Annual Report 09

no place like our home

HOME MORTGAGE BANK

Your Future Starts with HMB

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.

Contents

Chairman's Review 4

Five Year Review 8

Ten Year Overview 9

Board of Directors 10

Residential Mortgage Programmes 12

Corporate Information 14

Directors' Report 15

Shareholders 16

Auditor's Report 17

Consolidated Financial Statements 18

Notice of Annual General Meeting 46

Chairman's Review

LUCILLE MAIR ■ Chairman (Ag)

Overview

The adverse economic environment of 2008 continued into 2009 and The Home Mortgage Bank, like many other companies, faced a very challenging year. Trinidad and Tobago experienced a reduction in capital expenditure and projects investment, in manufacturing, oil and gas receipts, in tourist arrivals and a decline in jobs.

Recovery from the global financial crisis is progressing at different speeds around the globe but is not expected to show growth until 2010. The Trinidad and Tobago economy is largely fuelled by energy prices which are volatile, but which are trending upwards. The country also faces challenges in its regional export market in that demand for locally produced goods will continue to soften if economic pressures facing our CARICOM trading partners continue to weaken their purchasing power.

Commercial banks' prime lending rate fell to 9.75% in December, 2009 from 13.0% at the beginning of the year and, although interest rates are low, there has been a decline in demand for credit. Despite these setbacks, a rebound in domestic demand is anticipated in the latter half of 2010 driven mainly by private consumption and government infrastructure projects. The local economy seems positioned for a recovery, though slight, in 2010 owing to relatively healthy fundamentals and the stabilization of the global economy.

Financial Results

Despite the adverse conditions both locally and globally, the Bank's profits improved significantly when compared to the previous year. Net Profit after taxes attributable to shareholders was $40.7 million up from $18.4 in the prior year, or an increase of 121%. When the income in 2008 is adjusted for the exceptional income and provisions taken for that period, net profits in 2009 increased by 45% over that of 2008. Total assets stood at $1.8 billion, compared to $2.0 billion at the start of the year - a decrease of 6.75%. This decrease is mainly as a result of repayments of Bonds in Issue as they matured during the year.

On the investment portfolio, there were limited investment opportunities and this position is being monitored closely by the Bank.

Residential Mortgage Market

With the start of the global financial crisis and economic downturn in 2008, there was an overall slowdown in property sales as reported by many real estate agents and as evidenced by the general slowdown in business activity. The general consensus by the population was that property values and, in turn, selling prices, would fall drastically from what many believed to be inflated property values in previous years. Many adopted a cautious approach in light of the unpredictable nature of the housing market. This continued into 2009 and resulted in an overall decrease of 2% in the total value of mortgages owned by the Bank when compared to 2008. New mortgage activity has not kept pace with the levels of principal repayments on the existing portfolio.

Going forward, the Bank continues to be committed to ensuring that it fulfils its mandate for the provision of affordable mortgage financing to the citizens of Trinidad and Tobago by offering the most competitive mortgage rates and terms in the market. We will continue to monitor the mortgage market to ensure that the aim of our mandate is always accomplished.

Tobago Villas Project

This project is near completion and we expect to put the units on the market during the third quarter of 2010. The project, located in the Tobago Plantation Resort in Lowland Tobago, consists of twenty duplex units in two styles: a single storey unit of approximately 2,800 square feet; and a two storey unit of approximately 2,500 square feet.

Interest Rates

The year 2009 saw a dramatic decline of rates in short term investment products. At the beginning of the year, rates averaged 6%. However, by the end of the year they had declined to an average of 2.5%. While the Bank's Mortgage Participation Fund also saw lower returns to investors, dropping from 7% at the start of the year to 5% at the end of the year, it still provided our investors with an attractive return on their investments. During the year, the fund grew from $366.9 million to $484.7 million as investors looked for higher returns in a low interest rate market.

Capital Markets

The Capital Market experienced both positive and negative effects in 2009. The primary Bond market was highly active with a number of bonds being issued during the year by the Government and State Owned Enterprises. Most of these bonds were for tenors ranging from 10 to 15 years with the coupon rates ranging from 6% - 7% per annum. The issues were oversubscribed due to the limited alternative investments available as well as the excessive liquidity in the economy. The equities market, however, experienced negative effects at the beginning of the year as the downturn in the economy from 2008 continued, causing investors to become very cautious. Towards the end of 2009 there was evidence of a slow recovery taking place in the stock market.

Apart from the Government, the Bank is the most frequent issuer of bonds in the local capital market. During the year, the Bank accessed the local capital market for an aggregate amount of $64 million in bonds via two bond issues.

It is expected that the year 2010 will continue with the same trend with the Government issuing bonds for longer term horizons and that the equities market will experience a slow recovery as investors continue to be very cautious. At the current levels of interest rates, no further downward movements are expected. Investors are reluctant to invest in the long term at low rates and, as a result, this can put a pressure on interest rates resulting in some upward movement towards the end of the year.

Resignation of Board Chairman

In March 2010, Calder Hart, Chairman of the Bank, resigned from the Board of the Bank. As Deputy Chairman of the Bank I assumed the chair as Chairman until a new Chairman is appointed.

Appointment to the Board of Directors

In April 2009, Rudranath Indarsingh was appointed to the Board of Directors to fill a vacancy. Mr. Indarsingh has a wealth of experience in the labour and industrial relations sector. We welcome Mr. Indarsingh to the Board and look forward to his contributions.

Acknowledgements

I wish to thank all our clients for their continued trust and support through these challenging times. Our Board will continue to commit itself to serving the needs of our valued clients with efficiency and at the same time seek to enhance value for shareholders.

I also 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.

