HOME MORTGAGE BANK

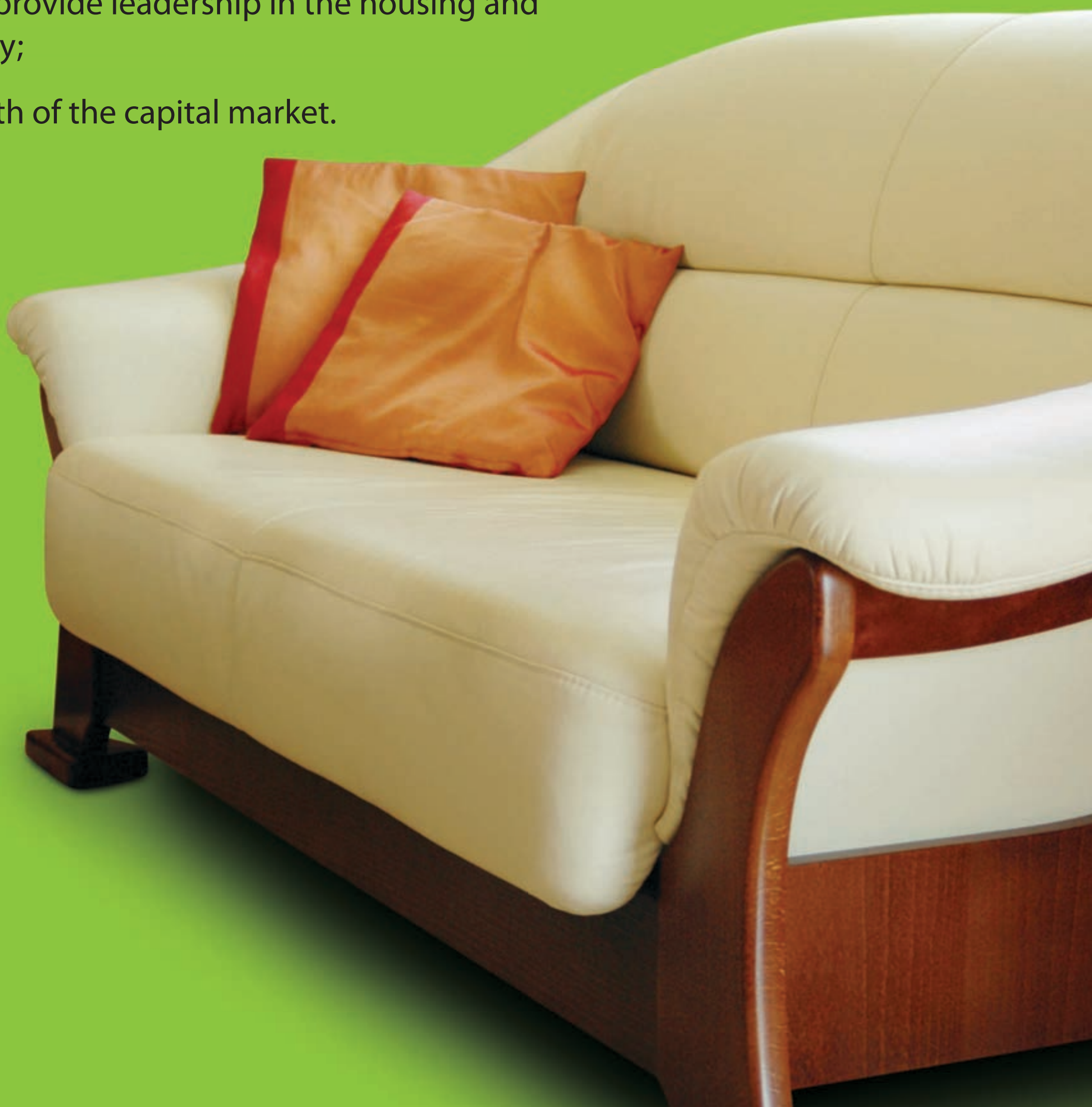
Annual Report 08

Mission Statement

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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Chairman's Review

I have no doubt that the Board and Management will be up to the task of managing the Bank successfully during the challenging times ahead.

LUCILLE MAIR ■ Chairman (Ag)

OVERVIEW

2008 may be characterized as a year of turmoil in the global financial markets, resulting as it did, in the contraction of economic activity in countries around the globe. Trinidad and Tobago and the region were not spared from the crisis, the impact of which would be felt greatly in 2009 and beyond.

While all other banks over the last year increased their residential mortgage rates to an average of 9.5%, the Home Mortgage Bank continued to offer a rate of 8% for new mortgages with the strategy of making homeownership affordable. This has led to mortgage activity increasing by 102% from $53 million in 2007 to $107 million in 2008.

During the year under review, interest rates on investments have shown some signs of softening. However, as liquidity continued to build in the system, the impact was seen most notably in the yield on treasuries, which fell from over 7.0% at the start of the year to under 4.0% by the end of the first quarter of 2009. Notwithstanding this, the Bank continued to offer an attractive yield on its Mortgage Participation Fund (MPF) of 7.0%. The MPF programme grew by 41% from $260 million at the start of 2008 to $367 million by the end of the year.

FINANCIAL PERFORMANCE

Net income attributable to equity holders was $18.4 million ($45.1 million in 2007). This decline in profit, although expected given the changed economic environment, was due mainly to the fact that the Bank made a provision (net of taxes) of $36.8 million with respect to matured investments held at Clico Investment Bank Limited which to date have not been paid.

The Bank is of the opinion that these investments will be covered under the Government's guarantee and continues to pursue the recovery of same. However, on the basis of prudence and the uncertainty of timing of recovery, a full provision for those investments was applied in the 2008 accounts. Were it not for this provision of $36.8 million, profit after tax would have increased by 22%.

Total assets were maintained at just over $2 billion at the end of 2008.

Notwithstanding the tremendous uncertainty about the economic and financial conditions resulting from the global financial crisis and the difficulty in even short term planning, the Board and Management are committed to improving performance and pursuing a prudent investment policy for sustained growth.

THE PROPERTY MARKET

The Bank expects to see further decreases in property prices in 2009. The continuation of this trend is suggested by the fact that housing units are on the market for extended periods. This will eventually lead to a softening in house prices impacting on the higher to medium end of the market. In addition, it is expected that a high level of liquidity and low investment returns will be sustained in the market.

In this environment, buyers will be seeking to access mortgages as a superior investment or because the interest rate regime is favourable. The Bank will position itself to capture some of those mortgages.

As part of its strategy to diversity its income base, the Bank commenced the construction of twenty villas at Tobago Plantations in September 2006. This project is nearing completion and it is expected that the units will go on sale during 2010. While sales may be affected because of the global recession, a number of prospective local buyers have shown interest in the units. We also understand that Tobago Plantations will be one of the areas designated as a tourist investment zone thereby making it easier for foreign investors to purchase property in Tobago. The Bank expects to realize a positive return on this investment.

CHANGES ON THE BOARD OF DIRECTORS AND MANAGEMENT

There was one departure from the Board of Directors during the reporting period as a consequence of this director retiring from her substantive position. Mrs. Cheryl Greaves retired from Republic Bank Limited and consequently from the Home Mortgage Bank. Mrs. Greaves contributed immensely to the growth and achievements of the Bank and the Board takes this opportunity to acknowledge her invaluable service and to wish her happiness in her retirement.

There were two other departures from the Board, both for personal reasons as Messrs Andre Monteil and Gregory Thomson announced their resignation within the reporting period. Mr. Monteil resigned as Director and Chairman of the Bank's Board following the sale by Stone Street Capital Limited (SSCL) of its 43.75% shareholding of the Bank to the National Insurance Board. Mr. Monteil was the principal shareholder in SSCL.

The Board would like to thank both Messrs Monteil and Thomson for their invaluable contribution to the development and growth of the Bank and wish them all the best for the future.

During the year, Mr. Calder Hart was appointed Chairman of the Board. Mrs. Lucille Mair was appointed Deputy Chairman to replace Mr. Hollis De Four, who resigned in December 2007, and Ms. Sharmila Mahase, Manager, Mortgage Operations, was appointed Corporate Secretary.

