>2,872</u>	<u>2,248</u>
	<u>7,325</u>	<u>6,701</u>

	Furniture, fixtures, office machinery & equip	Motor vehicles	2005	Total 2004
<b>10. Property and equipment</b>				
<b>Cost</b>				
Balance brought forward	3,558	1,954	5,512	6,937
Additions	56	392	448	1,942
Disposals	(516)	(200)	(716)	(3,367)
Cost carried forward	<u>3,098</u>	<u>2,146</u>	<u>5,244</u>	<u>5,512</u>
<b>Depreciation</b>				
Balance brought forward	2,333	684	3,017	3,017
Charge for the year	238	476	714	1,697
Disposals	(361)	(192)	(553)	(1,697)
Depreciation carried forward	<u>2,210</u>	<u>968</u>	<u>3,178</u>	<u>3,017</u>
Net book value	<u>888</u>	<u>1,178</u>	<u>2,066</u>	<u>2,495</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
Expressed in thousands of Trinidad & Tobago dollars (\$'000)  
(Continued)

	2005	2004
<b>11. Capitalised bond issue costs (note 2i)</b>		
Balance at the beginning of the year	989	1,058
Add: Costs incurred during the year	<u>108</u>	<u>78</u>
	1,097	1,136
Less: Costs amortised during the year	<u>(132)</u>	<u>(147)</u>
Balance at the end of the year	<u>965</u>	<u>989</u>
<b>12. Other liabilities</b>		
Interest payable on bonds	25,729	25,934
Sundry creditors and accruals	8,410	6,565
Gareemic holders payable	<u>1,677</u>	<u>846</u>
	<u>35,816</u>	<u>33,345</u>
<b>13. Bonds in issue</b>		
Balance at the beginning of the year	1,583,054	1,484,584
Add: Issues during the year	305,259	170,640
Less: Redemptions during the year	<u>(133,818)</u>	<u>(72,170)</u>
Balance at the end of the year	<u>1,754,495</u>	<u>1,583,054</u>

**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 4.9% – 9.0% (2004: 5.0% – 9.0%).



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
**Expressed in thousands of Trinidad & Tobago dollars (\$'000)**  
**(Continued)**

**13. Bonds in issue (continued)**

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

	<b>2005</b>	<b>2004</b>
Within 1 year	83,426	126,818
1 to 2 years	117,481	83,426
2 to 3 years	201,744	117,481
3 to 4 years	172,375	208,744
4 to 5 years	337,165	172,375
Over 5 years	<u>842,304</u>	<u>874,210</u>
	<u>1,754,495</u>	<u>1,583,054</u>
(c) Tax free bonds	600,000	527,835
Other bonds	<u>1,154,495</u>	<u>1,055,219</u>
	<u>1,754,495</u>	<u>1,583,054</u>

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

	<b>2005</b>	<b>2004</b>
<b>14. Components of deferred tax liability and deferred tax asset</b>		
<b>Deferred income tax liability:</b>		
Bond issue costs	241	297
Property and equipment	<u>54</u>	<u>59</u>
	<u>295</u>	<u>356</u>

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.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
**Expressed in thousands of Trinidad & Tobago dollars (\$'000)**  
**(Continued)**

**15. 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

	2005	2004
Class A	2,400	2,400
Class B	1,200	1,200
Class C	4,800	4,800
Class D	<u>7,600</u>	<u>7,600</u>
	<u>16,000</u>	<u>16,000</u>

**16. 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.

**17. General & administrative expenses**

	2005	2004
Staff costs	7,019	4,963
Accommodation expenses	909	1,055
Other operating expenses	<u>4,311</u>	<u>5,895</u>
	<u>12,239</u>	<u>11,913</u>

Included within general and administrative expenses are the following charges:

	2005	2004
Depreciation (net)	714	1,697
Directors' fees	431	307

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
**Expressed in thousands of Trinidad & Tobago dollars (\$'000)**  
**(Continued)**

**18. Taxation charge for the year**

Reconciliation between tax expense and the product of accounting profits multiplied by applicable tax rate:

Accounting profit	<u>34,933</u>	<u>30,341</u>
Tax at the statutory rate of 30% (2004: 30%)	(10,480)	(9,102)
Tax effect of items that are adjustable in determining taxable profit:		
Tax exempt income	9,121	8,214
Other permanent differences	<u>(300)</u>	<u>165</u>
	<u>(1,659)</u>	<u>(723)</u>
<b>Current year's tax provision:</b>		
Corporation tax/business levy	(1,608)	(162)
Green fund levy	(162)	(151)
Deferred income tax	62	(410)
Prior year over-provision	<u>49</u>	<u>-</u>
Taxation charge for the year	<u>(1,659)</u>	<u>(723)</u>

**19. Related party transactions and balances (note 2(p))**

**Transactions**

Interest on cash and short term funds	42,151	28,632
Bond expenses and other costs	21,642	23,011

	<b>2005</b>	<b>2004</b>
<b>Balances</b>		
Cash and short term funds	315,001	154,001
Investment securities	-	120,000
Bonds in issue	301,560	334,051

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
**Expressed in thousands of Trinidad & Tobago dollars (\$'000)**  
**(Continued)**

**20. Mortgage commitments**

The Bank has issued standby commitments to purchase mortgages, of which undrawn balances amount to \$39,394,210 at 31st December, 2005 (2004: \$46,677,270).

**21. 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 other 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.

*Investments – available-for-sale* are measured at fair value.

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

**22. 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.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
**Expressed in thousands of Trinidad & Tobago dollars (\$'000)**  
**(Continued)**

**23. 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, 2005 the outstanding balances of securitised mortgages and the related Gareemics issued amounts to \$64,462,150 (2004: \$72,923,924).

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.

**24. Mortgage Participation Fund (MPF)**

This fund is backed by mortgage and/or other securities. At 31st December, 2005 the outstanding balance of securitized mortgages and related MPF outstanding amounts to \$211,851,685 (2004: \$160,667,281).

**25. 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.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005**  
**Expressed in thousands of Trinidad & Tobago dollars (\$'000)**  
**(Continued)**

**25. Liquidity risk (continued)**

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.

<b>Maturing</b>	<b>Within 1 year 2005</b>	<b>Over 1 year 2005</b>	<b>Total 2005</b>
<b>Assets</b>			
Cash and short term funds	804,118	–	804,118
Investments – available for sale	140,131	–	140,131
Investment securities	–	166,344	166,344
Retained mortgage portfolio	57,835	688,964	746,799
Construction loan advances	31,650	–	31,650
<b>Liabilities</b>			
Bonds in issue	83,426	1,671,069	1,754,495
	<b>2004</b>	<b>2004</b>	<b>2004</b>
<b>Assets</b>			
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
<b>Liabilities</b>			
Bonds in issue	126,818	1,456,236	1,583,054

**26. 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 4.9% to 9.0%.

**27. Employees**

At 31st December, 2005 the Bank had in its employ a staff complement of 20 people (2004: 20).

**28. Dividends**

The Board of Directors, declared a final dividend of \$45 per share for the year ended 31st December, 2005. 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

### TWENTIETH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Twentieth 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 2nd day of May, 2006, at 10:30 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, 2005.
2. To ratify the 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 7th day of April, 2006.

By Order of the Board

Lucille Mair  
Company Secretary

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