Annual Report
2012

HOME MORTGAGE BANK

Where families prosper
There's a place called Home
for you!

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 Purpose of the Bank is as follows:

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

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Harry Hospedales

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Chairman's Report 2012

Performance of the Group

I am pleased to report that Home Mortgage Bank had another successful year with profits after taxation increasing by 40% to $52.4 million from $37.4 million.

During 2012, the Bank took a strategic decision to refinance its $1.638 billion bonds in issue in order to achieve a more competitive cost of funding. This has enabled the Bank to now compete aggressively in the mortgage market. At the end of 2012, total assets stood at $1.747 billion, down from $2.229 billion as some of the high cost bonds in issue were repaid. Shareholders' equity has increased by 34.4% to $660 million up from $490 million in 2011, and earnings per share (EPS) increased by 40% to $3.27 from $2.34 in the prior year.

The Domestic Economy

Real economic growth, as measured in the third quarter of 2012, grew by 1.1% for Trinidad and Tobago. This is attributable to growth in the energy and non-energy sector, an easing of inflation rates and the implementation of Central Bank's policies to stimulate economic growth.

The non-energy sector experienced growth of 2.2%, as measured in the third quarter of 2012. This was mainly attributable to increased activity in the finance sector and the distribution sector.

There was an increase in the energy sector of 0.5%, as maintenance works being performed during the last four quarters were at their final stages. It is expected that there will be a rise in natural gas production of about 5%.

There was a significant decrease in headline inflation from 12.6% in May 2012 to 7.2% in December 2012 as a result of a slowdown in rising food prices. The food inflation rate fell from 28.3% to 12.7%, mainly due to the removal of value added tax on some food items in mid-November.

The unemployment rate increased to 5.4% in the first quarter of 2012 from 4.2% at the end of 2011.

In order to stimulate domestic economic activity, the Central Bank reduced the repo rate by 25 basis points to 2.75% in September 2012, after holding it at 3.0% since July 2011.

This reduction would have enabled commercial banks to reduce their loan rates by at least 25 basis points leading to a 12-month increase of 3.8% in private sector credit.

The most consistently vibrant category of credit growth over the course of 2012 remained real estate mortgage lending, while business credit lost some momentum.

Growth in the Trinidad and Tobago economy is estimated at 2.5% in 2013 with inflation averaging at 5.8% for the year. There are positive indicators that the energy sector will grow in 2013, after two consecutive years of contraction. Company officials indicated that the large downtime in the energy sector in 2011 and 2012 was due to significant maintenance activity, which is not likely to reoccur in 2013.

The International and Regional Economies

With the debt crisis in the Euro area still lingering, economic growth remained relatively sluggish although policies were put in place to help improve the overall position. These policies included a new financing programme for Greece in November 2012, involving measures to buy back the country's sovereign debt and the establishment of a single supervisory mechanism for the Euro area.

The IMF has forecast global growth at 3.5% in 2013. Growth in advanced economies is estimated at 1.4%, and emerging and developing economies could lead the way, expanding by about 5.5%.

Regionally, both Guyana and Suriname maintained steady growth paths as their real output grew and inflationary pressures remained contained during 2011 and early 2012. The IMF has projected that both economies are expected to expand further by 5.5% and 4.5% respectively.

Economic growth in Barbados remained relatively dormant due to a decline in the performance of the tourism sector. Tourism decreased by 3.5% in 2012 as compared to a decrease of 0.2% in 2011. There was also an increase in the unemployment rate to 11.7% as at September 2012. The Central Bank of Barbados has forecasted that the Barbadian economy will expand by 0.7% in 2013.

In 2012, the Jamaican economy deteriorated into a recession as overall economic activity in the first half of the year contracted by 0.15% and the negative effects of the onslaught of Hurricane Sandy in the latter part of the year.

Hurricane Sandy left Jamaica with severe crop damage in the amount of J$1.7 billion. In Jamaica, production of alumina and bauxite declined by 11.4% and 7.5% respectively in the third quarter of 2012. No economic growth was recorded for this period. In light of this, there was a slight improvement in the tourism industry in Jamaica.

The Economic Commission for Latin America and the Caribbean (ECLAC) estimated that the Caribbean would grow by 1.1% in 2012 and will expand by 2.0% in 2013, down from their previous forecast of 1.6% and 2.2%, respectively.

Changes on the Board of Directors

During the year, there were no changes to the Board. The Board consists of five (5) directors appointed by the shareholders and one (1) director appointed by the Minister of Finance and the Economy.

Trinidad & Tobago Mortgage Bank

The Minister of Finance and the Economy, in his 2011 and 2012 Budget Statements raised the possibility of the rationalisation of institutions engaged in home mortgage financing. A new holding company, the Trinidad and Tobago Mortgage Bank (TTMB) has been proposed. Discussions with the relevant stakeholders are currently in progress to engage a consultant to determine the appropriate corporate structure.

Regulation by the Central Bank of Trinidad and Tobago

Under the provisions of the Home Mortgage Bank Act, Act No.12 of 1985 and subsequent amendments, the Central Bank of Trinidad & Tobago has the responsibility to regulate the activities of the Bank. The Bank and the Central Bank are in general agreement with the provision of the proposed draft regulations. It is anticipated that these regulations will be proclaimed during the upcoming year.

Tobago Development Project

The slowdown in the global economy has had and continues to have a significant adverse impact on the tourism sector of Tobago and its ability to continue to be the primary source of income on the island. However, the Government has expressed its commitment to working with the Tobago House of Assembly and other stakeholders in the development of the future of Tobago.

Despite many setbacks, the twenty Tobago villas have been completed and are now ready to be placed on the market. The general slowdown in the Tobago economy, as a result of the sluggish global economy and other factors, has impacted negatively on the timing of bringing these villas to the market. However, based on evaluations performed and Government's commitment to the development of Tobago, we are of the view that the sale of these villas can be realised within the near future.

Achievements

The Home Mortgage Bank celebrated its 25th anniversary at a gala function held in the Port of Spain Ballroom, Hyatt Regency Trinidad on 8th June 2012. The feature address was made by the Honourable Winston Dookeran, then Minister of Finance and the Economy. This event also recognised the long service achievements of seven (7) staff members, whose years of service represented an aggregate of over eighty-five (85) years.

2013 and Beyond

Given the dynamics of the mortgage and financial markets in which we operate, we are continuing to evaluate our operations and make the necessary adjustments required to continue to achieve sustainability and growth.

The Bank remains committed to its original mandate of supporting the development of a system of real property and housing finance and providing leadership in the housing and home finance industry. In addition, we are looking to expand our scope of business activities in accordance with the Home Mortgage Bank Act.

The Board stands committed to ensuring the continued sustainability and profitability of the Bank and growth in shareholders' value, and will act to ensure the Bank moves from strength to strength in 2013 and beyond.

I would like to take the opportunity to thank the Board for their continued commitment and oversight and our shareholders for their loyalty and support. I welcome new members of the management team in our Finance & Administration, Mortgages, and Compliance departments, and thank the current management and staff for their continued dedication and hard work, and our clients for their loyalty and trust.

Harry Hospedales
Chairman

Directors' Report

Directors' Report 2012

The Directors have pleasure in submitting their Report and the Audited Consolidated Financial Statements for the year ended 31st December, 2012.