Lucille Mair
Chairman (Ag)

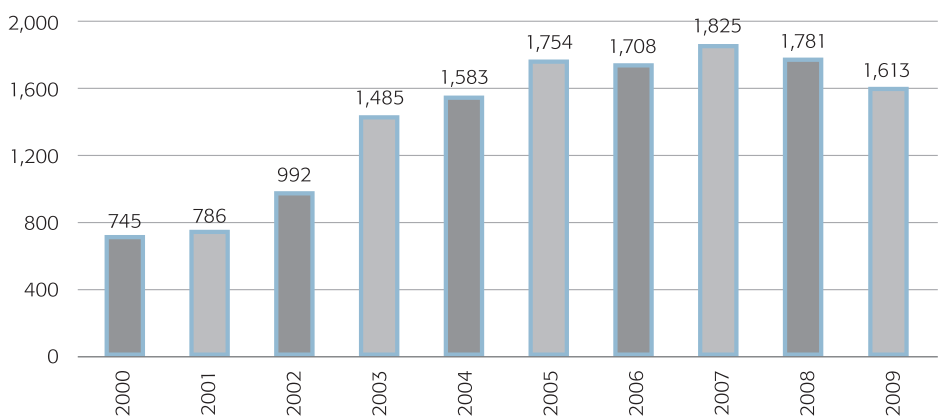
5 Year Review

December 31st	2009 $'000	2008 $'000	2007 $'000	2006 $'000	2005 $'000
Balance Sheet					
Retained Mortgage Portfolio	**567,467**	698,133	818,488	857,351	746,799
Construction Loan Advances	**161,703**	155,439	114,277	84,444	31,650
Investment Securities	**793,150**	377,915	276,018	394,781	306,475
Total Assets	**1,869,432**	2,004,944	2,077,555	1,924,470	1,944,428
Bonds in Issue	**1,613,023**	1,781,161	1,825,005	1,708,129	1,754,495
Total Liabilities	**1,641,499**	1,817,685	1,866,344	1,745,410	1,790,949
Share Capital	**16,000**	16,000	16,000	16,000	16,000
Retained Earnings	**201,399**	160,149	183,919	151,399	126,882
Income Statement					
Income	**167,451**	208,746	165,287	165,556	154,481
Profit Before Taxation	**41,851**	11,303	44,118	38,842	34,933
Net Income	**40,674**	18,448	45,151	37,581	33,274
Operating Expenses	**10,038**	22,888	14,586	16,305	12,239
Earnings Per Share	**$2.54**	$1.15	$2.83	$2.34	$2.08

10 Year Overview

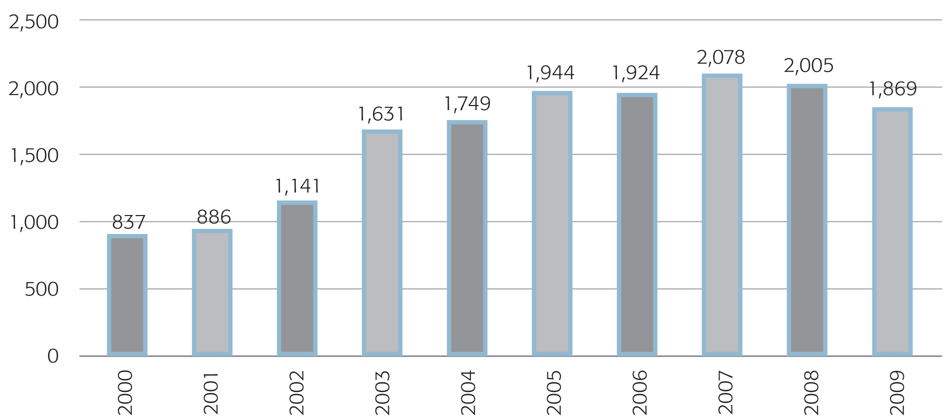
TOTAL BONDS IN ISSUE

$ Millions



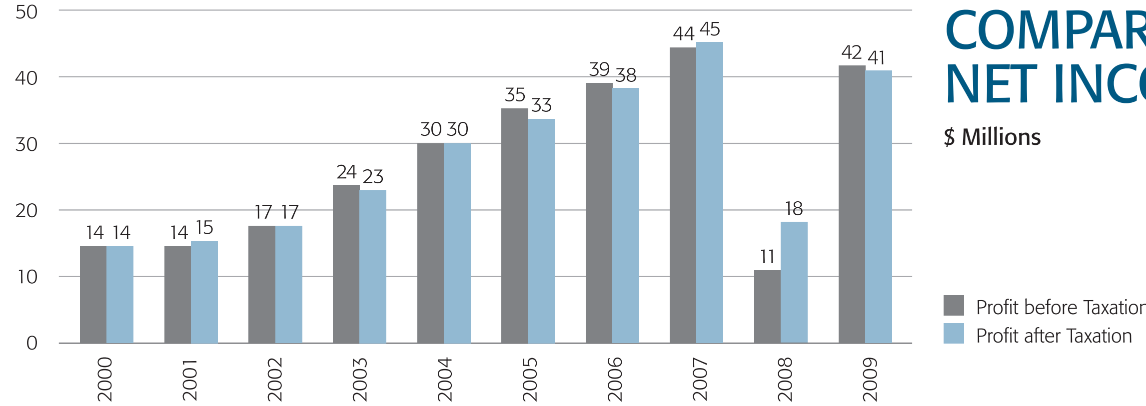
TOTAL ASSETS

$ Millions



COMPARATIVE NET INCOME

$ Millions



Board of Directors

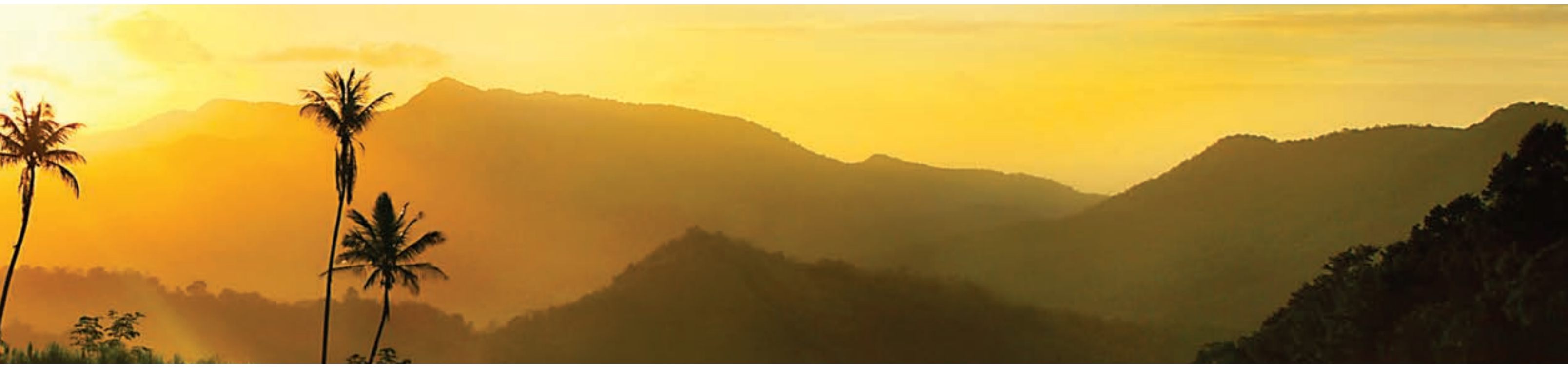
At 31st December, 2009

Mr. Calder Hart
Chairman
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 the financial year 2009, 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.