On the management side, Mr. Peter Johnson took early retirement after twenty-two years of dedicated service to the Bank. He also resigned from the Board. We would like to thank Mr. Johnson for his tremendous contribution in developing the Bank over the years. We wish him all the best in his future endeavors.

Mr. Rawle Ramlogan, Corporate Manager, Securities and Investments, was appointed by the Board to act as Chief Executive Officer following Mr. Johnson's

retirement. Mr. Ramlogan joined the Bank in 1998 and was instrumental in expanding the range of investment products offered by the Bank in the local capital market.

Mr. Jeffrey Mc Farlane, Executive Director of the National Insurance Board, and Mr. Michael Annisette, Independent Senator and Director of the National Insurance Board, were appointed to the Board of Directors on November 14, 2008 to fill the vacancies created by the departures of two Directors. We welcome the newly appointed Board members and look forward to their contributions.

The National Insurance Board is now the single largest shareholder of the Bank with a 51.25% shareholding.

OUTLOOK FOR 2009

The challenges in 2009 are likely to be greater than those we were confronted with in 2008. While the business environment is certain to test the strength and resilience of the Bank, we are confident that the management and the Board have both the capacity and determination to ensure its success and profitability.

Like many institutions in the country, the Bank has some exposure to the CL Financial Group in which the Ministry of Finance and Central Bank have had to intervene in January 2009 as a result of the liquidity crisis which the Group faced. The majority of our exposure is backed by the pledge of shares on the local stock market. The Bank wishes to advise its stakeholders that the delay in releasing these accounts was due to differences with our auditors on the treatment and reporting of these matters. These issues have now been resolved.

I have no doubt that the Board and Management will be up to the task of managing the Bank successfully during the challenging times ahead.

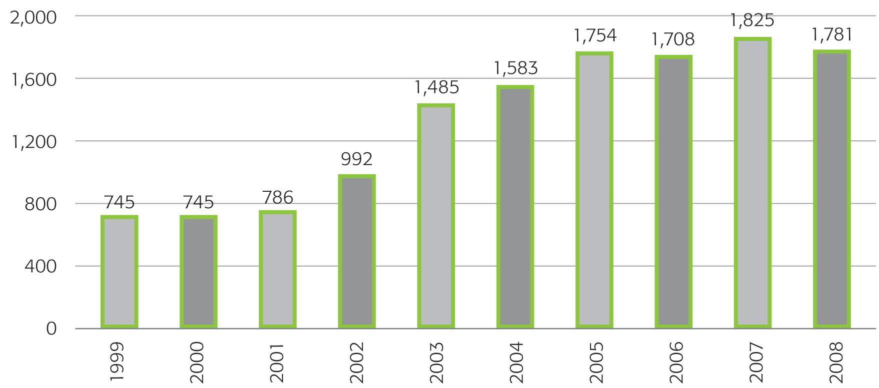
I wish to thank my fellow Directors for their continued support and assistance. Our management and staff are to be commended for the effective and professional manner in which the business of the Home Mortgage Bank has been carried out and for their dedication and loyalty.

Lucille Mair
Chairman (Ag)

5 year Review

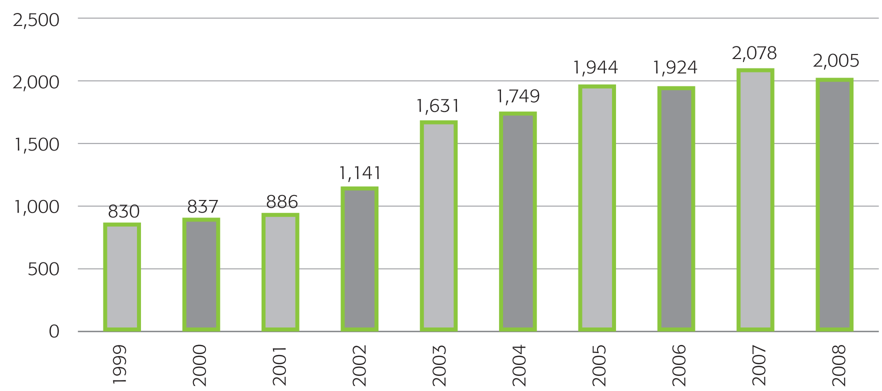
December 31st,	2008 $'000	2007 $'000	2006 $'000	2005 $'000	2004 $'000
Balance Sheet					
Retained Mortgage Portfolio	**698,133**	818,488	857,351	746,799	802,322
Construction Loan Advances	**155,439**	114,277	84,444	31,650	25,486
Investment Securities	**377,915**	276,018	394,781	306,475	480,899
Total Assets	**2,004,944**	2,077,555	1,924,470	1,944,428	1,748,960
Bonds in Issue	**1,781,161**	1,825,005	1,708,129	1,754,495	1,583,054
Total Liabilities	**1,817,685**	1,866,344	1,745,410	1,790,949	1,616,755
Share Capital	**16,000**	16,000	16,000	16,000	16,000
Retained Earnings	**160,149**	183,919	151,399	126,882	106,891
Income Statement					
Income	**208,746**	165,287	165,556	154,481	143,159
Profit Before Taxation	**11,303**	44,118	38,842	34,933	30,341
Net Income	**18,448**	45,151	37,581	33,274	29,618
Operating Expenses	**22,888**	14,586	16,305	12,239	11,913
Earnings Per Share	**$1.15**	$2.83	$2.34	$2.08	$1.85

10 year Overview



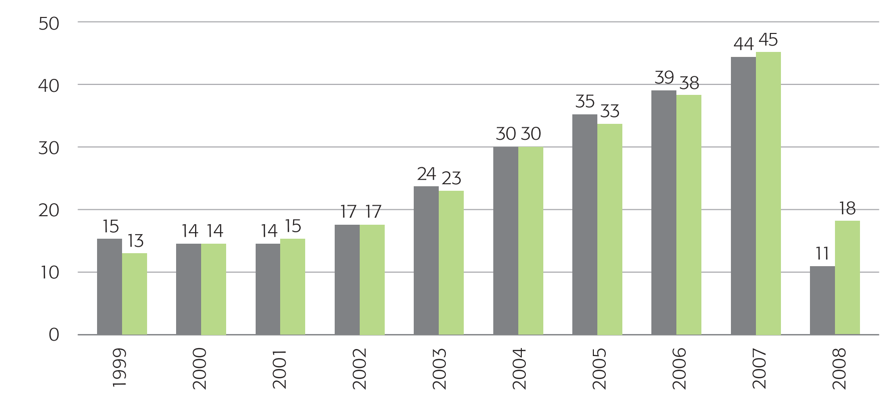
TOTAL BONDS IN ISSUE

$ Millions



TOTAL ASSETS

$ Millions



COMPARATIVE NET INCOME

$ Millions

Profit before Taxation
Profit after Taxation

Board *of* Directors

As at 31st December, 2008

CALDER HART
CHAIRMAN

Mr. Calder Hart served the Bank for over 20 years, then resigned from his position as Chief Executive Officer of the Bank in July 2006. Mr. Hart remained as a Director of the Bank after his resignation as the Chief Executive Officer and was appointed as Chairman in November 2008. For financial year 2008, Mr. Hart was the Chairman of the Urban Development Corporation of Trinidad & Tobago Limited, Trinidad and Tobago Mortgage Finance Company Limited, The National Insurance Board and National Insurance Properties Development Company Limited.

LUCILLE MAIR
DEPUTY CHAIRPERSON

Mrs. Lucille Mair is an Attorney-at-Law and a Partner in the firm Mair and Company, specializing in company, commercial and banking law. Mrs. Mair has vast experience in the regulation and development of the financial and securities sectors and has worked on projects for regional central banks and on various financial legislative matters. Prior to joining Mair and Co., Mrs. Mair held the positions of Corporate Secretary and Senior Manager at the Central Bank of Trinidad & Tobago. Mrs. Mair was closely involved in the establishment of Home Mortgage Bank and was Corporate Secretary from inception to August 2008.