Financial Results	$ 000's
Net Profit before taxation	52,548
Taxation	(160)
Net Profit for the year	52,388
Retained earnings at the beginning of the year	271,196
	323,584
Add: Transfer from mortgage risk reserve	380
Less: Dividends paid	(8,000)
Retained earnings at the end of the year	315,964

Liquidity

The Bank continues to maintain a positive liquidity position to meet its current and future business needs, with a cash and cash equivalents figure of $49.4 million representing 3% of total assets at the end of financial year.

Dividends

Dividends of 50 cents per share was paid during the 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.

Rawle Ramlogan
Assistant Corporate Secretary

Harry Hospedales
Chairman

Sylvester Ramquar
Deputy Chairman

Joshey Mahabir
Director

Walton A. Hilton-Clarke
Director

Joanne Milford-Walcott
Director

Ermine De Bique Meade
Director

Board of Directors

Harry Hospedales — Chairman Harry Hospedales has been a career banker with over forty years experience in all areas of banking, in particular merchant banking. He was a member of the management team that formed the first merchant bank in the region (a joint venture between National Commercial Bank and Banque Paribas). He was responsible for the Bank's operations and administration. Mr. Hospedales subsequently went on to become a Vice President in Citibank (T&T) and RBTT Merchant Bank, excelling in the area of distribution of financial products.

Mr. Hospedales was recently reappointed a Director of the National Insurance Board (Government), where he is Chairman of both the Land Use and Development committee and the River Woods Development Management Committee.

He is a Director at a motor insurance company and is a former Deputy Chairman of National Quarries Limited.

Sylvester Ramquar — Deputy Chairman Sylvester Ramquar is the Executive Chairman of International Financial Consulting Services Limited. He is an advisor and consultant to several unions and employers on employee group and life insurance, retirement planning, medical plans, pension plans, Employees Home Ownership Plan, Employee Stock Ownership Plan and the Employee Assistance Programme.

He was the Deputy Chairman of the National Insurance Board, Chairman of the OWTU pension plan committee, Managing Director of Bankers Insurance Company, Executive Chairman of Trust and Assets Management Company, and Managing Director of Industrial Systems Control Limited. He also served as an opposition and government senator. He was a member of the Cabinet-appointed National Planning and Implementation Committee, Cabinet-appointed Standing Tri-Partite Committee, Government Task Force on Pension Reforms and is the Deputy Chairman for the Labour Research Bureau of Trinidad and Tobago.

Walton Hilton-Clarke — Director Walton Hilton-Clarke was the Vice President - Government Affairs and consultant to the President at Amoco Trinidad Oil Company (now bpTT). He was a member of the governing body of the International Labour Organization (ILO), Vice President for many years of the Caribbean Employers' Confederation and a member of the Police Service Commission of Trinidad and Tobago. He is also a past President of the Employers' Consultative Association, a former Vice President of the Trinidad and Tobago Chamber of Industry and Commerce and a past Director of the Unit Trust Corporation of Trinidad and Tobago.

Presently, Mr. Hilton-Clarke is a Director of the National Insurance Board, a Director of the Employers Consultative Association (ECA) and a member of the Registration Recognition and Certification Board (RRCB).

Ermine De Bique Meade — Director With her industrial relations experience, Ermine De Bique Meade serves as General Secretary of the Contractors and General Workers Trade Union, and Trustee of the National Trade Union Centre (NATUC). She was President of the Pleasantville Community Council. She currently serves as a member of the Board of Directors of the National Insurance Board and a member of the Board of the San Fernando Corporation Employees Credit Union.

Joshey Mahabir — Director Joshey Mahabir is currently the Chief Executive Officer of National Helicopter Services Limited and has over twenty years experience in the field of Management, Finance and IT. He was the former General Manager — Corporate & Administrative Services of the Tourism Development Company of Trinidad & Tobago, a former CEO, Financial Controller and Operations & IT Manager both in the private and public sectors. He is the holder of a BSc in Business Management and an Executive MBA from the University of the West Indies. Mr. Mahabir is also an Entrepreneur and Business Consultant in the private sector.

Joanne Milford-Walcott — Director Joanne Milford-Walcott has 22 years experience in management and is a former Regional Manager of Republic Bank Limited. She joined the Board of Directors of Home Mortgage Bank in August 2011. She is also a Director of The President Award of Trinidad & Tobago.

Management Discussion & Analysis

MD & A 2012

FINANCIAL PERFORMANCE

Fiscal year 2012 was another successful year for the Bank in achieving profits of $52.4 million, an increase of 40% over the prior year. Income marginally increased over the prior year with a total income of $149 million in 2012. The main contributor to the Bank's profitability was a reduction in total expenses, which saw total expenses declining from $114.8 million in 2011 to $96.5 million in 2012.

The balance sheet shows a reduction in total assets from $2.229 billion to $1.747 billion. The main contributors were (a) lower levels of the Bank's borrowings of $964.8 million down from $1,638 million, (b) the maturity of investments' assets of $372 million, the proceeds of which were used to repay maturing bonds, and (c) appreciation in our equity portfolio.

Some key financial ratios, highlighting the improved performance of the Bank, are as follows:-

	2012	2011
ROA	3.0%	1.7%
ROE	7.9%	7.6%
Debt/Equity	1.46	3.34
Interest Coverage	1.69	1.35
EPS	3.27	2.34

RESIDENTIAL REAL ESTATE MORTGAGE MARKET

The combined effects of lower mortgage rates and focused marketing by other primary mortgage lenders fuelled growth in real estate mortgage lending during 2012. The local mortgage market is intensely competitive. E-commerce, intense advertising, loan campaigns, institutionalised group seminars and recent publications by the Central Bank of Trinidad and Tobago has enabled potential borrowers to engage in greater comparative shopping around for better mortgage terms in the market. Apart from these external market forces, the Bank also faced a number of internal management challenges in its mortgage department.

To respond to the market challenges, Home Mortgage Bank embarked upon the refinancing programme to lower its cost of funds. The benefit of this initiative was reflected in the lower cost of funds starting in the fourth quarter of 2012. The Bank is now offering mortgages to new customers at highly competitive rates, while at the same time addressing our existing clients.

Residential Mortgage Programmes

The Home Mortgage Bank continues to offer residential mortgage loans with attractive features and competitive interest rates. The Bank is mindful of its mandate to provide affordable mortgage financing to the market.

Given the high levels of competition during 2012, the Bank has had to review its mortgage rates pricing structure for new residential mortgage business.

The Bank continues to make available to the public attractive mortgage loans featuring:

- NO application fees
- NO pre-payment penalties
- NO mortgage indemnity premiums
- Financing up to 90%
- Bridging/construction financing at the same rate as the long term mortgage rate.

Home Acquisition Loans

The Home Acquisition is a standard product for the purchase of a residence.

Land Acquisition Mortgage

This product facilitates the purchase of land that will ultimately be used for the construction of a primary residence. The Bank is now offering land mortgages for terms up to twenty-five (25) years, which makes the monthly payments more manageable to potential homeowners.

Construction Mortgages

The Construction Loan Facility includes Bridging Finance and is geared towards providing financing for the construction of a residence. The Bank offers attractive rates on this type of facility as it does not charge any premium on its mortgage rates during the construction period.