Mrs. Lucille Mair
Deputy Chairperson
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.

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

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



Mr. Walton A. Hilton-Clarke
Director
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.

Mr. Jeffrey Mc Farlane
Director
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.

Mr. Rudranath Indarsingh
Director
is the President General of the All Trinidad Sugar and General Workers' Trade Union and is a recipient of the Chaconia Medal of Trinity Silver for meritorious service in the field of Trade Unionism.

Mr. Indarsingh serves on the Board of Directors of the National Insurance Board of Trinidad & Tobago, Metal Industries Company Limited, National Enterprises Limited and on the Board of Governance of Cipriani College Of Labour and Co-Operative Studies.

Ms. Sharmila Mahase
Corporate Secretary
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.

Residential Mortgage Programmes

Home Mortgage Bank continues to take a proactive approach to mortgage financing by continuously reviewing the market and its mortgage products, terms and conditions. The Bank recently introduced a revised rate structure for its new mortgage business by not only reducing its variable rate but also reintroduced its fixed rate program.

THE NEW MORTGAGE RATE STRUCTURE IS:

- 7.00% p.a. (variable)
- 7.25% p.a. (fixed for up to 3 years)
- 7.50% p.a. (fixed for up to 5 years)
- 8.00% p.a. (fixed for up to 10 years)

The Bank also continues to ensure that its clients benefit from other competitive mortgage terms by offering:

- Up to 90% financing
- NO application/commitment fees
- NO prepayment penalties
- NO mortgage indemnity premiums
- Quick and efficient mortgage approval process

Our new mortgage rate structure and attractive loan features are available on all of our regular mortgage products:

Home Acquisition Mortgages
The Home Acquisition facility is a standard product offered for the purchase of a home that will be used as a primary residence.

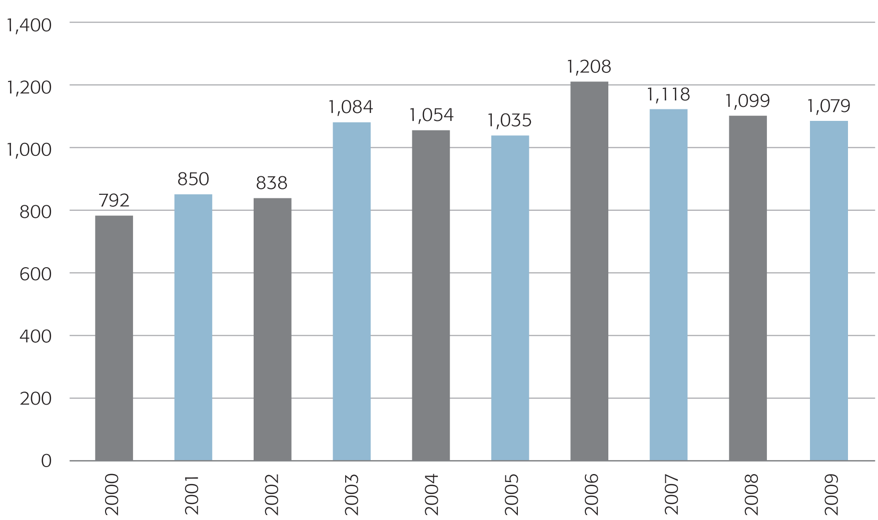
Land Acquisition Mortgages
This product facilitates the purchase of land that will ultimately be used for the construction of a primary residence. We now offer Land Acquisition Mortgages for up to 20 years.

Construction Mortgages
This construction loan facility includes Bridging Finance and is geared toward providing financing for the construction of a primary residence.

Equity Mortgages
This facility allows homeowners to take advantage of the equity that has built up in their homes by providing them with the funds needed for various purposes such as home improvement, educational expenses, medical expenses, debt consolidation and refinancing.

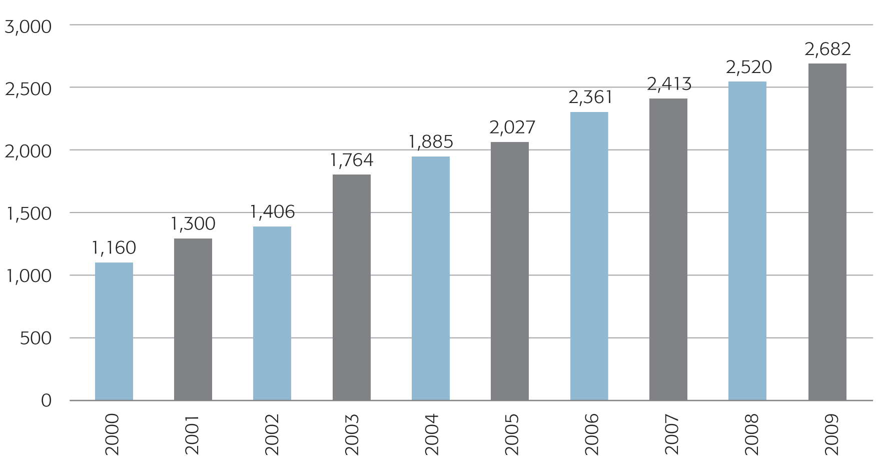
Reverse Mortgages
After you have built-up equity in your home over the years, a reverse mortgage allows you to convert that equity into cash or a line of credit. Home Mortgage Bank is the only institution offering this unique mortgage programme in the market.

Home Mortgage Bank plans to continue offering attractive loan features and competitive mortgage rates to ensure that its mandate of affordable mortgage financing to the Citizens of Trinidad & Tobago is fulfilled.



MORTGAGE PORTFOLIO SERVICED

$ Millions



ACCUMULATED VALUE OF MORTGAGES PURCHASED

$ Millions

Corporate Information

MANAGEMENT

Rawle Ramlogan
Chief Executive Officer (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,
Eric Williams Plaza, Port of Spain,
Trinidad, W.I.

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, 2009

FINANCIAL RESULTS	$ 000s
Net Profit before taxation	41,851
Taxation	(1,177)
Net Profit for the year	40,674
Retained earnings at the beginning of the year	160,149
	200,823
Less:	
Transfer from mortgage risk reserve	576
Retained earnings at the end of the year	201,399

DIVIDENDS

No dividends were paid during the financial year.