WALTON ALLISON HILTON-CLARKE
DIRECTOR

Mr. Walton A. Hilton-Clarke is the 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.

MICHAEL ANNISETTE
DIRECTOR

Mr. Micheal Annisette is the President of The Seamen and Waterfront Workers Trade Union and the National Trade Union Centre of Trinidad & Tobago with over 35 years experience in Labour and Industrial Relations matters and is a Labour Representative on several Government and Private Boards.

Mr. Michael Annisette is currently an Independent Senator in Parliament and is also a Board Member of the Urban Development Corporation of Trinidad & Tobago.

JEFFREY MC FARLANE
DIRECTOR

Mr. Jeffrey Mc Farlane brings to the Board over 35 years experience in finance and management.

Mr. Mc Farlane is currently the Executive Director at the National Insurance Board of Trinidad & Tobago and Chairman of Arawak Cement Company Limited. He is also a member of the Board of Directors of Trinidad Cement Limited Group of Companies and National Insurance Property Development Company Limited.

SHARMILA MAHASE
CORPORATE SECRETARY

Ms. Sharmila Mahase has been with the Home Mortgage Bank for over ten years and is currently the Manager, Mortgage Operations. Ms. Mahase holds a Bachelor of Science Degree in Management Studies, a Master of Business Administration Degree and a Bachelor Degree in Law. Ms. Mahase worked at other major financial institutions prior to joining the Home Mortgage Bank and has over 16 years experience in the banking industry.

Corporate Information

MANAGEMENT

Rawle Ramlogan
Chief Executive Office (Acting) & Corporate Manager,
Securities and Investments

Laurette Kam Hong
Senior Manager, Finance and Administration

Sharmila Mahase
Manager, Mortgage Operations

CORPORATE SECRETARY

Sharmila Mahase

REGISTERED OFFICE

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 Consolidated Financial Statements for the year ended 31st December, 2008

FINANCIAL RESULTS	$ 000's
Net Profit before taxation	11,303
Taxation	7,145
Net Profit for the year	18,448
Retained earnings at the beginning of the year	183,919
	202,367
Less :	
Transfer from mortgage risk reserve	182
Dividends – Final (2007) $0.65	(10,400)
Dividends – Interim (2008) $2.00	(32,000)
Retained earnings at the end of the year	160,149

DIVIDENDS

An interim dividend of $2.00 per share was paid on July 29, 2008.

DIRECTORS' INTEREST

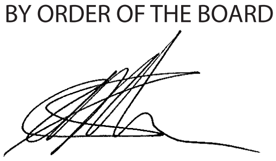
None of the Directors holds shares in the Bank.

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



Sharmila Mahase
Corporate Secretary

April 29, 2010

SHAREHOLDERS

The stated capital is 16,000,000 ordinary shares to a value of $16,000,000, subscribed as follows at 31st December, 2008 :

Institution	Amount $	%
The National Insurance Board	8,200,000	51.3
Republic Bank Limited	3,840,000	24.0
Central Bank of Trinidad and Tobago	2,400,000	15.0
The Bank of Nova Scotia Trinidad and Tobago Limited	960,000	6.0
TATIL Life Assurance Limited	500,000	3.1
British American Insurance Company (Trinidad) Limited	100,000	0.6
	16,000,000	100.0

AUDITORS' **Report**

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF HOME MORTGAGE BANK

We have audited the consolidated financial statements of Home Mortgage Bank and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 31st December, 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion

We refer to Note 16 where a net fee of $27.2 million was earned by the Group for a transaction with CL Financial Limited. In December 2009, CL Financial Limited challenged the quantum of fees earned by the Group. This matter is unresolved at the date of this report and we are unable to determine whether any adjustments were required in respect of recorded assets, fee income and retained earnings.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31st December, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 27 to the financial statements which describes the uncertainty pertaining to the settlement of a related party Guarantee. Our opinion is not qualified in respect of this matter.

Ernst + Young

Port of Spain,
TRINIDAD:
March 29th, 2010

Consolidated BALANCE SHEET

AS AT 31ST DECEMBER, 2008
Expressed in thousands of Trinidad & Tobago dollars ($'000)

	Notes	2008 $'000	2007 $'000
Assets			
Cash and short term funds	4	362,675	786,410
Investment securities	5	377,915	276,018
Interest receivable and sundry debtors		33,034	34,939
Lands for development	6	61,769	42,537
Loans and advances	7	1,155,972	932,765
Property and equipment	9	969	1,630
Capitalised bond issue costs	10	751	807
Deferred tax asset	11	9,465	2,119
Taxation recoverable		2,394	330
Total assets		2,004,944	2,077,555
Liabilities			
Other liabilities	12	35,523	39,978
Bonds in issue	13	1,781,161	1,825,005
Deferred income tax liability	11	1,001	1,361
		1,817,685	1,866,344
Shareholders' equity			
Stated capital	14	16,000	16,000
Retained earnings		160,149	183,919
		176,149	199,919
Mortgage risk reserves	15	11,110	11,292
		187,259	211,211
Total liabilities and shareholders' equity		2,004,944	2,077,555

The accompanying notes on pages 21 to 46 form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on 29th March, 2010 and signed on its behalf by:

:Director

:Director

Consolidated INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2008
Expressed in thousands of Trinidad & Tobago dollars ($'000)

	Notes	2008 $'000	2007 $'000
Income			
Mortgage interest (net)		76,098	76,894
Interest income		105,452	87,393
Other income (net)	16	27,196	1,000
		208,746	165,287
Expenditure			
Bond expenses and other costs		125,898	114,055
General and administrative expenses	17	22,888	14,586
Provision for cash and short term funds	4	48,638	-
Provision/(write back of provision) for loan losses	7	19	(2,573)
		197,443	126,068
Operating profit		11,303	39,219
Share of profits from associated bank		–	180
Profit on sale of shares in associated bank		–	4,719
Net profit before taxation		11,303	44,118
Taxation	18	7,145	1,033
Profit attributable to equity holders of the Parent		18,448	45,151
Earnings per share ($)		1.15	2.83
Number of shares ('000)		16,000	16,000

The accompanying notes on pages 21 to 46 form an integral part of these consolidated financial statements.

Consolidated statement of
CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31ST DECEMBER, 2008

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

	Stated capital $'000	Retained earnings $'000	Mortgage risk reserves $'000	Shareholders' equity $'000
Balance at 31st December, 2006	16,000	151,399	11,661	179,060
Net profit for the year	–	45,151	–	45,151
Transfer from mortgage risk reserve	–	369	(369)	–
Dividends – Final (2006) $0.45	–	(7,200)	–	(7,200)
Dividends – Interim (2007) $0.36	–	(5,800)	–	(5,800)
Balance at 31st December, 2007	16,000	183,919	11,292	211,211
Net profit for the year	–	18,448	–	18,448
Transfer from mortgage risk reserve	–	182	(182)	–
Dividends – Final (2007) $0.65	–	(10,400)	–	(10,400)
Dividends – Interim (2008) $2.00	–	(32,000)	–	(32,000)
Balance at 31st December, 2008	16,000	160,149	11,110	187,259

The accompanying notes on pages 21 to 46 form an integral part of these consolidated financial statements.

Consolidated CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2008
Expressed in thousands of Trinidad & Tobago dollars ($'000)

	2008 $'000	2007 $'000
Cash flows from operating activities		
Net profit before taxation	11,303	44,118
Adjustments for:		
Provision/(write back of provision) for loan losses	19	(2,573)
Provision for short term funds	12,638	-
Depreciation (net)	462	560
Bond issue costs amortised	161	136
Gain on sale of fixed assets	(2)	(2)
Profit on sale of shares in associated bank	–	(4,719)
Share of profits from associated bank	–	(180)
Operating profit before working capital changes	24,581	37,340
Decrease/(increase) in interest receivable and sundry debtors	1,905	(11,565)
(Decrease)/increase in other liabilities	(3,869)	2,530
Corporation taxes paid	(2,625)	(421)
Net cash generated from operating activities	19,992	27,884
Cash flows from investment activities		
Net decrease in short term funds	46,796	161,363
Sale of investments securities – available for sale	–	75,664
(Increase)/decrease in investment securities – held to maturity	(101,897)	43,099
Net decrease in guaranteed mortgage securities	(5,328)	(12,542)
Net increase/(decrease) in mortgage participation fund	106,680	(33,673)
Purchase of loans	(409,479)	(54,174)
Proceeds from repayment on mortgages	126,063	141,825
Purchase of fixed assets	(101)	(536)
Proceeds from sale of fixed assets	302	192
Development costs on land	(19,232)	(16,081)
Increase in construction loan advances	(41,162)	(29,833)
Net cash (used in)/generated from investing activities	(297,358)	275,304

The accompanying notes on pages 21 to 46 form an integral part of these consolidated financial statements.