Equity Mortgages

This facility allows homeowners to access financing through the equity or value that has built up in their homes over the years. This financing could be used for various purposes including home renovations, education expenses, medical expenses or even debt consolidation.

Multi-family Units

The Bank now facilitates the acquisition or construction of multi-family residences up to six (6) units that are focused for the domestic rental market.

Reverse Mortgages

This is an ideal product for retired persons who have built up equity in their homes, and need access to financing. A Reverse Mortgage facilitates the conversion of that equity into cash or a line of credit to be drawn on as needed.

At Home Mortgage Bank you are most

Residential Real Estate Mortgage Market Guideline

The Central Bank, in consultation with the Bankers' Association of Trinidad and Tobago, introduced a Residential Real Estate Mortgage Market Guideline, effective 14th September 2011, applicable to all commercial banks (licensees) and their affiliated non-bank financial institutions that grant residential mortgages.

The guideline introduces the new Mortgage Market Reference Rate (MMRR), an interest rate benchmark against which all residential mortgage rates are to be priced and re-priced.

Despite the fact that this guideline does not apply to mortgages granted by the Home Mortgage Bank, it would affect HMB's mortgage rate if we are to remain a competitive player in the mortgage market.

The MMRR for the last six periods are shown below:

Quarter Ending	Dec 2011	Mar 2012	Jun 2012	Sept 2012	Dec 2012	Mar 2013
MMRR	3.50 %	3.25 %	3.25 %	3.00 %	2.50 %	2.50 %

INVESTMENTS AND FUNDING

Fund raising activities

The capital markets in 2012 show a significant drop in the primary bond activity. There were eleven primary issues in 2012, raising $4.2 billion compared with twenty bond issues in 2011 raising $7.2 billion.

Trading on the secondary government bond market increased significantly in 2012. Bonds with a cumulative face value of $1,381.5 million were traded in 2012 compared with $176.9 million in 2011. Bonds continued to trade at a premium given the high demand for fixed income securities. This has resulted in a decline in yields on the Central Government yield curve for 2012.

During 2012, the Bank restructured its liability side of its balance sheet by maturing its $1.638 billion bonds in issue and reissuing variable rate amortising bonds at a more attractive funding cost. In addition, the Bank utilised secured short-term facilities as part of it strategic move to diversify its funding base. As at 31st December 2012, bonds in issue stood at $0.606 billion down from $1.638 billion as at 31st December 2011, a decrease of 63%, which was partly offset by new short term borrowing facilities of $358 million.

Investment portfolio

The Trinidad and Tobago stock market performed well in 2012, with a growth of approximately 3.61%. Market capitalisation rose to $97.4 billion at the end of 2012, from $94.0 billion at the end of 2011.

The Bank held a select portfolio of local equities with a market value of $784.8 million at the end of 2012, up from $623.1 million at the end of 2011, an increase of 25.9% representing an appreciation in value. The Bank continues to monitor this portfolio and would be reviewing its holdings in light of its credit exposures and risk appetite.

Mortgage Participation Fund

During 2012, the Central Bank reported aggregate mutual funds under management rose by 8.17% compared to an increase of 3.1% in 2011. At the end of 2012, aggregate funds under management stood at $39.7 billion up from $36.7 billion at the end of 2011.

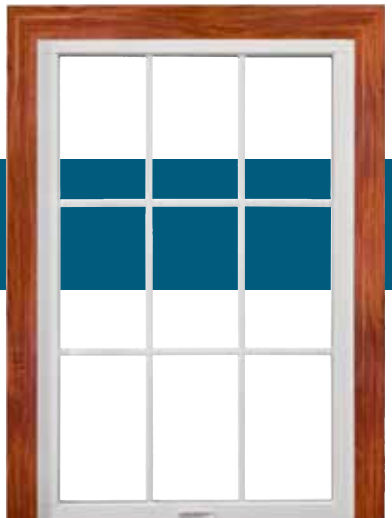
The Bank's Mortgage Participation Fund balance as at 31st December 2012 stood at $554.7 million, up from $478.2 million as at 31st December 2011, an increase of 16%.

Management and Corporate Governance

In 2012, there were a number of key management changes. A new Manager, Finance & Administration and a Manager, Mortgage Sales & Operations joined the team in the latter half of the year. The Bank also strengthened its corporate governance commitment by expanding its management team with a Compliance Officer and has engaged the services of a member of the big four auditing firms as our internal auditors. During 2012, the Bank started the process to implement a full compliance programme which is targeted to be completed in 2013. The new management team is committed to the continued growth and profitability of the Bank.

I would like to thank the Board of Directors for their input and guidance, management and staff for their dedication and commitment, and our investors, customers and shareholders for their continued faith in the Bank, without all of whom we will not have been able to achieve these results.

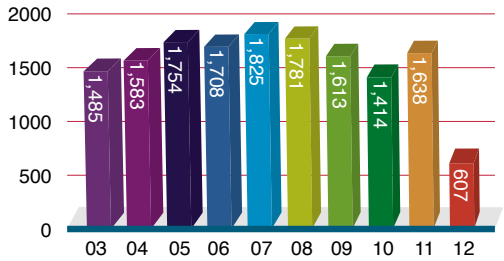
Rawle Ramlogan
Chief Executive Officer (Ag)



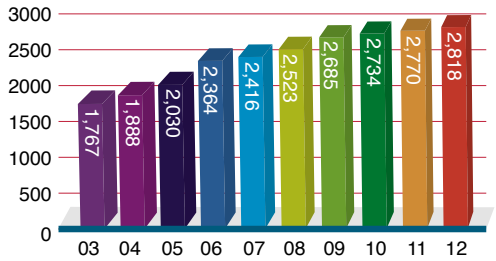
Ten Year Review 2003-2012

(in TT Dollar millions)

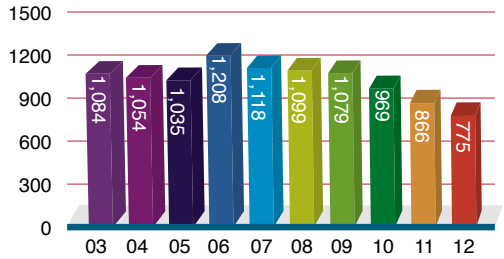
Total Bonds in Issue



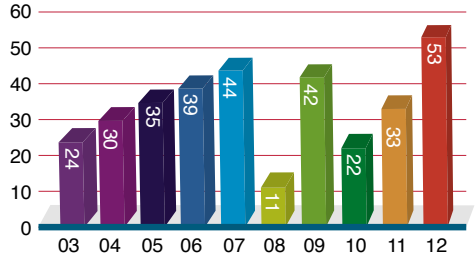
Accumulated Value of Mortgages Purchased