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, 2009:

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

Auditor's Report

REPORT OF THE AUDITOR 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 statement of financial position as at 31st December, 2009, and the consolidated statement of comprehensive income, 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 15 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, 2009, 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 26 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:
29th March, 2010

Consolidated Statement of Financial Position

AS AT 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

	Notes	2009 $'000	2008 $'000
Assets			
Cash and short-term funds	4	204,500	362,675
Investment securities	5	793,150	377,915
Interest receivable and sundry debtors		22,184	33,034
Lands for development	6	71,146	61,769
Loans and advances	7	764,851	1,155,972
Property and equipment	8	1,110	969
Capitalised bond issue costs	9	660	751
Deferred tax asset	10	8,454	9,465
Taxation recoverable		3,377	2,394
Total assets		1,869,432	2,004,944
Liabilities			
Other liabilities	11	27,752	35,523
Bonds in issue	12	1,613,023	1,781,161
Deferred income tax liability	10	724	1,001
		1,641,499	1,817,685
Shareholders' equity			
Stated capital	13	16,000	16,000
Retained earnings		201,399	160,149
		217,399	176,149
Mortgage risk reserves	14	10,534	11,110
		227,933	187,259
Total liabilities and shareholders' equity		1,869,432	2,004,944

The accompanying notes on pages 22 to 45 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 Statement of Comprehensive Income

FOR THE YEAR ENDED 31ST DECEMBER, 2009

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

	Notes	2009 $'000	2008 $'000
Income			
Interest on loans and advances (net)		106,873	76,098
Interest income		57,533	105,452
Other income (net)	15	3,045	27,196
		167,451	208,746
Expenditure			
Bond expenses and other costs		117,725	125,898
General and administrative expenses	16	10,038	22,888
(Write back of provision)/provision for cash and short-term funds	4	(1,761)	48,638
(Write back of provision)/provision for loan losses	7	(402)	19
		125,600	197,443
Operating profit/net profit before taxation		41,851	11,303
Taxation	17	(1,177)	7,145
Profit attributable to owners of the Parent		40,674	18,448
Earnings per share ($)		2.54	1.15
Number of shares ('000)		16,000	16,000

The accompanying notes on pages 22 to 45 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders’ Equity

FOR THE YEAR ENDED 31ST DECEMBER, 2009
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, 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
Net profit for the year	–	40,674	–	40,674
Transfer from mortgage risk reserve	–	576	(576)	–
Balance at 31st December, 2009	16,000	201,399	10,534	227,933

The accompanying notes on pages 22 to 45 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flow

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

	2009 $'000	2008 $'000
Cash flows from operating activities		
Net profit before taxation	41,851	11,303
Adjustments for:		
(Write back of provision)/provision for loan losses	(402)	19
Provision for short-term funds	–	12,638
Depreciation (net)	346	462
Bond issue costs amortised	156	161
Gain on sale of fixed assets	–	(2)
Operating profit before working capital changes	41,951	24,581
Decrease in interest receivable and sundry debtors	10,850	1,905
Decrease in other liabilities	(7,771)	(3,869)
Corporation taxes paid	(1,426)	(2,625)
Net cash generated from operating activities	43,604	19,992
Cash flows from investment activities		
Net decrease in short-term funds	75,000	46,796
Increase in investments securities – available for sale	(364,436)	–
Increase in investment securities – held to maturity	(50,799)	(101,897)
Net decrease in guaranteed mortgage securities	(7,235)	(5,328)
Net increase in mortgage participation fund	117,760	106,680
Purchase of loans	(161,849)	(409,479)
Proceeds from repayment on mortgages	449,111	126,063
Purchase of fixed assets	(514)	(101)
Proceeds from sale of fixed assets	27	302
Development costs on land	(9,377)	(19,232)
Increase in construction loan advances	(6,264)	(41,162)
Net cash generated from/(used in) investing activities	41,424	(297,358)
Cash flows from financing activities		
Proceeds from bonds issued	64,092	157,900
Redemption of bonds	(232,230)	(201,744)
Bond issue costs incurred	(65)	(105)
Dividends paid on share capital	–	(42,400)
Net cash used in financing activities	(168,203)	(86,349)
Net decrease in cash and cash equivalents	(83,175)	(363,715)
Cash and cash equivalents		
-at the beginning of the year	183,675	547,390
-at the end of the year	100,500	183,675
Represented by:		
Cash and cash equivalents	100,500	183,675
Bank overdraft	–	–
	100,500	183,675
Supplemental information:		
Interest received during the year	179,686	136,677
Interest paid during the year	109,540	125,848

The accompanying notes on pages 22 to 45 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

1. General information

Home Mortgage Bank (the 'Bank' 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 Bank 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 Bank's ultimate controlling shareholder The National Insurance Board.

The Bank 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 judgments and estimates in applying the Group's accounting policies have been described in Note 3.

b) Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following new and revised IFRSs and IFRIC interpretations as of 1st January, 2009:

- IAS 1 (Revised) *Presentation of Financial Statements*
- Amendment to IFRS 7 *Financial Instruments: Disclosures*
- Amendment to IAS 23 *Borrowing Costs*

Adoption of these revised standards and interpretations did not have any material effect on the financial performance or position of the Group. It did however give rise to additional disclosures including revisions to certain accounting policies and an overall revision in the presentation format of the financial statements contained and as set out in pages 22 to 45.

The principal effects of these changes are as follows:

IAS 1 (Revised) Presentation of Financial Statements

This standard requires all owner changes in equity and all non-owner changes to be presented in either one Statement of Comprehensive Income or in two separate Statements of Income and Comprehensive Income. The previous standard required components of comprehensive income to be presented in the Statement of Changes in Equity. In addition, it requires entities to present a comparative Statement of Financial Position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Group has elected to present comprehensive income in two separate Statements of Income and Comprehensive Income. The Group has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement or retrospectively reclassified items in the financial statements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

2. Significant accounting policies *(continued)*

b) Changes in accounting policy *(continued)*

Amendment to IFRS 7 Financial Instruments: Disclosure

The amendment to the standard requires an entity to provide a quantitative and qualitative analysis of those instruments recognised at fair value based on a three-level measurement hierarchy. Furthermore, for those instruments which have significant unobservable inputs (classified as Level 3), the amendment requires disclosures on the transfers into and out of Level 3, a reconciliation of the opening and closing balances, total gains and losses for the period split between those recognised in other comprehensive income, purchases, sales issues and settlements, and sensitivity analysis of reasonably possible changes in assumptions. In addition, disclosure is required of the movements between different levels of the fair value hierarchy and the reason for those movements. Finally, the standard amends the previous liquidity risk disclosures as required under IFRS 7 for non-derivative and derivative financial liabilities.

Entities are required to apply this amendment for annual periods beginning on or after 1st January, 2009, with no requirement to provide prior year comparatives on transition.

Amendment to IAS 23 Borrowing Costs

IAS 23 (revised) is effective for accounting periods beginning on or after 1st January, 2009.