Consolidated CASH FLOW STATEMENT *(continued)*

FOR THE YEAR ENDED 31ST DECEMBER, 2008
Expressed in thousands of Trinidad & Tobago dollars ($'000)

	2008 $'000	2007 $'000
Cash flows from financing activities		
Proceeds from bonds issued	157,900	234,357
Redemption of bonds	(201,744)	(117,481)
Bond issue costs incurred	(105)	(73)
Proceeds from sale of shares in associated bank	–	12,638
Dividends paid on share capital	(42,400)	(13,000)
Net cash (used in)/generated from financing activities	(86,349)	116,441
Net (decrease)/increase in cash and cash equivalents	(363,715)	419,629
Cash and cash equivalents		
-at the beginning of the year	547,390	127,761
-at the end of the year	183,675	547,390
Represented by:		
Cash and cash equivalents	183,675	547,976
Bank overdraft	–	(586)
	183,675	547,390
Supplemental information:		
Interest received during the year	136,677	119,612
Interest paid during the year	125,848	113,125

The accompanying notes on pages 21 to 46 form an integral part of these consolidated financial statements.

NOTES to the consolidated financial statements

FOR THE YEAR ENDED 31ST DECEMBER, 2008
Expressed in thousands of Trinidad & Tobago dollars ($'000)

1. General information

Home Mortgage Bank (the 'Group' or 'Parent') is incorporated in the Republic of Trinidad and Tobago under the Home Mortgage Bank Act 1985 and the subsequent amendments made to the Act through Act No. 17 of 2005 (the 'Amended Act'). Its principal activities are the trading of mortgages made by primary mortgage lenders and the issue of bonds for investment in housing.

On 7th November, 2008, Stone Street Capital Limited sold its 43.75% shareholding in the Group to The National Insurance Board. This acquisition of shares by The National Insurance Board increased its shareholding of 7.5% to 51.25%, and made the Group's ultimate controlling shareholder The National Insurance Board.

The Group 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.

2. Significant accounting policies

a) Basis of preparation

These consolidated financial statements are expressed in thousands of Trinidad and Tobago dollars and are prepared on a historical cost basis, except for available for sale investments that have been measured at fair value. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions. Actual results can differ from those estimates. Significant accounting judgements and estimates in applying the Group's accounting policies have been described in Note 3.

b) Adoption of IFRS during the year

The accounting policies used are consistent with those of the previous financial years. The Group has not applied the following IFRS' and IFRIC interpretations that have become effective during the financial year as these standards/interpretations do not apply to the activities of the Group:

IFRIC 12: Service concession arrangements (effective from 1st January, 2008)

IFRIC 14/IAS 19: The Limit on a defined benefit asset, Minimum Funding Requirements and their interaction (effective from 1st January, 2008)

The Group has not early adopted the following new and revised IFRS' and IFRIC interpretations that have been issued but are not yet effective:

IFRS 8 Operating Segments (effective from 1st January, 2009)

IAS 23 Borrowing Costs was amended (effective from 1st January, 2009)

IAS 32 Financial Instruments: Presentation was amended (effective from 1st January, 2009)

IAS 39 Financial Instruments: Recognition and Measurement was amended (effective from 1st July, 2009)

IFRS 2 Share-based Payment was amended (effective from 1st January, 2009)

IFRS 3 Business Combinations was amended (effective from 1st July, 2009)

NOTES **to the consolidated financial statements**

FOR THE YEAR ENDED 31ST DECEMBER, 2008
Expressed in thousands of Trinidad & Tobago dollars ($'000)

2. Significant accounting policies *(continued)*

b) Adoption of IFRS during the year *(continued)*

IFRS 1 First-time Adoption and IAS 27 Consolidated and Separate Financial Statements was amended (effective from 1st January, 2009)

IAS 1 Presentation of Financial Statements was revised (effective 1st January, 2009)

IFRIC 13 Customer Loyalty Programmes (effective from 1st July, 2008)

IFRIC 15 Agreements for the Construction of Real Estate (effective from 1st January, 2009)

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective from 1st October, 2008)

IFRIC 17 Distributions of Non-cash Assets to Owners (effective from 1st July, 2009)

IFRIC 18 Transfers of Assets from Customers (effective from 1st July, 2009)

In May 2008, the International Accounting Standards Board issued "Improvements to IFRSs", which is part of its annual improvements project, and a vehicle for making non-urgent but necessary amendments to various IFRSs. These amendments primarily become effective for annual periods beginning on or after 1st January, 2009. The following table shows the IFRSs and topics addressed by these amendments:

IFRS	Subject of Amendment
Part I	**Amendments that result in accounting changes for presentation, recognition and measurement purposes**
IFRS 5	Plan to sell the controlling interest in a subsidiary.
IAS 1	Current/non-current classification of derivatives.
IAS 16	Recoverable amount.
IAS 19	Curtailments and negative past service cost. Plan administration costs. Replacement of term "fall due". Guidance on contingent liabilities.
IAS 20	Government loans with a below-market interest rate.
IAS 23	Components of borrowing costs.
IAS 27	Measurement of subsidiary held for sale in separate financial statements.
IAS 28	Required disclosures when investments in associates are accounted for at fair value through profit or loss.
IAS 29	Description of measurement basis in financial statements.
IAS 31	Required disclosures when investments in jointly controlled entities are accounted for at fair value through profit or loss.
IAS 36	Disclosure of estimates used to determine recoverable amount.
IAS 38	Advertising and promotional activities. Unit of production method of amortization.
IAS 39	Reclassification of derivatives into or out of the classification at fair value through profit or loss. Designating and documenting hedges at the segment level. Applicable effective interest rate on cessation of fair value hedge accounting.
IAS 40	Property under construction or development for future use as investment property.
IAS 41	Discount rate for fair value calculations.

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2. Significant accounting policies *(continued)*

b) Adoption of IFRS during the year *(continued)*

IFRS	Subject of Amendment
Part II	**Amendments that are terminology or editorial changes only**
IFRS 7	Presentation of finance costs.
IAS 8	Status of implementation guidance.
IAS 10	Dividends declared after the end of the reporting period.
IAS 18	Costs of originating a loan.
IAS 20	Consistency of terminology with other IFRSs.
IAS 29	Consistency of terminology with other IFRSs.
IAS 34	Earnings per share disclosures in interim financial statements.
IAS 40	Consistency of terminology with IAS 8. Investment property held under lease.
IAS 41	Examples of agricultural produce and products. Point-of-sale costs.

c) Basis of consolidation

Group

The consolidated financial statements comprise the financial statements of 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.

d) Revenue recognition

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

e) Financial instruments

The Group's financial assets and financial liabilities are recognised in the balance sheet when it becomes party to the contractual obligation of the instrument. A financial asset is derecognised when the rights to receive the cash flows from the asset have expired or where the Group has transferred all the risks and rewards of ownership of the asset. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. All 'regular way' purchases and sales are recognised at settlement date.

NOTES **to the consolidated financial statements**

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2. Significant accounting policies *(continued)*

e) Financial instruments *(continued)*

Loans and advances

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.

Construction loan advances represent advances made by the Group or through the Group's approved lenders to mortgagors on new residential construction and/or to project developers. These advances are stated at the principal balances outstanding and are secured by a first mortgage over real property. On completion of construction these advances are converted to mortgages.