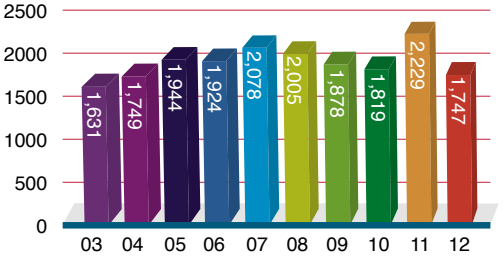
Mortgage Portfolio Serviced



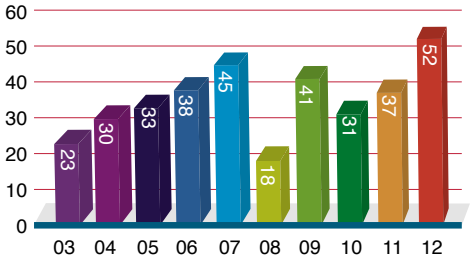
Profit before Taxation



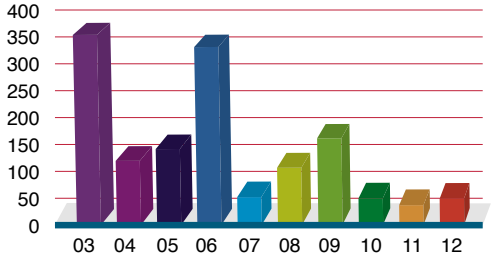
Total Assets



Profit after Taxation



Mortgages Purchased



Five Year Review

Five Year Review 2008-2012

December 31st,	2012 $'000	2011 $'000	2010 $'000	2009 $'000	2008 $'000
Balance Sheet					
Loans & Advances	447,940	598,963	708,369	764,851	1,155,972
Investment Securities	1,140,763	1,127,872	961,727	793,150	377,915
Total Assets	1,747,167	2,229,003	1,819,410	1,877,537	2,004,944
Bonds in Issue	606,740	1,638,003	1,413,518	1,613,023	1,781,161
Total Liabilities	1,087,095	1,738,120	1,476,362	1,649,604	1,817,685
Share Capital	16,000	16,000	16,000	16,000	16,000
Retained Earnings	315,964	271,196	233,348	201,399	160,149
Income Statement					
Income	149,036	147,817	158,355	169,212	208,746
Profit before Taxation	52,548	33,002	21,846	41,851	11,303
Net Income	52,388	37,428	31,491	40,674	18,448
Operating Expenses	14,671	15,578	12,650	10,038	22,888
Earnings per share	$3.27	$2.34	$1.97	$2.54	$1.15

Get your own roof over your head

The Sky is the limit

Fundraising Programmes

Tax Free Bonds

HMB has the ability to issue up to $600 million in tax free bonds whereby the interest paid on these bonds is tax free to investors. The bonds comprise of a series of short and medium term issues and are attractive to the corporate community including commercial banks and general insurance companies. The Bonds are registered with the Trinidad and Tobago Securities and Exchange Commission and also qualify as a suitable asset for both the Statutory Deposit and Statutory Fund of Insurance Companies.

Taxable Bonds

HMB can issue an unlimited amount of taxable bonds. The interest paid on these bonds is taxable in the hands of the investors. They are generally long term in nature and Pension Fund Plans have found them very attractive as they offer a competitive rate of return and fit the investment profile of Pension Plans.

Again, these bonds are all registered with the Trinidad and Tobago Securities and Exchange Commission and also qualify as a suitable asset for both the Statutory Deposit and Statutory Fund of Insurance Companies.

Guaranteed Mortgage Investment Certificate – GareeMICs

This programme was first introduced in 1999 as the first truly structured mortgage-backed security available in the local capital market. GareeMICs, as they are commonly called, are secured/collateralised by a specific pool of mortgages and are referred to as Collateralised Mortgage Obligations – CMOs.

These securities are structured to meet a wide array of investors' needs by offering investments with different principal repayment and interest terms. The GareeMIC programme is very flexible and can be used to satisfy varying investor needs and portfolio objectives. They provide the investing public the opportunity to diversify into mortgage-backed assets without having to commit to long term individual mortgages.

These investments are registered with the Trinidad and Tobago Securities and Exchange Commission and approved by the Supervisor of Insurance as a suitable asset in the context of Section 46 and 186 (1) of the Insurance Act, 1980.

Mortgage Participation Fund – MPF

This fund was launch in December 2001 following the successful acceptance of the GareeMIC Programme.

The MPF is a mutual fund backed by mortgages and is structured along the lines of a money market fund. Interest accrues daily and investors can access their money without penalty. Investors have the choice of reinvesting their interest or receiving the monthly income via cheque or direct deposit to their bank account.

The fund is registered with the Trinidad and Tobago Securities and Exchange Commission. The Inspector of Financial Institutions has confirmed that the fund satisfies the requirements of the Insurance Act, 1980, as a suitable asset in which funds of Insurance Companies and Pension Fund Plans may be invested.

The Future Outlook

As HMB looks to the future, it will continue to expand its investor base and enhance its Fundraising Instruments.

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 31 December 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows 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 consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

Basis for Qualified Opinion

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. As disclosed in Note 28, in 2008, a net fee of $27.2 million was earned by the Group for a transaction with CL Financial Limited. In December 2009 and May 2010, 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 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report of the Auditors (continued)

Emphasis of Matter

We draw attention to Note 26 to the financial statements which describes the uncertainty pertaining to the settlement of a Guarantee. Our opinion is not qualified in respect of this matter.

Ernst + Young

Port of Spain,
TRINIDAD:
13 March 2013

Consolidated Statement of Financial Position

	Notes	2012 $'000	2011 $'000
Assets			
Cash and short term funds	4	49,446	246,869
Interest receivable and sundry debtors	6	21,888	169,402
Loans and advances	8	447,940	598,963
Capitalised bond issue costs	10	106	540
Investment securities	5	1,140,763	1,127,872
Lands for development	7	59,701	58,424
Property and equipment	9	1,230	881
Deferred tax asset	11	23,002	22,940
Taxation recoverable		3,091	3,112
Total assets		1,747,167	2,229,003
Liabilities			
Other liabilities	12	15,805	35,071
Short-term borrowings		358,074	–
Bonds in issue	13	606,740	1,638,003
Deferred income tax liability	11	106,476	65,046
		1,087,095	1,738,120
Shareholders' equity			
Stated capital	14	16,000	16,000
Retained earnings		315,964	271,196
		331,964	287,196
Revaluation reserve		318,832	194,031
Mortgage risk reserve	15	9,276	9,656
		660,072	490,883
Total liabilities and shareholders' equity		1,747,167	2,229,003

The accompanying notes form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on 13 March 2013 and signed on its behalf by:

Director **Director**

Consolidated Statement of Comprehensive Income

	Notes	2012 $'000	2011 $'000
Income			
Interest on loans and advances (net)		67,446	73,796
Interest income on investments		49,390	49,055
Dividend income		30,764	24,916
Other income (net)		1,436	50
		149,036	147,817
Expenditure			
Bond expenses and other costs		76,805	95,541
General and administrative expenses	16	14,671	15,578
Provision/(write back of provision) for loan losses	8	295	(141)
Impairment on available-for-sale equities		4,717	–
Provision for impairment on lands for development	7	–	3,837
		96,488	114,815
Profit before taxation		52,548	33,002
Taxation	17	(160)	4,426
Profit after taxation attributable to equity holders of the Parent		52,388	37,428
Other comprehensive income:			
Revaluation of available-for-sale investments		166,401	147,211
Tax effect		(41,600)	(36,804)
Other comprehensive income for the year, net of tax		124,801	110,407
Total comprehensive income for the year, net of tax attributable to equity holders of the Parent		177,189	147,835
Earnings per share ($)		3.27	2.34
Number of shares ('000)		16,000	16,000