The main change from the previous version is the removal of the option to immediately recognise as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.

The amendment to IAS 23 does not have any impact on the financial performance or position of the Group.

Listed below are standards and interpretations that have been issued, but have no significant impact on the Group's financial statements.

IFRS 2 Share-Based Payment (Amendment)

This amendment to IFRS 2 Share-based payments was issued in January 2008 and became effective for financial years beginning on or after 1st January, 2009. The standard restricts the definition of 'vesting condition' to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. The Group currently does not have share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications as a result of this amendment.

IAS 27 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity (Amendment)

This amendment to IAS 27 is effective for financial years beginning on or after 1 January, 2009. The amendment deletes the definition of the 'cost method' under IAS 27, thereby removing the distinction between pre- and post-acquisition profits in its separate financial statements. The entity therefore can recognise all dividends from a subsidiary, jointly controlled entity or associate, but must consider whether any payment of such dividends provides an indication of impairment. In addition, IAS 27 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary rather than its fair value. This amendment did not have any impact on the financial performance or position of the Group.

IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosure (Amendment)

Amendments to IAS 39 and IFRS 7 were issued in October 2008 in response to the global credit crisis.

The amendments allow entities to reclassify certain financial assets out of held-for-trading if they are no longer held for the purpose of being sold or repurchased in the near term. In addition, financial assets that are not eligible for classification as loans and receivables may be transferred from 'Held-for-trading' to 'Available-for-sale' or to 'Held-to-maturity', only in rare circumstances.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

2. Significant accounting policies *(continued)*

b) Changes in accounting policy *(continued)*

IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosure (Amendment) *(continued)*

The standard was effective retrospectively from 1st July, 2008 until 1st November, 2008. Thereafter, retrospective application was not permitted. Similarly, IFRS 7 was amended for disclosure requirements in respect of the assets reclassified, including the amount reclassified into and out of each category and the gains and losses that would have been recognised in Statement of Income or Equity, had they not been reclassified. The Group has not taken advantage of this amendment for the period ending 31st December, 2009.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation

Amendments to IAS 32 and IAS 1 were issued by the IASB in February 2008 and became effective for annual periods beginning on or after 1st January, 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendments to IAS 1 require disclosure of certain information relating to puttable instruments classified as equity.

The amendments to IAS 32 and IAS 1 do not have any impact on the financial performance or position of the Group as the Group has not issued such instruments.

IFRIC 9 and IAS 39: Embedded Derivatives

The IFRIC has issued Embedded Derivatives: Amendments to IFRIC 9 and IAS 39 which requires entities to assess whether to separate an embedded derivative from a host contract in the case where the entity reclassifies a hybrid financial asset out of the fair value through Statement of Income category. The amendments to IFRIC 9 require an assessment to be made either when the entity first became party to the contract or when a change in the terms of the contract significantly modifies expected cash flows. The amendments are applicable for annual periods ending on or after 31st December, 2009.

The application of the amendment does not impact the Group's financial statements as no reclassifications were made for instruments that contained embedded derivatives.

IFRIC 13 Customer Loyalty Programmes

This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. It will be effective for financial years beginning on or after 1st July, 2008. The amendment had no material impact on the Group's financial statements.

IFRIC 15 Agreement for the Construction of Real Estate

The interpretation is to be applied retrospectively and clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the Group's financial statements because the Group does not conduct such activities.

IFRIC 16 Hedges of a net investment in foreign operations

IFRIC 16 is effective for accounting periods beginning on or after 1st October, 2008. The Interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. This interpretation has no effect on the Group's financial statements.

Improvements to IFRSs

In May 2008, the IASB issued its first omnibus of amendments to its standards. The amendments primarily deal with a view to remove inconsistencies and clarify wordings. These amendments, unless otherwise stated, are effective for financial years beginning on or after 1st January, 2009. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

2. Significant accounting policies *(continued)*

b) Changes in accounting policy *(continued)*

Improvements to IFRSs *(continued)*

- IFRS 7 Financial Instruments: Disclosures: the amendment removed the reference to 'total interest income' as a component of finance costs. This had no impact to the accounting policy and financial position of the Group as this policy was already applied.

- IAS 1 Presentation of Financial Statements: assets and liabilities classified as 'held-for-trading' in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the Statement of Financial Position. This had no impact on the Group as the Group does not classify its financial assets and liabilities between current and non-current categories.

- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors: the amendment clarifies that only implementation guidance that is an integral part of an IFRS is mandatory when selecting an accounting policy. This had no impact on accounting policy and financial position of the Group as it had already been applied.

- IAS 16 Property, Plant and Equipment: replaces the term 'net selling price' with 'fair value less costs to sell'. The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

- IAS 27 (Amended) Consolidated and Separate Financial Statements: this amendment requires that any subsidiaries held in accordance with IAS 39 continue to be treated at that value when they meet the definition of held for sale. The change in accounting policy did not impact the Group's financial position, as no subsidiaries meet the criteria under IFRS 5, and the Group does not account for any subsidiaries at fair value on subsequent measurement.

- IAS 28 Investment in Associates: if an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. This amendment has no impact on the Group.

  An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance. This amendment had no impact on the Group since the Group do not have any investment in associates.

- IAS 38 Intangible Assets: expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

- IAS 40 Investment Property: the Group has always considered whether fair value can be applied for their investment properties under construction. Where management is unable to determine fair value reliably, the Group measures the property at cost. The amendment had no impact to the accounting policy and financial position of the Group.

- IAS 10 Events after the Reporting period: the amendment clarifies that dividends declared after the end of the reporting period are not obligations. This had no impact to accounting policy and financial position of the Group as this was already applied.

- IAS 18 Revenue: the amendment replaces the term 'direct costs' with transaction costs as defined in IAS 39.

- IAS 36 Impairment of Assets: when discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment has no immediate impact on the disclosures of the consolidated financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using 'value in use'.

- IAS 19 Employee Benefits: revised the definition of 'past service costs', 'return on plan assets' and 'short-term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. The reference to the recognition of contingent liabilities was deleted to ensure consistency with IAS 37. Changes to definitions on return on plan assets, contingent liability and short-term and other long-term benefits are to be applied retrospectively. The change to past service cost definition to be applied prospectively. The amendment had no impact on accounting policy and financial position of the Group.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

2. Significant accounting policies *(continued)*

c) Standards in issue not yet effective

The Group has not applied the following IFRS's and IFRIC Interpretations that have been issued but are not yet effective.

IAS 39 Financial Instruments: Recognition and Measurement was amended (effective from 1st July, 2009) regarding hedging portions of risk, and clarifies the principles associated with designating a portion of cash flows or fair values of a financial instrument as a hedged item.