Other loan advances represent secured short term loan facilities, which are measured at amortised cost using the effective interest rate method, calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in 'interest income' in the Income Statement. The losses arising from impairment are recognized in the income statement in 'provision for loan losses'.

Investment securities

The Group classifies its investment securities into the following categories:

i) Available-for-sale

ii) Held to maturity

i) 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 consolidated income statement.

ii) Held to maturity

Held to maturity investments are financial assets with fixed or determined payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held to maturity investments are carried at amortised cost less any provision for impairment.

Financial liabilities

Financial liabilities (bonds in issue) are recognised initially at fair value net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

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2. Significant 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 Group. The pools of mortgages are not assets of the Group, except when reacquired in the event of default.

For Gareemics, the Group 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 & 24).

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 in part or in full. (Refer to Notes 7 & 25).

g) Lands for development

Lands for development are accounted for at the lower of cost (plus other direct expenses incurred in the acquisition and the development of these properties) and net realizable value. (Refer to Note 6).

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 10).

j) Pension benefits

The Group operates a defined contribution pension plan which covers all of its eligible employees. The Group's contribution expense in relation to this plan for the year amounts to $3,791,235 (2007: $3,068,559).

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.

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 consolidated financial statements**

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2. Significant accounting policies *(continued)*

n) Impairment of financial assets

Financial assets 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 the future cash flows.

All non-performing and individually significant advances are individually reviewed and specific provisions made for the impaired portion based on the realisable value of the loan collateral and discounted by the original effective interest rate of the loan. The provision made is the difference between the loan balance and the discounted value of the collateral.

Other loan loss requirements that exceed these amounts are dealt with in the mortgage risk reserve as an appropriation of retained earnings.

When all efforts have been exhausted to recover a non-performing loan, that loan is deemed uncollectible and written off against the related provision for loan losses.

o) Comparative information

Certain changes in presentation have been made in these financial statements. These changes had no effect on the operating results, profit after tax or earnings per share of the Group for the previous year.

3. Significant accounting judgements and estimates in applying the Group's accounting policies

Management has made the following judgements in its application of the Group's accounting policies which have the most significant effect on the amounts reported in the financial statements.

Impairment of financial assets

Management makes judgements at each balance sheet date to determine whether financial assets are impaired. Financial assets 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 the future cash flows.

Valuation of investments

The Group has applied IAS 39 in its classification of investment securities which requires measurement of securities at fair value. For unquoted instruments and unlisted securities, fair values are estimated using price/earnings or price/cash flow ratios which have been refined to accommodate the specific circumstances of the issuer.

Lands for development

An impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less cost to sell calculation is based on Management's estimates in an arm's length transaction of similar assets or observable market prices less incremental costs for completing and disposing of the asset. The value of use calculation is based on a discounted cash flow model. The cash flow are derived Management's estimates. The recoverable amount is most sensitive to the discount rate used for the discounted model as well as the expected future cash flows.

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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	2008 $'000	2007 $'000
4. Cash and short term funds		
Cash and cash equivalents	219,675	547,976
Less: Provision for cash and cash equivalents	(36,000)	–
	183,675	547,976
Fixed deposits with original maturities greater		
than three months	191,638	238,434
Less: Provision for fixed deposits	(12,638)	–
	179,000	238,434
Total Cash and short term funds	362,675	786,410
Provision for cash and short term funds		
Provision brought forward	–	–
Net charge against income:		
Cash and cash equivalents	36,000	–
Fixed deposits	12,638	–
Provision carried forward	48,638	–

The average effective interest rate on cash and short term funds for the current year is 9.39% (2007: 8.35%).

On 30th January, 2009, the Central Bank of Trinidad and Tobago ('CBTT') intervened in the operations of Clico Investment Bank Limited ('CIB') and took control of that entity under Section 44D of Central Bank Act Chap. 72:02. The Group held funds totalling $48.6 million with CIB as at the date of the intervention. These facilities matured in the first quarter of 2009 and have not yet been repaid. These funds represent $36.0 million Investment Note Certificates and $12.6 million Certificate of Deposit. The Government has stated that it will guarantee to honour all third party deposits of CIB. The Group is of the opinion that these investments will be covered under the Government's guarantee and it will continue to pursue the recovery thereof. The Group has taken a decision to make a full provision for these investments on the basis of prudence and the uncertainty of timing of recovery.

Also included in Cash and short term funds are deposits amounting to $70 million due from C. L. Financial Limited secured, via a pledge, by shares quoted on the Trinidad and Tobago Stock Exchange. These facilities matured in April 2009 and were not repaid, resulting in the Group calling on the pledge and taking control of the shares. At the year end, the value of the collateral exceeded the outstanding loan balance and no provision was required. However at the date of this report, the outstanding loan balance inclusive of interest has been liquidated via the application of collateral effective 31st December, 2009.

Refer to Note 21 – Credit Quality per class of financial assets.

NOTES to the consolidated financial statements

FOR THE YEAR ENDED 31ST DECEMBER, 2008
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		2008 $'000	2007 $'000
5. Investment securities			
Held to maturity			
Corporate bonds		347,915	246,018
Government bonds		30,000	30,000
		377,915	276,018

The average effective interest rate on Investment securities for the current year is 8.92% (2007: 8.59%).

		2008 $'000	2007 $'000
6. Lands for development			
Balance brought forward		42,537	26,456
Costs incurred for the year		19,232	16,081
Balance carried forward		61,769	42,537

The Group entered into a fixed price contract for the construction of twenty (20) villas at Petit Trou, Tobago. The Group has outstanding commitments amounting to $5,304,531 at 31st December, 2008 (2007: $22,797,020).

		2008 $'000	2007 $'000
7. Loans and advances			
Retained mortgages loans	7(a)	698,133	818,488
Construction loan advances	7(b)	155,439	114,277
Other loans	7(c)	302,400	–
		1,155,972	932,765
(a) Retained mortgage portfolio			
Principal balances and unamortised discounts:			
Balance at the beginning of the year		1,118,044	1,206,807
New mortgage/transfers from construction loan advances		107,079	53,062
Principal balances and unamortised discounts:			
Less: Principal repayments		(126,063)	(141,825)
		1,099,060	1,118,044
Less: Specific provision for doubtful mortgages		(494)	(475)
Less: Guaranteed Mortgage Investment Certificates (Gareemics)		(33,542)	(38,870)
Less: Mortgage Participation Fund		(366,891)	(260,211)
Balance at the end of the year		698,133	818,488

FOR THE YEAR ENDED 31ST DECEMBER, 2008
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	2008 $'000	2007 $'000
7. Loans and advances *(continued)*		
Specific provision for loan losses		
Provision brought forward	475	4,160
Write offs	–	(1,112)
Net charge/(write back) to income	19	(2,573)
Provision carried forward	494	475
Represented by:		
Mortgages with recourse	28,479	39,987
Mortgages without recourse	669,654	778,501
Balance at the end of the year	698,133	818,488

The average effective interest rate on the retained mortgage portfolio for the current year is 8.62% (2007: 8.86%).

(b) Construction loan advances

These represent advances made through the Group's approved lenders to mortgagors on new residential construction and/or to project developers. These advances are secured by a first mortgage over real property.

	2008 $'000	2007 $'000
Balance brought forward	114,277	84,444
New advances	124,158	87,559
Advances converted to mortgages	(82,996)	(57,726)
Balance carried forward	155,439	114,277

The average effective interest rate on construction loan advances for the current year is 8.00% (2007: 7.95%).

(c) Other loans

	2008 $'000	2007 $'000
New loan	302,400	–

The Group entered into a short term loan with a related party, secured by a basket of shares all quoted on the Trinidad and Tobago Stock Exchange. This facility matured in February 2009 and was not repaid, resulting in the Group calling on the pledge and taking control of the basket of shares. At the date of this report, the outstanding loan balance inclusive of interest has been liquidated via the application of collateral effective 31st December, 2009.