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

	Stated capital $'000	Retained earnings $'000	Revaluation reserve $'000	Mortgage risk reserves $'000	Total shareholders' equity $'000
Balance at 31 December 2010	16,000	233,348	83,624	10,076	343,048
Total comprehensive income for the year	–	37,428	110,407	–	147,835
Transfer from mortgage risk reserve	–	420	–	(420)	–
Balance at 31 December 2011	16,000	271,196	194,031	9,656	490,883
Total comprehensive income for the period	-	52,388	124,801	–	177,189
Dividends from prior years profit	–	(8,000)	–	–	(8,000)
Transfer from mortgage risk reserve	–	380	–	(380)	–
Balance at 31 December 2012	16,000	315,964	318,832	9,276	660,072

Consolidated Statement of Cash Flows

	2012 '000	2011 '000
Cash flows from operating activities		
Net profit before taxation	52,548	33,002
Adjustments for:		
Provision/(writeback) for loan losses	362	(141)
Write off of provision for loan losses	–	(149)
Provision for impairment on lands for development	–	3,837
Impairment of equities	4,717	–
Depreciation	339	355
Bond issue costs amortised	574	124
Operating profit before working capital changes	58,540	37,028
Decrease/(increase) in interest receivable and sundry debtors	147,514	(146,218)
(Decrease)/increase in other liabilities	(19,266)	642
Corporation taxes paid	(371)	(357)
Taxation recovered	–	335
Net cash generated from/(used in) operating activities	186,417	(108,570)
Cash flows from investment activities		
Net decrease in short-term funds	158,000	–
Decrease/(increase) in investment securities-held-to-maturity	148,794	(18,934)
Net decrease in guaranteed mortgage securities	(3,103)	(4,714)
Net increase in mortgage participation fund	76,621	21,248
Issuance of new mortgages	(48,723)	(35,514)
Proceeds from repayment on mortgages	147,173	145,786
Purchase of fixed assets	(952)	(9)
Proceeds from sale of fixed assets	262	–
Development costs on land	(1,277)	(6,176)
Increase in construction loan advances	(21,308)	(17,110)
Net cash generated from investing activities	455,487	84,577

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows (continued)

	2012 '000	2011 '000
Cash flows from financing activities		
Proceeds from bonds issued	602,405	385,000
Proceeds from short-term borrowings	358,074	–
Redemption of bonds	(1,633,666)	(160,515)
Dividends paid	(8,000)	–
Bond issue costs incurred	(140)	(35)
Net cash (used in)/generated from financing activities	(681,327)	224,450
Net (decrease)/increase in cash and cash equivalents	(39,423)	200,457
Cash and cash equivalents at the beginning of the year	88,869	(111,588)
Cash and cash equivalents at the end of the year	49,446	88,869
Represented by:		
Cash and cash equivalents	49,446	88,869
	49,446	88,869
Supplemental information:		
Interest received during the period/year	57,005	57,025
Interest paid during the period/year	(94,026)	(96,449)
Dividends received	30,764	24,916
Dividends paid	(8,000)	–

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

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.

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 Ground Floor, Prince's Court, Corner Keate and Pembroke Streets, Port of Spain.

2. Significant accounting policies

a) Basis of preparation

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

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

b) Changes in accounting policy

(i) New standards and amendments/revisions to published standards and interpretations effective in 2012

The following amendments to published standards are mandatory for the Group's accounting periods beginning on or after 1 January 2012:

IFRS 7 Financial Instruments: Disclosures (Amendment)

The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when:

- Financial assets are derecognised in their entirety, but the entity has a continuing involvement in them (e.g., options or guarantees on the transferred assets)
- Financial assets are not derecognised in their entirety

The amendment promotes transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial asset. The amendment did not have any impact on the financial position, performance or disclosures of the Group.

2. Significant accounting policies (continued)

b) Changes in accounting policy (continued)

(i) New standards and amendments/revisions to published standards and interpretations effective in 2012 (continued)

IAS 12 Income taxes (Amendment) - Deferred Taxes : Recovery of Underlying Assets

The amendment to IAS 12 introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognised on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed, an own use basis must be adopted.

The amendment also introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis. As a result of this amendment, SIC-21 Income Taxes - Recovery of Revalued Non-Depreciable Assets has been withdrawn. The amendment did not have any impact on the financial position or performance of the Group

(ii) New standards and amendments/revisions to published standards and interpretations effective in 2012 but not applicable to the Group

The following new and revised IFRS that has been issued does not apply to the activities of the Group:

- IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters - Effective 1 July 2011

(iii) New interpretations and revised or amended standards that are not yet effective and have not been early adopted by the Group. The improvements become effective for annual periods on or after either 1 July 2012 or 1 January 2013. These changes are currently being evaluated by Management.

- IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1- Effective 1 July 2012
- IAS 19 Employee Benefits (Revised) - Effective 1 January 2013
- IFRS 1 Government Loans - Amendments to IFRS 1 - Effective 1 January 2013
- IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 - Effective 1 January 2013
- IFRS 9 Financial Instruments - Classification and Measurement - Effective January 2015
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements - Effective 1 January 2013
- IFRS 11 Joint Arrangements, IAS 28 Investments and Associates and Joint Ventures - Effective 1 January 2013
- IFRS 12 Disclosure of Interests in Other Entities - Effective 1 January 2013
- IFRS 13 Fair Value Measurement - Effective 1 January 2013

2. Significant accounting policies (continued)

b) Changes in accounting policy (continued)

(iii) New interpretations and revised or amended standards that are not yet effective and have not been early adopted by the GroupThe improvements become effective for annual periods on or after either 1 July 2012 or 1 January 2013. These changes are currently being evaluated by Management (continued)

- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine - Effective 1 January 2013
- Annual Improvements to IFRSs 2009 - 2011 cycle - Effective 1 January 2013:
- IFRS 1 First-time Adoption of International Financial Reporting Standards - Repeated application of IFRS 1 and borrowing costs
- IAS 1 Presentation of Financial Statements - Clarification of requirements for comparative information
- IAS 16 Property Plant and Equipment - Classification of servicing equipment
- IAS 32 Financial Instruments, Presentation - Tax effect of distributions to holders of equity instruments
- IAS 34 Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities
- IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 - Effective 1 January 2014
- IFRS 9 Financial Instruments - Classification and Measurement - Effective 1 January 2015

c) Basis of consolidation

Group

The consolidated financial statements comprise the financial statements of Home Mortgage Bank and its subsidiaries as at 31 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.

2. Significant accounting policies (continued)

c) Basis of consolidation (continued)

Subsidiary companies

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

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

d) Revenue recognition

Income and expenditure are accounted for on the accruals basis.

e) Financial instruments

The Group's financial assets and financial liabilities are recognised in the Consolidated 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.

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.

2. Significant accounting policies (continued)

e) Financial instruments (continued)

Loans and advances (continued)

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 amortisation is included in 'interest income' in the Consolidated Statement of Comprehensive Income. The losses arising from impairment are recognised in the Consolidated Statement of Comprehensive Income in 'provision for loan losses'.