IFRS 3 Business Combinations was amended (effective from 1st July, 2009). The amendments were the result of a joint project with the US FASB, and certain fundamental changes and improvements were made to reinforce the existing standard and remedy problems that have emerged with its application.

IFRS 9 Financial instruments

This standard will eventually replace IAS 39 Financial Instruments: Recognition and Measurement. Although adoption of this standard is permitted on a phased basis for periods ending on or after 31st December, 2009, adoption of this standard becomes mandatory on 1st January, 2013. For the year ended 31st December, 2009, this standard was not adopted by the Group and as such does not have any impact on the financial performance or position of the Group.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective from 1st July, 2009) provides guidance on how to account for such transactions. It also provides guidance on when to recognise a liability and how to measure it and the associated assets, and when to derecognise the asset and liability and the consequences of doing so.

IFRIC 18 Transfers of Assets from Customers (effective from 1st July, 2009) provides guidance on when and how an entity should recognise items of property, plant and equipment received from their customers.

d) 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.

e) Revenue recognition

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

f) Financial instruments

The Group's financial assets and financial liabilities are recognised in the Statement of Financial Position 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

FOR THE YEAR ENDED 31ST DECEMBER, 2009

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

2. Significant accounting policies *(continued)*

f) 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 Bank'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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income.

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.

g) 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 and 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 in part or in full. (Refer to Notes 7 and 24).

h) 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).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

2. Significant accounting policies *(continued)*

i) 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 - 7.5% to 25% on reducing balance

Motor vehicles - 25% on (cost)/straight line

j) Capitalised bond issue costs

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

k) 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 $370,928 (2008: $3,791,235).

l) 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.

m) 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.

n) 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.

o) Impairment of financial assets

The carrying value of all financial assets not carried at fair value through the Statement of Income is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

In order to determine whether negative revaluations on investment securities correctly represent impairment, all investment securities for which the market value has been significantly below cost price for a considerable period of time, are individually reviewed. A distinction is made between negative revaluations due to general market fluctuations and due to issuer specific developments. The impairment review focuses on issuer specific developments regarding financial condition and future prospects, taking into account the intent and ability to hold the securities under the Group's long-term investment strategy.

If there is objective evidence that the cost may not be recovered, an available-for-sale equity security is considered to be impaired. Objective evidence that the cost may not be recovered, in addition to qualitative impairment criteria, includes a significant or prolonged decline in the fair value below cost. The Group's policy considers a significant decline to be one in which the fair value is below the weighted-average cost by more than 30% and a prolonged decline to be one in which fair value is below the weighted-average cost for greater than one year. This policy is applied by all subsidiaries at the individual security level.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

2. Significant accounting policies *(continued)*

o) Impairment of financial assets *(continued)*

If an available-for-sale equity security is impaired based upon the Group's qualitative or quantitative impairment criteria, any further declines in the fair value at subsequent reporting dates are recognised as impairments. Therefore, at each reporting period, for an equity security that is determined to be impaired based upon the Group's impairment criteria, an impairment is recognised for the difference between the fair value and the original cost basis, less any previously recognised impairments.

For held-to-maturity financial assets and loans and advances carried at amortised cost, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any impairment loss is recorded in the Statement of Income.

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

4. Cash and short-term funds

	2009 $'000	2008 $'000
Cash and cash equivalents	134,739	219,675
Less: Provision for cash and cash equivalents	(34,239)	(36,000)
	100,500	183,675
Fixed deposits with original maturities greater than three months	116,638	191,638
Less: Provision for fixed deposits	(12,638)	(12,638)
	104,000	179,000
Total cash and short-term funds	204,500	362,675

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009

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

4. Cash and short-term funds *(continued)*

	2009 $'000	2008 $'000
Provision for cash and short-term funds		
Provision brought forward	48,638	–
Net (write back)/charge against income:		
Cash and cash equivalents	(1,761)	36,000
Fixed deposits	–	12,638
Provision carried forward	46,877	48,638

The average effective interest rate on cash and short-term funds for the current year is 6.55% (2008: 9.39%).

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 in the prior year were deposits amounting to $70 million due from CL 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. 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.

5. Investment securities

	2009 $'000	2008 $'000
Held to maturity		
Corporate bonds	371,058	347,915
Government bonds	57,656	30,000
	428,714	377,915
Available-for-sale		
Local equities	364,436	–
	793,150	377,915

The average effective interest rate on Investment securities for the current year is 8.49% (2008: 8.92%).

6. Lands for development

	2009 $'000	2008 $'000
Balance brought forward	61,769	42,537
Costs incurred for the year	9,377	19,232
Balance carried forward	71,146	61,769

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 NIL at 31st December, 2009 (2008: $5,304,531).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009

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

7 Loans and advances

		2009 $'000	2008 $'000
Retained mortgage loans	7(a)	567,467	698,133
Construction loan advances	7(b)	161,703	155,439
Other loans	7(c)	35,681	302,400
		764,851	1,155,972

(a) Retained mortgage portfolio

	2009	2008
Principal balances and unamortised discounts:		
Balance at the beginning of the year	1,099,060	1,118,044
New mortgage/transfers from construction loan advances	161,849	107,079
Less: Transfer to other loans	(38,869)	–
Principal balances and unamortised discounts:		
Less: Principal repayments	(143,523)	(126,063)
	1,078,517	1,099,060
Less: Specific provision for doubtful mortgages	(92)	(494)
Less: Guaranteed Mortgage Investment Certificates (Gareemics)	(26,307)	(33,542)
Less: Mortgage Participation Fund	(484,651)	(366,891)
Balance at the end of the year	567,467	698,133
Specific provision for loan losses		
Provision brought forward	494	475
(Write back)/net charge to income	(402)	19
Provision carried forward	92	494
Represented by:		
Mortgages with recourse	5,931	28,479
Mortgages without recourse	561,536	669,654
Balance at the end of the year	567,467	698,133

The average effective interest rate on the retained mortgage portfolio for the current year is 9.12% (2008: 8.62%).

(b) Construction loan advances

These represent advances made to mortgagors on new residential construction and/or to project developers. These advances are secured by a first mortgage over real property.

	2009	2008
Balance brought forward	155,439	114,277
New advances	126,462	124,158
Advances converted to mortgages	(120,198)	(82,996)
Balance carried forward	161,703	155,439

The average effective interest rate on construction loan advances for the current year is 7.96% (2008: 8.00%).