8. Investment in associated bank

	2008 $'000	2007 $'000
Balance at beginning of year	–	7,739
Share of current year profit	–	180
Disposal of shares	–	(7,919)
Balance at end of year	–	–

In March 2007, the Group sold its 20% shareholding of twenty thousand F Class shares in the Eastern Caribbean Home Mortgage Bank to CLICO International Life Insurance Limited, Barbados for a consideration of $12.6 million.

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	Furniture, fixtures, office machinery & equipment	Motor vehicles	Total 2008 $'000	Total 2007 $'000
9. Property and equipment				
Cost				
Balance brought forward	3,282	1,286	4,568	4,807
Additions	101	–	101	536
Disposals	(160)	(494)	(654)	(775)
Cost carried forward	3,223	792	4,015	4,568
Depreciation				
Balance brought forward	2,478	460	2,938	2,963
Charge for the year	161	301	462	560
Disposals	(117)	(237)	(354)	(585)
Depreciation carried forward	2,522	524	3,046	2,938
Net book value	701	268	969	1,630

	2008 $'000	2007 $'000
10. Capitalised bond issue costs		
Balance at the beginning of the year	807	870
Add: Costs incurred during the year	105	73
	912	943
Less: Costs amortised during the year	(161)	(136)
Balance at the end of the year	751	807

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	2008 $'000	2007 $'000
11. Components of deferred tax asset and deferred tax liability		
Deferred income tax asset:		
Tax losses	9,465	2,119

As at 31st December, 2008, the Group had unutilised tax losses of $37,858,917 (2007: $8,478,059). These losses have not yet been agreed by the Board of Inland Revenue.

	2008 $'000	2007 $'000
Deferred income tax liability:		
Discount on purchase of Mortgage Pools	777	1,086
Bond issue costs	188	202
Property and equipment	36	73
	1,001	1,361

Note:

The Group 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.

	2008 $'000	2007 $'000
12. Other liabilities		
Interest payable on bonds	25,135	28,444
Sundry creditors and accruals	9,449	10,084
Gareemic holders payable	939	864
Bank overdraft	–	586
	35,523	39,978

	2008 $'000	2007 $'000
13. Bonds in issue		
Balance at the beginning of the year	1,825,005	1,708,129
Add: Issues during the year	157,900	234,357
Less: Redemptions during the year	(201,744)	(117,481)
Balance at the end of the year	1,781,161	1,825,005

Notes:

(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 Group. The average effective interest rate on bonds in issue for the current year is 6.82% (2007: 6.64%).

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	2008 $'000	2007 $'000
13. Bonds in issue *(continued)*		
(b) The amounts outstanding on bonds issued are redeemable as follows:		
Within 1 year	232,230	201,744
1 to 2 years	511,090	232,230
2 to 3 years	160,515	447,060
3 to 4 years	180,617	160,515
4 to 5 years	215,935	180,617
Over 5 years	480,774	602,839
	1,781,161	1,825,005
(c) Tax free bonds	487,891	600,000
Other bonds	1,293,270	1,225,005
	1,781,161	1,825,005

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

14. Stated capital

Authorised

An unlimited number of ordinary shares of no par value.

Issued and fully paid

	2008 $'000	2007 $'000
16,000,000 ordinary shares of no par value	16,000	16,000

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.

16. Other income (net)

	2008 $'000	2007 $'000
Other income	47,603	1,000
Less: Legal and professional fees	(20,407)	–
	27,196	1,000

This income represents the Group's portion of a one-off fee earned for negotiating and arranging financing for a related party to acquire the issued and outstanding preference and ordinary shares of a targeted entity for an agreed fee. The related party in 2008 confirmed that it had acquired majority interest in the targeted entity. The Group together with two other parties worked on the transaction and the fees were shared among the parties. In December 2009, the related party, under a new Board of Directors, wrote to the Group challenging the quantum of fees earned by the Group. The Group considers that this challenge is without merit.

NOTES to the consolidated financial statements

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	2008 $'000	2007 $'000
17. General & administrative expenses		
Staff costs	15,771	8,672
Accommodation expenses	1,173	1,190
Other operating expenses	5,944	4,724
	22,888	14,586
Included within general and administrative expenses are the following charges:		
Depreciation (net)	462	560
Directors' fees	743	851

18. Taxation charge for the year

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

	2008 $'000	2007 $'000
Accounting profit	11,303	44,118
Tax at the statutory rate of 25%	(2,826)	(11,029)
Tax effect of items that are adjustable in determining taxable profit:		
Tax exempt income	10,981	13,008
Other permanent differences	(1,010)	(946)
	7,145	1,033
Current year's tax provision:		
Business levy	(344)	(253)
Green fund levy	(216)	(174)
Deferred income tax	7,705	1,027
Prior year over-provision	–	433
Taxation for the year	7,145	1,033

19. Related party transactions and balances

In accordance with International Accounting Standard 24, parties are considered to be related if, directly or indirectly, 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.

During the financial year 2007, CL Financial Group was a related party on the basis that a subsidiary, Colonial Life Insurance Company (Trinidad) Limited ('Clico') had a 43.75% shareholding in the Group. In May 2007, Clico disposed of its 43.75% shareholding in the Group. Notwithstanding the disposal of Clico's shareholding, for financial year 2008, CL Financial Group is considered a related party indirectly because of Republic Bank Limited (a subsidiary of CL Financial Limited) having a 24% shareholding in the Group.

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	2008 $'000	2007 $'000
19. Related party transactions and balances *(continued)*		
Outstanding balances		
Loans, investments and other assets		
CL Financial Group (net of provisions)	409,401	373,409
Provision for amounts due from related parties	48,638	–
Directors and key management personnel	12,543	14,544
Bonds in issue and other liabilities		
CL Financial Group	274,470	296,060
The National Insurance Board	122,750	–
Directors and key management personnel	5,984	2,553
Interest and other income		
CL Financial Group	96,815	39,534
Associates	–	180
Directors and key management personnel	1,086	1,022
Bond Interest and other expense		
CL Financial Group	32,562	18,868
The National Insurance Board	9,780	–
Directors and key management personnel	235	153
Key management compensation		
Short term benefits	10,133	2,699
Post employment benefits	2,904	1,937

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

20. Mortgage commitments

The Group has issued standby commitments to purchase mortgages, of which undrawn balances amount to $61,165,428 at 31st December, 2008 (2007: $99,715,582).

21. Risk management

The Group's activities are primarily related to the purchase of mortgages from primary mortgage lenders and direct mortgage lending. The Group accesses the capital market to raise funding by the issuance of securities to on-lend in the longer term mortgage market. The capital market activity allows the Group to access funding for shorter tenors at lower cost and thereby earning a positive spread in its mortgage activity.

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring. This process of risk management is critical to the Group's continuing profitability. The Group is exposed to credit risk, liquidity risk, market risk, interest rate risk and operating risk.

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21. Risk management *(continued)*

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Risk management committee

The purpose of the committee is to assist the Board in overseeing the Group's risk management, including overseeing the management of credit risk, market risk, liquidity risk and operational risk.

The committee carries out its risk management oversight function by:

- Reviewing and assessing the quality, integrity and effectiveness of the risk management systems
- Overseeing the development of policies and procedures designed to:
  - (a) Define, measure, identify and report on credit, market, liquidity, counterparty and operational risk; and
  - (b) Establish and communicate risk management controls throughout the Group
- Ensuring that the Group has implemented an effective ongoing process to identify risk, to measure its potential impact against a broad set of assumptions and then to activate what is necessary to pro-actively manage these risks, and to decide the Group's appetite or tolerance for risks
- Reviewing management reports detailing the adequacy and overall effectiveness of risk management, its implementation by management, reports on internal control and any recommendations and confirm that appropriate action has been taken
- Providing an independent and objective oversight and view of the information presented by management on corporate accountability and specifically associated risk
- Keep the board informed on risk exposures and risk management activities through the submission of periodic reports from management

Bank treasury

Bank Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept.

Information compiled is examined in order to analyse, control and identify early risks. Management assesses the appropriateness of the allowance for credit losses on a semi-annual basis. The Board of Directors receives a report of arrears by portfolio on a monthly basis.

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21. Risk management *(continued)*

Excessive risk concentration

The Group reviews its residential mortgage concentration to prevent over exposure in any area or any residential housing development.