The Group classifies its investment securities into the following categories:

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 to be 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 are recognised initially at fair value net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

f) Guaranteed Mortgage Investment Certificates (Gareemics) and Mortgage Participation Fund (MPF)

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

For Gareemics, the Group guarantees the timely payment of principal and interest on the underlying mortgages, whether or not received, together with the full principal balance of any foreclosed mortgages. (Refer to Notes 8 & 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 8 & 24).

2. Significant accounting policies (continued)

g) Lands for development

Lands for development are accounted for at the lower of cost (plus other direct expenses incurred in the acquisition and the development of these properties) and net realisable value. (Refer to Note 7).

h) Property and equipment

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

The rates used are as follows:

Furniture, fixtures and office machinery	7 ½% to 12½ % on reducing balance
Computer equipment	25% on reducing balance
Motor vehicles	25% on (cost)/straight line

i) Capitalised bond issue costs

The costs incurred in the issue of bonds for investment in housing are amortised over the duration of the respective bond issues (Note 10).

j) Pension benefits

The Group operates a defined contribution pension plan which covers all of its eligible employees. The Group's contribution expense in relation to this plan for the year amounts to $285,326 (December 2011: $299,870).

k) Taxation

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

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

l) Earnings per share

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

m) Cash and cash equivalents

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

2. Significant accounting policies (continued)

n) Impairment of financial assets

The carrying value of all financial assets not carried at fair value through the Consolidated Statement of Comprehensive 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.

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. This cumulative loss is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

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 Consolidated Statement of Comprehensive Income.

o) Comparative information

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

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

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

Impairment of financial assets

Management makes judgements at each 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.

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.

Notes to the Consolidated Financial Statements (continued)

4. Cash and short term funds

	2012 $'000	2011 $'000
Cash and cash equivalents	85,446	124,869
Less: Provision for cash and cash equivalents	(36,000)	(36,000)
Net cash and cash equivalents	49,446	88,869
Fixed deposits with original maturities greater than three months	12,638	170,638
Less: Provision for fixed deposits	(12,638)	(12,638)
	–	158,000
Total cash and short term funds	49,446	246,869
The average effective interest rate on cash and short term funds for the current period is 4.75% (2011: 5.80%)		
Provision for cash and short term funds	48,638	48,638

On 30 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.

5. Investment securities

	2012 $'000	2011 $'000
Held to maturity		
State-owned company securities	265,592	447,143
Government securities	90,341	57,584
	355,933	504,727
Available for sale - Local equities	784,830	623,145
	1,140,763	1,127,872

The average effective interest rate on investment securities for the current year is 5.82% (2011: 6.11%).

6. Interest receivable and sundry debtors

	2012 $'000	2011 $'000
Amounts due on 76th Bond Issue	–	139,130
Amounts due on 78th Bond Issue	8,200	–
Interest receivable	7,553	21,691
Sundry debtors	6,135	8,581
	21,888	169,402

7. Lands for development

Balance brought forward	79,938	73,762
Costs incurred for the period	1,277	6,176
Balance carried forward	81,215	79,938
Less: Provision for impairment in value	(21,514)	(21,514)
Net balance carried forward	59,701	58,424

After considering the results of the valuation and the estimated costs to complete this project, an impairment provision was established on the basis of prudence and conservatism at 31 December 2011, to write down this asset to its net realisable value in accordance with the accounting policy of the Bank. No additional impairment was made as at December 2012.

8. Loans and advances

		2012 $'000	2011 $'000
Retained mortgages loans	8(a)	205,957	370,235
Construction loan advances	8(b)	228,551	207,243
Other loans	8(c)	13,432	21,485
		447,940	598,963

Notes to the Consolidated Financial Statements (continued)

8. Loans and advances (continued)

	2012 $'000	2011 $'000
(a) Retained mortgage portfolio		
Principal balances and unamortised discounts:		
Balance at the beginning of the year	865,015	967,889
New mortgage/transfers from construction loan advances	48,723	35,514
Less: Principal repayments	(139,120)	(138,388)
	774,618	865,015
Less: Specific provision for doubtful mortgages	(442)	(80)
Less: Guaranteed Mortgage Investment	(13,404)	(16,507)
Less: Mortgage Participation Fund	(554,815)	(478,193)
Balance at the end of the period	205,957	370,235
Specific provision for loan losses		
Provision brought forward	80	370
Write off of provision	–	(149)
Prior Year Adjustment	67	
Increase/(net write back to income) in provision	295	(141)
Provision carried forward	442	80
Represented by:		
Mortgages with recourse	1,824	–
Mortgages without recourse	204,133	370,235
Balance at the end of the year	205,957	370,235

The average effective interest rate on the retained mortgage portfolio for the current year is 7.77% (2011: 7.86%).

8. Loans and advances (continued)

	2012 $'000	2011 $'000
(b) Construction loan advances		
Balance brought forward	207,243	190,133
New advances	25,836	69,992
Advances converted to mortgages	(4,528)	(52,882)
Balance carried forward	228,551	207,243

The average effective interest rate on Construction loan advances for the current period is 7.71% (2011: 7.82%).

	2012 $'000	2011 $'000
(c) Other loans		
Balance brought forward	21,485	28,883
New advances	–	–
Principal repayments	(8,053)	(7,398)
	13,432	21,485

The average effective interest rate on other loans for the current period is 8.58% (2011: 8.58%).

9. Property and equipment

	Furniture, fixtures, office machinery & equipment	Motor vehicles	Total 2012 $'000	Total 2011 $'000
Cost				
Balance brought forward	3,109	1,103	4,212	4,325
Additions	243	709	952	9
Disposals	(3)	(521)	(524)	(122)
	3,349	1,291	4,640	4,212
Depreciation				
Balance brought forward	2,691	640	3,331	3,098
Charge for the period	89	250	339	355
Disposals	–	(260)	(260)	(122)
Depreciation carried forward	2,780	630	3,410	3,331
Net book value	569	661	1,230	881

Notes to the Consolidated Financial Statements (continued)

10. Capitalised bond issue costs

	2012 $'000	2011 $'000
Balance at the beginning of the year	540	629
Add: Costs incurred during the period	140	35
	680	664
Less: Costs amortised during the period	(574)	(124)
	106	540

11. Components of deferred tax asset and deferred tax liability

	2012 $'000	2011 $'000
Deferred income tax asset:		
Tax losses	16,376	17,561
Impairment provision of lands for development	5,379	5,379
Impairment provision on available-for-sale investments	1,247	–
	23,002	22,940

As at 31st December, 2012, the Bank had unutilised tax losses of $65,502,732 (2011: 70,244,706). These losses have not yet been agreed by the Board of Inland Revenue.

	2012 $'000	2011 $'000
Deferred income tax liability:		
Discount on purchase of Mortgage Pools	138	222
Revaluation of available-for-sale investments	106,277	64,677
Bond issue costs	27	135
Property and equipment	34	12
	106,476	65,046

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.

12. Other liabilities

	2012 $'000	2011 $'000
Interest payable on bonds	2,870	21,090
Sundry creditors and accruals	12,727	13,796
Gareemic holders payable	208	185
	15,805	35,071

13. Bonds in issue and short term borrowings

	2012 $'000	2011 $'000
Balance at the beginning of the year	1,638,003	1,413,518
Add: Issues during the period	602,405	385,000
Less: Redemptions during the period	(1,633,668)	(160,515)
Balance at the end of the period	606,740	1,638,003

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 Bank Group. The average interest rate on bonds in issue for the current year is 5.72% (2011 6.41%).