(c) Other loans

	2009	2008
Balance brought forward	302,400	–
New loans	38,869	302,400
Principal repayment	(305,588)	–
Balance carried forward	35,681	302,400

In the prior year, 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

8. Property and equipment

	Furniture, fixtures, office machinery & equipment	Motor vehicles	Total 2009 $'000	Total 2008 $'000
Cost				
Balance brought forward	3,223	792	4,015	4,568
Additions	5	509	514	101
Disposals	(18)	(319)	(337)	(654)
Cost carried forward	3,210	982	4,192	4,015
Depreciation				
Balance brought forward	2,522	524	3,046	2,938
Charge for the year	122	224	346	462
Disposals	(18)	(292)	(310)	(354)
Depreciation carried forward	2,626	456	3,082	3,046
Net book value	584	526	1,110	969

9. Capitalised bond issue costs

	2009 $'000	2008 $'000
Balance at the beginning of the year	751	807
Add: Costs incurred during the year	65	105
	816	912
Less: Costs amortised during the year	(156)	(161)
Balance at the end of the year	660	751

10. Components of deferred tax asset and deferred tax liability

	2009 $'000	2008 $'000
Deferred income tax asset:		
Tax losses	8,454	9,465

As at 31st December, 2009, the Group had unutilised tax losses of $33,815,507 (2008: $37,858,917). These losses have not yet been agreed by the Board of Inland Revenue.

	2009 $'000	2008 $'000
Deferred income tax liability:		
Discount on purchase of Mortgage Pools	528	777
Bond issue costs	165	188
Property and equipment	31	36
	724	1,001

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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

11. Other liabilities

	2009 $'000	2008 $'000
Interest payable on bonds	16,571	25,135
Sundry creditors and accruals	10,143	9,449
Gareemic holders payable	1,038	939
	27,752	35,523

12. Bonds in issue

Balance at the beginning of the year	1,781,161	1,825,005
Add: Issues during the year	64,092	157,900
Less: Redemptions during the year	(232,230)	(201,744)
Balance at the end of the year	1,613,023	1,781,161

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 6.86% (2008: 6.82%).

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

	2009 $'000	2008 $'000
Within 1 year	511,090	232,230
1 to 2 years	160,515	511,090
2 to 3 years	180,617	160,515
3 to 4 years	215,935	180,617
4 to 5 years	155,250	215,935
Over 5 years	389,616	480,774
	1,613,023	1,781,161

(c)

Tax free bonds	506,388	487,891
Other bonds	1,106,635	1,293,270
	1,613,023	1,781,161

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

13. Stated capital

Authorised
An unlimited number of ordinary shares of no par value.

Issued and fully paid

16,000,000 ordinary shares of no par value	16,000	16,000

14. 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

15. Other income (net)

	2009 $'000	2008 $'000
Other income	3,045	47,603
Less: Legal and professional fees	–	(20,407)
	3,045	27,196

The prior year income represented 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.

16. General and administrative expenses

	2009 $'000	2008 $'000
Staff costs	4,143	15,771
Accommodation expenses	1,180	1,173
Other operating expenses	4,715	5,944
	10,038	22,888

Included within general and administrative expenses are the following charges:

	2009 $'000	2008 $'000
Depreciation (net)	346	462
Directors' fees	729	743

17. Taxation charge for the year

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

	2009	2008
Accounting profit	41,851	11,303
Tax at the statutory rate of 25%	(10,463)	(2,826)
Tax effect of items that are adjustable in determining taxable profit:		
Tax exempt income	9,675	10,981
Other permanent differences	(389)	(1,010)
	(1,177)	7,145
Current year's tax provision:		
Business levy	(269)	(344)
Green fund levy	(174)	(216)
Deferred income tax	(734)	7,705
Taxation for the year	(1,177)	7,145

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

18. 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.

In the financial year 2008, CL Financial Group was considered a related party, indirectly, because of Republic Bank Limited (a subsidiary of CL Financial Limited) having a 24% shareholding in the Group. In the financial year 2009, the CL Financial Group is no longer considered a related party due to the de-recognition by Republic Bank Limited of Home Mortgage Bank as an associated company.

	2009 $'000	2008 $'000
Outstanding balances		
Loans, investments and other assets		
CL Financial Group (net of provision)	–	409,401
Provision for amounts due from related parties	–	48,638
Directors and key management personnel	5,628	12,543
Bonds in issue and other liabilities		
CL Financial Group	–	274,470
The National Insurance Board	122,750	122,750
Directors and key management personnel	511	5,984
Interest and other income		
CL Financial Group	–	96,815
Directors and key management personnel	485	1,086
Bond Interest and other expense		
CL Financial Group	–	32,562
The National Insurance Board	8,056	9,780
Directors and key management personnel	45	235
Key management compensation		
Short-term benefits	2,539	10,133
Post employment benefits	–	2,904

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

19. Mortgage commitments

The Group has issued standby commitments for the purchase of mortgages and/or for project developments, of which undrawn balances amount to $55,981,190 at 31st December, 2009 (2008: $61,165,428).

20. 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.

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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

20. Risk management *(continued)*

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 proactively manage these risks, and to decide the Bank'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

Treasury

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.

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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009

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

20. Risk management *(continued)*

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 emphasise 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 Bank 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 Statement of Financial Position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	Gross maximum exposure 2009 $'000	Gross maximum exposure 2008 $'000
Gross mortgage portfolio	1,080,079	1,101,321
Construction advances	161,703	155,439
Other loans	35,681	302,400
Investment securities	793,150	377,915
Cash and short-term funds	251,377	411,313
Total gross financial assets	2,321,990	2,348,388
Mortgage commitments	55,981	61,165
Total	55,981	61,165
Total credit risk exposure	2,377,971	2,409,553

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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

20. Risk management *(continued)*

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, 2009					
Gross balance	1,161,603	112,493	3,217	150	1,277,463
Fair value of collateral	–	–	–	(58)	–
Net exposure	–	–	–	92	–
Less provision	–	–	–	(92)	–
	–	–	–	–	–
Gross balance %	90.9%	8.8%	0.3%	0.0%	100.0%
Net balance %	90.9%	8.8%	0.3%	0.0%	100.0%
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%

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, 2009					
Gross balance	428,714	–	–	–	428,714
Total investment securities	428,714	–	–	–	428,714
Gross balance %	100.0%	0.0%	0.0%	0.0%	100.0%
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%

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009

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

20. Risk management *(continued)*

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

	High grade $'000	Standard grade $'000	Sub-standard grade $'000	Individually impaired $'000	Total $'000
Cash and short-term funds					
31st December, 2009					
Gross balance	–	204,500	–	46,877	251,377
Less: Provision	–	–	–	(46,877)	–
Net exposure	–	–	–	–	–
Gross balance %	0.0%	81.4%	0.0%	18.6%	100.0%
Net balance %	0.0%	100.0%	0.0%	0.0%	100.0%
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)	–
Net exposure	–	–	–	–	–
Gross balance %	0.0%	71.2%	0.0%	28.8%	100.0%
Net balance %	0.0%	80.7%	0.0%	19.3%	100.0%

Refer to note 4

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 provision 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:

- 99.7% of the loans and advances portfolio is categorised in the top two grades of the grading system (2008: 80.4%);
- Mortgage loans and advances, which represent 55.0% (2008: 66.4%) 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 realisation 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

20. Risk management *(continued)*

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.