The Group manages its investment portfolio by focusing on maintaining a diversified portfolio and concentration percentages.

Identified concentrations of credit risks are controlled and managed accordingly.

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. The Group's credit control processes emphasize early detection of deterioration and prompt implementation of remedial action. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Where the recovery of the outstanding liability may be doubtful or unduly delayed, such accounts are transferred from performing to non-performing status. Loan loss provisions are set aside to cover any potential loss in respect of non-performing mortgages. These provisions are reviewed semi-annually.

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	Gross maximum exposure 2008 $'000	Gross maximum exposure 2007 $'000
Gross mortgage portfolio	1,101,321	1,117,857
Construction advances	155,439	114,277
Other loans	302,400	–
Investment securities – held to maturity	377,915	276,018
Cash and short term funds	411,313	786,410
Total gross financial assets	2,348,388	2,294,562
Mortgage commitments	61,165	99,716
Total	61,165	99,716
Total credit risk exposure	2,409,553	2,394,278

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21. Risk management *(continued)*

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral.

The main types of collateral obtained are as follows:

- For investments securities lending and reverse repurchase transactions, cash or real estate securities
- For residential lending, mortgages over residential properties

Management monitors the market value of collateral at the point of granting the mortgage commitment and during its review of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Group does not occupy repossessed properties.

Credit quality per class of financial assets

The tables below show the credit quality by the classes of financial assets.

Loans and advances	High grade $'000	Standard grade $'000	Sub-standard grade $'000	Individually impaired $'000	Total $'000
31st December, 2008					
Gross balance	1,016,449	236,550	2,208	303,953	1,559,160
Fair value of collateral				303,459	
Net exposure				494	
Less provision				(494)	
				–	
Gross balance %	65.2%	15.2%	0.1%	19.5%	100.0%
Net balance %	81.0%	18.8%	0.2%	–	100.0%
31st December, 2007					
Gross balance	1,163,189	61,850	5,496	1,599	1,232,134
Fair value of collateral				1,124	
Net exposure				475	
Less provision				(475)	
				–	
Gross balance %	94.4%	5.0%	0.4%	0.2%	100.0%
Net balance %	94.5%	5.0%	0.5%	–	100.0%

NOTES **to the consolidated financial statements**

FOR THE YEAR ENDED 31ST DECEMBER, 2008
Expressed in thousands of Trinidad & Tobago dollars ($'000)

21. Risk management *(continued)*

Credit quality per class of financial assets *(continued)*

Loans and advances to mortgagors are 'classified' according to the arrears position as at the end of the financial year in addition to other risk factors. High grade advances are where loan payments are up to date. Standard grade advances are no more than six months in arrears and sub-standard advances over six months in arrears. Individually impaired are advances that are being closely monitored and specific provisions made for the impaired portion.

Investment securities	High grade $'000	Standard grade $'000	Sub-standard grade $'000	Individually impaired $'000	Total $'000
31st December, 2008					
Gross balance	297,915	80,000	–	–	377,915
Total investment securities	297,915	80,000	–	–	377,915
Gross balance %	78.8%	21.2%	0.0%	0.0%	100.0%
31st December, 2007					
Gross balance	276,018	–	–	–	276,018
Total investment securities	276,018	–	–	–	276,018
Gross balance %	100.0%	0.0%	0.0%	0.0%	100.0%

Cash and short term funds	High grade $'000	Standard grade $'000	Sub-standard grade $'000	Individually impaired $'000	Total $'000
31st December, 2008					
Gross balance	–	292,675	–	118,638	411,313
Fair value of collateral				70,000	
Net exposure				48,638	
Less: Provision				(48,638)	
				–	
Gross balance %	0.0%	71.2%	0.0%	28.8%	100.0%
Net balance %	0.0%	80.7%	0.0%	19.3%	100.0%
31st December, 2007					
Gross balance	121,420	664,990	–	–	786,410
Gross balance %	15.4%	84.6%	0.0%	0.0%	100.0.%

Refer to Note 4

FOR THE YEAR ENDED 31ST DECEMBER, 2008
Expressed in thousands of Trinidad & Tobago dollars ($'000)

21. Risk management *(continued)*

Credit quality per class of financial assets *(continued)*

Investment securities and cash and short term funds are graded as 'high grade' where the instruments were issued by Government and government-related organisations. Standard grade assets comprise of instruments issued by other reputable financial institutions. Individually impaired investments are securities that are not operating in accordance with the agreed upon terms and conditions. These are being closely monitored and specific provisions made for the impaired portion.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group from both its loans and advances portfolio and investment securities based on the following:

- 80.4% of the loans and advances portfolio is categorized in the top two grades of the grading system (2007: 99.3%)
- Mortgage loans and advances, which represent 66.4% (2007: 53.6%) of financial assets, are backed by collateral

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 180 days or there are any known difficulties in the cash flows of mortgagors or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the availability of other financial support and the realization value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is not yet objective evidence of individual impairment.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk arises from fluctuations of cash flows. The liquidity risk management process ensures that the Group is able to honour all of its financial commitments as they fall due. To limit this risk, management has arranged diversified funding sources in addition to its core investment base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs.

NOTES to the consolidated financial statements

FOR THE YEAR ENDED 31ST DECEMBER, 2008
Expressed in thousands of Trinidad & Tobago dollars ($'000)

21. Risk management *(continued)*

Liquidity risk and funding management *(continued)*

The table below summaries the maturity profile of the Group's financial liabilities at 31st December, 2008 based on contractual undiscounted repayment obligations, over the remaining life of those liabilities. These balances include interest to be paid over the remaining life of the liabilities and will therefore be greater than the carrying amounts on the balance sheet.

Financial Liabilities	Within 1 year $'000	1 - 2 years $'000	2 – 3 years $'000	3 - 4 years $'000	4 – 5 years $'000	Over 5 years $'000	Total $'000
As at 31st December, 2008							
Mortgage participation fund	366,891	–	–	–	–	–	366,891
Collaterised mortgage obligation	33,542	–	–	–	–	–	33,542
Bonds in issue	232,230	511,090	160,515	180,617	215,935	480,774	1,781,161
Interest payable on Bonds	118,819	95,274	68,549	52,926	45,553	80,851	461,972
Total undiscounted financial liabilities	751,482	606,364	229,064	233,543	261,488	561,625	2,643,566
As at 31st December, 2007							
Mortgage participation fund	260,211	–	–	–	–	–	260,211
Collaterised mortgage obligation	38,870	–	–	–	–	–	38,870
Bonds in issue	201,744	232,230	447,060	160,515	180,617	602,839	1,825,005
Interest payable on Bonds	122,781	106,678	85,670	61,420	45,728	104,685	526,962
Total undiscounted financial liabilities	623,606	338,908	532,730	221,935	226,345	707,524	2,651,048

FOR THE YEAR ENDED 31ST DECEMBER, 2008
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21. Risk management *(continued)*

Liquidity risk and funding management *(continued)*

The table below summaries the maturity profile of the Group's financial assets at 31st December 2008.

Financial Assets	Within year $'000	1 - 2 years $'000	2 – 3 years $'000	3 - 4 years $'000	4 – 5 years $'000	Over 5 years $'000	Total $'000
As at 31st December, 2008							
Cash and short term Funds	258,675	104,000	–	–	–	–	362,675
Investments securities	196,904	71,011	–	–	–	110,000	377,915
Interest receivables and sundry debtors	33,034	–	–	–	–	–	33,034
Loans and Advances	507,572	56,774	64,185	52,429	56,478	418,534	1,155,972
Total financial assets	996,185	231,785	64,185	52,429	56,478	528,534	1,929,596
As at 31st December, 2007							
Cash and short term funds	682,410	–	104,000	–	–	–	786,410
Investments securities	246,018	–	–	–	–	30,000	276,018
Interest receivable and sundry debtors	34,939	–	–	–	–	–	34,939
Loans and advances	72,116	150,513	43,138	50,069	55,864	561,065	932,765
Total financial assets	1,035,483	150,513	147,138	50,069	55,864	591,065	2,030,132

NOTES **to the consolidated financial statements**

FOR THE YEAR ENDED 31ST DECEMBER, 2008
Expressed in thousands of Trinidad & Tobago dollars ($'000)

21. Risk management *(continued)*

Liquidity risk and funding management *(continued)*

The table below shows the contractual expiry by maturity of the Group's commitments.