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

	2012 $'000	2011 $'000
Within 1 year	61,228	180,617
1 to 2 years	56,894	215,935
2 to 3 years	56,894	155,250
3 to 4 years	56,894	237,944
4 to 5 years	56,894	210,645
Over 5 years	317,936	637,612
	606,740	1,638,003
(c) Tax free bonds	161,370	575,268
Other bonds	445,370	1,062,735
	606,740	1,638,003

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

Notes to the Consolidated Financial Statements (continued)

13. Bonds in issue and short term borrowings (continued)

(d) Short term borrowings

In 2012 the Bank undertook a bond restructuring strategy. As part of this strategy involved the negotiation of two (2) short term borrowing facilities as follows:

(i) FCIB TT$153.8m Reverse Repurchase Agreement
(ii) RBC TT$204m One (1) year Revolving Facility

14. Stated capital

	2012 $'000	2011 $'000
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

15. Mortgage risk reserves

	2012 $'000	2011 $'000
Balance brought forward	9,656	10,076
Transfer to retained earnings	(380)	(420)
Balance carried forward	9,276	9,656

This represents amounts set aside as general provisions based on an evaluation of the portfolio in respect of losses which, although not specifically identified, are known from experience to be present in any such portfolio. These loan loss requirements are dealt with as appropriations of equity.

16. General and administrative expenses

	2012 $'000	2011 $'000
Staff costs	4,352	4,239
Accommodation expenses	1,844	3,261
Other operating expenses	8,475	8,078
	14,671	15,578
Included within other operating expenses are the following charges:		
Depreciation	339	355
Directors' fees	1,382	788

17. Taxation charge for the period

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

	2012 $'000	2011 $'000
Accounting profit	52,548	33,002
Tax at the statutory rate of 25%	(13,137)	(8,251)
Tax exempt income	13,572	13,028
Other permanent differences	(595)	(351)
	(160)	4,426
Current year's tax provision:		
Business levy	(224)	(197)
Green fund levy	(166)	(152)
Deferred income tax	230	4,775
Taxation (charge)/credit for the period	(160)	4,426

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.

	2012 $'000	2011 $'000
Outstanding balances		
Loans, investments and other assets		
The National Insurance Board & its subsidiaries	13,432	21,485
Directors and key management personnel	982	1,034
Bonds in issue and other liabilities		
The National Insurance Board & its subsidiaries	48,699	111,130
Directors and key management personnel	95	93
Interest and other income		
The National Insurance Board & its subsidiaries	1,507	2,166
Directors and key management personnel	81	242
Bond Interest and other expense		
The National Insurance Board and its subsidiaries	9,113	9,411
Directors and key management personnel	2	6

Notes to the Consolidated Financial Statements (continued)

18. Related party transactions and balances (continued)

	2012 $'000	2011 $'000
Outstanding balances		
Directors & management compensation		
Short term benefits	3,273	3,195
Post-retirement benefits	146	192

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, of which undrawn balances amount to $21,852,086 (2011: $16,303,500).

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 operational risk.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks.

Board of Directors

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

The Board is responsible for overseeing the Group's risk management, including overseeing the management of credit risk, market risk, liquidity risk and operational risk.

The Board 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

20. Risk management (continued)

Board of Directors (continued)

- Ensuring that the Group has implemented an effective ongoing process to identify risk, to measure its potential impact against a broad set of assumptions and then to activate what is necessary to pro-actively manage these risks, and to decide the 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 attendant recommendations and confirm that appropriate action has been taken.
- Providing independent and objective oversight of the information presented by management on corporate accountability and specifically associated risk.
- Keeping informed of 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.

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

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. The credit quality review process allows the 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 2012 $'000	Gross maximum exposure 2011 $'000
Cash and short term funds	98,084	295,507
Interest receivable and sundry debtors	21,888	169,402
Gross mortgage portfolio	774,618	865,015
Construction advances	228,551	207,243
Other loans	13,432	21,485
Investment securities	355,933	504,727
Total gross financial assets	1,492,506	2,063,379
Mortgage commitments	21,852	16,304
Total credit risk exposure	1,514,358	2,079,683

20. Risk management (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

Management monitors the market value of collateral at the point of granting the mortgage commitment and during its review of the adequacy of the allowance for impairment losses.
It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Group does not occupy repossessed properties.

Credit quality per class of financial assets

The Group has determined that credit risk exposure arises from the following statement of financial position lines:

- Loans and advances
- Investment securities
- Cash and short term funds

Loans and advances

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 are advances more than six months in arrears and are very well secured based on Management's review of the collateral values. Individually impaired advances are advances that are also greater than six months in arrears and specific provisions have been established for these loans. Management closely monitors and follow up all loans in arrears.

20. Risk management (continued)

Credit quality per class of financial assets (continued)

Loans and advances (continued)

The table below shows the credit quality of loans and advances:

	High grade $'000	Standard grade $'000	Sub-standard grade $'000	Individually impaired $'000	Total $'000
2012					
Gross balance	876,206	121,276	11,132	7,987	1,016,601
Fair value of collateral				(7,545)	
Net exposure				442	
Less provision				(442)	
				–	
Gross balance %	86%	12%	1%	1%	100%
Net balance %	86%	12%	1%	1%	100%
2011					
Gross balance	1,035,993	51,675	3,165	2,910	1,093,743
Fair value of collateral				(2,830)	
Net exposure				80	
Less provision				(80)	
				–	
Gross balance %	94.70%	4.70%	0.30%	0.30%	100.00%
Net balance %	95.00%	4.70%	0.30%	0.00%	100.00%

20. Risk management (continued)

Credit quality per class of financial assets (continued)

Investment securities and cash and short term funds

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 has been established for the impaired portion.

The table below shows the credit quality for cash and short-term funds:

	High grade $'000	Standard grade $'000	Sub-standard grade $'000	Individually impaired $'000	Total $'000
2012					
Gross balance	–	49,446	–	48,638	98,084
Less: Provision	–	–	–	(48,638)	48,638
Net exposure	–	49,446	–	–	49,446
Gross balance %	0.00%	50.41%	0.00%	49.59%	100.00%
Net balance %	0.00%	100.00%	0.00%	0.00%	100.00%
2011					
Gross balance	–	246,869	–	48,638	295,507
Less: Provision	–	–	–	(48,638)	(48,638)
Net exposure	–	246,869	–	–	246,869
Gross balance %	0.00%	83.50%	0.00%	16.50%	100.00%
Net balance %	0.00%	100.00%	0.00%	0.00%	100.00%

The credit quality of investment securities and related interest receivable as at 31 December 2012 and 31 December 2011 has been assessed as high grade.

20. Risk management (continued)

Credit quality per class of financial assets (continued)

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:

- 98% of the loans and advances portfolio is categorised in the top two grades of the grading system (2011: 99.7%);
- Loans and advances, which represent 46% (2011: 43.5%) 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 90 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.

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.

20. Risk management (continued)

Liquidity risk and funding management (continued)

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 31 December 2012 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 Consolidated Statement of Financial Position.