The table below summaries the maturity profile of the Group's financial liabilities at 31st December, 2009 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 Statement of Financial Position.

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, 2009							
Mortgage participation fund	484,651	–	–	–	–	–	484,651
Collaterised mortgage obligation	26,307	–	–	–	–	–	26,307
Bonds in issue	511,090	160,515	180,617	215,935	155,250	389,616	1,613,023
Interest payable on bonds	96,761	70,390	52,174	48,924	31,769	64,295	364,313
Total undiscounted financial liabilities	1,118,809	239,905	232,791	264,859	187,019	453,911	2,488,294
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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

20. Risk management *(continued)*

Liquidity risk and funding management *(continued)*

The table below summaries the maturity profile of the Group's financial assets at 31 December 2009.

	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
Financial assets							
As at 31st December, 2009							
Cash and short-term funds	204,500	–	–	–	–	–	204,500
Investment securities	466,655	60,225	–	–	83,727	182,543	793,150
Interest receivables and sundry debtors	22,184	–	–	–	–	–	22,184
Loans and advances	72,218	210,906	66,994	48,521	50,465	315,747	764,851
Total financial assets	765,557	271,131	66,994	48,521	134,192	498,290	1,784,685
As at 31st December, 2008							
Cash and short-term funds	258,675	104,000	–	–	–	–	362,675
Investment securities	196,904	71,011	–	–	–	110,000	377,915
Interest receivable 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

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	1-5 years $'000	Over 5 years $'000	Total $'000
2009						
Commitments	–	–	55,981	–	–	55,981
2008						
Commitments	–	–	61,165	–	–	61,165

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 or 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.

Equity price risk

Equity price risk is the risk that the fair values of equities will decrease as the result of decrease in equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the group's investment portfolio.

The effect on equity will arise as a result of changes in the fair value of equity instruments categorised as available-for-sale.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

20. Risk management *(continued)*

Equity price risk (continued)

The effect on equity and income at 31st December due to a reasonably possible change in equity indices of +/- 5% with all other variables held constant will have an impact on equity of +/- $18 million.

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 94.0% of the total gross mortgage portfolio as at 31st December, 2009 (2008: 93.9%).

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.

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 Bank's financial assets and liabilities categorized by type of interest rate.

	Variable rate 2009 $'000	Fixed rate 2009 $'000	Total 2009 $'000	Variable rate 2008 $'000	Fixed Rate 2008 $'000	Total 2008 $'000
Loans and advances						
Balance ($000)	1,200,361	77,102	1,277,463	1,463,843	95,317	1,559,160
%	94.0 %	6.0%	100.0%	93.9 %	6.1%	100.0%
Bonds in issue						
Balance ($000)	82,510	1,530,513	1,613,023	103,080	1,678,081	1,781,161
%	5.1%	94.9%	100.0%	5.8%	94.2%	100.0%

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

20. Risk management *(continued)*

b) Financial liabilities

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
2009						
Fixed rate loans and advances	1,517	1,091	9,408	50,594	14,492	77,102
%	2.0%	1.4%	12.2%	65.6%	18.8%	100.0%
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%

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 94.0% (2008: 93.9%) 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, authorisation and reconciliation procedures, staff education and assessment processes.

21. Capital

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009

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

22. Financial instruments

The Group calculates the estimated fair value of all financial instruments at the end of the reporting period 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.

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:

	2009	
	$'000 Carrying value	**$'000 Fair value**
Financial assets		
Cash and short-term funds	204,500	251,377
Investment securities	793,150	826,041
Interest receivable	13,671	13,671
Mortgages	567,467	659,304
Construction loan advances	161,703	161,703
Other loans	35,681	35,681
Financial liabilities		
Bonds in issue	1,613,023	1,613,023
Bond interest payable	16,571	16,571

	2008	
	$'000 Carrying value	**$'000 Fair value**
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

(i) Determination of fair value and fair value hierarchies

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

Level 1

Included in the Level 1 category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2009
Expressed in thousands of Trinidad & Tobago dollars ($'000)

22. Financial instruments (continued)

(i) Determination of fair value and fair value hierarchies *(continued)*

Level 2

Included in the Level 2 category are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

Level 3

Included in the Level 3 category are financial assets and liabilities that are not quoted as there are no active markets to determine a price. These financial instruments are held at cost, being the fair value of the consideration paid for the acquisition of the investment, and are regularly assessed for impairment.

	Level 1	Level 2	Level 3	Value
2009				
Financial assets				
Equity securities	364,436	–	–	364,436
Debt securities	–	428,714	–	428,714
	364,436	428,714	–	793,150

Transfers between Level 1 and 2
For the year ended 31st December, 2009 there was no transfer of assets between Level 1 and Level 2.

Reconciliation of movements in Level 3 financial instruments measured at fair value
For the year ended 31st December, 2009 there was no movement in Level 3 financial instruments.

23. 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, 2009, the outstanding balances of securitised mortgages and the related Gareemics issued amounts to $26,306,052 (2008: $33,541,815).

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 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, 2009, the outstanding balance of securitised mortgages and related MPF outstanding amounts to $484,650,708 (2008: $366,891,248).

25. Employees

At 31st December, 2009 the Group had in its employ a staff complement of 15 employees (2008: 15).

26. 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 26th March, 2010, the statutory Manager of Clico Investment Bank advised that the pledges were unauthorised 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 the Shareholders of Home Mortgage Bank

TWENTY-FOURTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Twenty-Fourth 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 1:50 p.m. At the meeting, Shareholders will be asked to:

1. 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, 2009.

2. Re-elect directors Mr. Walton Hilton-Clarke, Mrs. Lucille Mair, Mr. Jeffrey Mc Farlane and Mr. Michael Annisette retiring by rotation and who have offered themselves for re-election.

3. Appoint Auditors for the ensuing year and to authorise the Directors to fix their remuneration.

4. Consider any other business.

Dated the 8th April, 2010.

By Order of the Board

Sharmila Mahase
Corporate Secretary

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