	On demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2008						
Commitments	–	–	61,165	–	–	61,165
2007						
Commitments	–	–	38,149	61,567	–	99,716

The Group expects that not all of its commitments will be drawn before expiry of the commitments.

Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices such as interest rate risk and other price risk trading portfolios. The Group has no significant concentration of market risk.

Interest rate risk

The Group 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 as follows:

a) Financial assets

Loans and advances

The Group has the ability to vary interest rates on its variable rate portfolios by giving three to six months notice to mortgagors. The variable rate portfolios account for 93.9 % of the total gross mortgage portfolio as at 31st December, 2008 (2007: 89.8%).

In addition, the rates on the fixed rate portfolios are only fixed for periods ranging between three to ten years, after which the mortgages convert to variable rate mortgages.

b) Financial liabilities

Bonds in issue

The Group has the ability to reset rates on its floating rate bonds on any semi-annual interest payment date. This rate is calculated at 50% of the average prime residential mortgage rates plus a spread ranging between 1.25% and 3.25%.

Additionally, all bonds are callable at par on any semi-annual interest payment date.

NOTES **to the consolidated financial statements**

FOR THE YEAR ENDED 31ST DECEMBER, 2008
Expressed in thousands of Trinidad & Tobago dollars ($'000)

21. Risk management *(continued)*

Interest rate risk *(continued)*

b) Financial liabilities (continued)

Mortgage participation fund

The Group has the ability to vary this rate at any time.

Collateralised Mortgage Obligations

The rates paid on Collateralised Mortgage Obligations (CMO) are linked to the rates on the mortgage pools which back this financial liability. The mortgages backing this fundraising instrument are all variable rate mortgages. Therefore upward or downward movements in the variable interest rate will be matched by upward or downward movements in interest paid to CMO investors.

The table below shows the Group's financial assets and liabilities categorized by type of interest rate.

	Variable rate 2008 $'000	Fixed rate 2008 $'000	Total 2008 $'000	Variable rate 2007 $'000	Fixed rate 2007 $'000	Total 2007 $'000
Loans and advances						
Balance ($000)	1,463,843	95,317	1,559,160	1,118,008	114,126	1,232,134
%	93.9 %	6.1%	100.0%	90.7 %	9.3%	100.0%
Bonds in issue						
Balance ($000)	103,080	1,678,081	1,781,161	146,410	1,678,595	1,825,005
%	5.8%	94.2%	100.0%	8.0%	92.0%	100.0%

The table below shows the maturity profiles for the Group's fixed rate mortgages to revert to variable rate mortgages.

	Within 1 year $'000	1 – 3 years $'000	3 – 5 years $'000	5 – 7 years $'000	7 – 10 years $'000	Total $'000
2008						
Fixed rate loans and Advances	12,534	2,243	1,430	44,230	34,880	95,317
%	13.1%	2.4%	1.5%	46.4%	36.6%	100.0%
2007						
Fixed rate loans and advances	9,083	12,413	607	17,251	74,772	114,126
%	8.0%	10.9%	0.5%	15.1%	65.5%	100.0%

NOTES to the consolidated financial statements

FOR THE YEAR ENDED 31ST DECEMBER, 2008
Expressed in thousands of Trinidad & Tobago dollars ($'000)

21. Risk management *(continued)*

b) Financial liabilities *(continued)*

Sensitivity analysis

The Group has been a market-maker in terms of mortgage rates and therefore it is not the policy of the Group to follow the market in terms of average mortgage rates.

However, it should be noted that the majority of the Group's financial assets are held in loans and advances to mortgagors. Variable rate mortgages account for 93.9% (2007: 89.8%) of the mortgage pool which gives the Group the ability to change interest rates if needed, within a short time frame. Also, a significant amount of the Group's liabilities are held in Bonds which are callable at par on any semi-annual interest payment date.

Therefore, the Group can quickly respond to any changes in interest rates, driven by the Financial Services Sector or Government, if needed and re-price its assets and liabilities.

Because of the above, management does not believe that any changes in interest rates would have a significant impact on net income or equity.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

22. Capital

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business

The Group maintains mortgage risk reserves as part of its capital structure. This represents amounts set aside as collectively assessed allowances for losses on loans and advances; 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.

23. Financial instruments

The Group calculates the estimated fair value of all financial instruments at the balance sheet date and separately discloses this information where these fair values are different from the net book values.

Financial instruments where carrying value is assumed to approximate their fair values, due to their short-term to maturity, include cash and short term funds, interest receivable, construction loan advances, other assets and other liabilities.

The carrying value of bonds in issue approximates their fair values as all bonds are callable at par on any of their semi-annual interest payment dates.

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23. Financial instruments *(continued)*

Retained mortgage portfolio is net of specific provisions for impairment. The fair value of performing mortgages is assumed to be equal to the present value of estimated future cash flows discounted at the current market rate of return.

The following table summarises the carrying amounts and the fair values of the Group's financial assets and liabilities:

	Carrying value $'000	Fair value $'000
2008		
Financial assets		
Cash and short term funds	362,675	362,675
Investment securities	377,915	388,667
Interest receivable	25,885	25,885
Mortgages	698,133	688,453
Construction loan advances	155,439	155,439
Other loans	302,400	302,400
Financial liabilities		
Bonds in issue	1,781,161	1,781,161
Bond interest payable	25,135	25,135
2007		
Financial assets		
Cash and short term funds	786,410	786,410
Investment securities	276,018	275,859
Interest receivable	20,641	20,641
Mortgages	818,488	823,496
Construction loan advances	114,277	114,277
Financial liabilities		
Bonds in issue	1,825,005	1,825,005
Bond interest payable	28,444	28,444

24. Guaranteed Mortgage Investment Certificates (Gareemics)

As issuer and guarantor of Gareemics, the Group 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 Group is also obligated to disburse unscheduled principal payments received from borrowers. At 31st December, 2008 the outstanding balances of securitised mortgages and the related Gareemics issued amounts to $33,541,815 (2007: $38,870,188).

NOTES **to the consolidated financial statements**

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24. Guaranteed Mortgage Investment Certificates (Gareemics) *(continued)*

The Group'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 Group or other credit enhancements were 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 Group however, bears the ultimate risk of default.

25. Mortgage participation fund (MPF)

This fund is backed by mortgage and/or other securities. At 31st December, 2008, the outstanding balance of securitized mortgages and related MPF outstanding amounts to $366,891,248 (2007: $260,211,183).

26. Employees

At 31st December, 2008, the Group had in its employ a staff complement of 15 employees (2007: 17).

27. Guarantee

As at 31st December 2008, the Group had issued a guarantee for $142 million to secure a short-term loan for a related party. This guarantee was secured by the pledge of quoted securities from two subsidiaries of Clico Investment Bank. The guarantee was settled solely from the liquidation of the collateral security on 30th June, 2009.

By letter dated 26 March, 2010, the statutory Manager of Clico Investment Bank advised that the pledges were unauthorized and invalid. The Group has received legal advice that the statutory Manager's position is without merit and the transaction is valid.

NOTICE **of annual general meeting**

To all Shareholders of Home Mortgage Bank

TWENTY-THIRD ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Twenty-Third Annual General Meeting of Home Mortgage Bank will be held in the Board Room of Home Mortgage Bank, 14th Floor, Central Bank Tower, on the 29th day of April, 2010 at 1:30 p.m. when the following business will be transacted:

1. To receive and consider the Report of the Directors and the Audited Consolidated Financial Statements including the Report of the Auditors for the year ended 31st December, 2008.
2. To ratify the appointment of the Auditors for the financial year 2009 and to authorise the Directors to fix their remuneration.
3. Any other business.

Dated the 8th April, 2010.

By Order of the Board

Sharmila Mahase
Corporate Secretary

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