	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 liabilities 2012							
Mortgage participation fund	554,815	–	–	–	–	–	554,815
Collaterised mortgage obligation	13,404	–	–	–	–	–	13,404
Bonds in issue	61,229	56,894	56,894	56,894	56,894	317,936	606,740
Interest payable on bonds	12,373	10,899	9,732	8,589	7,397	19,318	68,309
Total undiscounted financial liabilities	641,821	67,793	66,626	65,483	64,291	337,254	1,243,268
Financial liabilities 2011							
Mortgage participation fund	478,193	–	–	–	–	–	478,193
Collaterised mortgage obligation	16,507	–	–	–	–	–	16,507
Bonds in issue	180,617	215,935	155,250	237,944	210,645	637,612	1,638,003
Interest payable on bonds	89,796	86,542	69,533	60,751	45,409	121,923	473,954
Total undiscounted financial liabilities	765,113	302,477	224,783	298,695	256,054	759,535	2,606,657

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 2012.

	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							
2012							
Cash and short term funds	49,446	–	–	–	–	–	49,446
Investments securities	153,941	87,195	33,647	3,647	822,772	39,561	1,140,763
Interest receivables and sundry debtors	21,888	–	–	–	–	–	21,888
Loans and advances	298,664	85,428	85,474	88,820	87,677	370,096	1,016,159
Total financial assets	523,939	172,623	119,121	92,467	910,449	409,657	2,228,256

As at 31 December 2012 included within the one year category is investment securities amounting to $150 million placed with a State Enterprise. The Group is in the process of negotiating a long term security to reinvest these funds.

Financial assets							
2011							
Cash and short term funds	88,869	–	–	158,000	–	–	246,869
Investments securities	331,808	311,572	395,192	30,000	–	59,300	1,127,872
Interest receivables and sundry debtors	169,402	–	–	–	–	–	169,402
Loans and advances	311,310	119,779	114,673	110,457	106,361	331,083	1,093,663
Total financial assets	901,389	431,351	509,865	298,457	106,361	390,383	2,637,806

20. Risk management (continued)

Liquidity risk and funding management (continued)

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

	On demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2012						
Commitments	–	19,041	2,811	–	–	21,852
2011						
Commitments	–	13,359	2,945	–	–	16,304

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 a result of decreases 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.

20. Risk management (continued)

Equity price risk (continued)

The effect on equity and income at 31 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 +/- $39.2 million (2011: $31 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 94.4% of the total gross mortgage portfolio as at 31 December 2012 (2011: 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 a quarterly basis. The rate is calculated on a spread ranging between 1.35% - 1.75% over the current 90 day GOTT treasury bill.

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.

20. Risk management (continued)

b) Financial liabilities (continued)

Collateralised mortgage obligations (continued)

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

	Variable rate 2012 $'000	Fixed rate 2012 $'000	Total 2012 $'000	Variable rate 2011 $'000	Fixed rate 2011 $'000	Total 2011 $'000
Loans and advances	960,060	56,541	1,016,601	1,026,798	66,945	1,093,743
Percentage of total loans and advances	94.4%	100.0%	5.6%	93.9%	6.1%	100.0%
Bonds in issue	606,740	–	606,740	54,030	1,583,973	1,638,003
Percentage of total bonds in issue	100.0%	0.0%	100.0%	3.3%	96.7%	100.0%

20. Risk management (continued)

b) Financial liabilities (continued)

Interest rate risk

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
2012						
Fixed rate loans and advances	5,079	23,502	22,404	361	5,195	56,541
Percentage of total fixed loans and advances	8.98%	41.57%	39.62%	0.64%	9.19%	100.00%
2011						
Fixed rate loans and advances	1,479	17,691	40,391	1,684	5,700	66,945
Percentage of total fixed loans and advances	2.30%	26.40%	60.30%	2.50%	8.50%	100.00%

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 94.4% (2011: 93.9%%) of the mortgage pool which gives the Group the ability to change interest rates if needed, within a short time frame.

20. Risk management (continued)

b) Financial liabilities (continued)

Sensitivity analysis (continued)

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.

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:

	Carrying value $'000	Fair value $'000
2012		
Financial assets		
Cash and short terms funds	49,446	49,446
Investment securities	1,140,763	1,161,650
Interest receivables	21,888	21,888
Retained mortgage loans	205,957	255,539
Construction loan advances	228,551	228,551
Other loans	13,432	13,432
	1,660,037	1,730,506
Financial liabilities		
Bonds in issue	606,740	606,740
Bond interest payable	2,870	2,870
	609,610	609,610
2011		
Financial assets		
Cash and short terms funds	246,869	258,987
Investment securities	1,127,872	1,151,649
Interest receivables	169,402	169,402
Retained mortgage loans	370,235	381,487
Construction loan advances	207,243	207,243
Other loans	21,485	21,485
	2,143,106	2,190,253
Financial liabilities		
Bonds in issue	1,638,003	1,727,376
Bond interest payable	21,090	21,090
	1,659,093	1,748,466

22. Financial instruments (continued)

(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.

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 $'000	Level 2 $'000	Level 3 $'000	Value $'000
2012				
Financial assets				
Equity securities	784,830	–	–	784,830
Debt securities	–	355,933	–	355,933
	784,830	355,933	–	1,140,763
2011				
Financial assets				
Equity securities	623,145	–	–	623,145
Debt securities	–	504,727	–	504,727
	623,145	504,727	–	1,127,872

22. Financial instruments (continued)

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

Transfers between Level 1 and 2

For the year ended 31 December 2012 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 31 December 2012 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 installments 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 31 December 2012 the outstanding balances of securitised mortgages and the related Gareemics issued amounts to $13,403,908 (2011: $16,506,681).

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)

The Bank guarantees the investments under its Mortgage Participation Fund investment programme. This fund is backed by mortgage and/or other securities. At 31 December 2012 the outstanding balance under the MPF investment product was $554,815,301 (2011: $478,193,554).

25. Employees

At 31 December 2012 the Group had in its employ a staff complement of 17 employees (2011: 15).

26. Guarantee

As at 31 December 2008, the Group issued a guarantee for $142 million to secure a short-term loan. This guarantee was secured by the pledge of quoted securities from two subsidiaries of Clico Investment Bank (CIB), T.T. Investments Limited and First Co. Limited (TTIL and FCL). The guarantee was settled solely from the liquidation of the collateral security in 2009.

CIB issued a pre-protocol action letter on 11 November 2010 challenging the validity of the transaction. The Group obtained legal advice it acted lawfully and intra-vires in its powers under the Home Mortgage Bank Act and responding by letter dated 14 December 2010 rejecting the claim. To date, there has been no further action by CIB on this transaction.

27. Dividend Paid

At the Group's 24th Annual General Meeting held on the 23 November 2012 the Group declared a dividend payout of fifty (50) cents per share which was paid on the 7 December 2012.

28. Other income

In 2008, the Group earned a gross fee of $47.6 million, of which it retained $27.2 million after costs incurred for legal and professional services. This was a one off fee earned for negotiating and arranging financing for a party (considered to be a related party at that time) to acquire the issued and outstanding preference and ordinary shares of a targeted entity. In December 2009 and in May 2010, the 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.

29. Revaluation reserves

The revaluation reserve is used to record increases or decreases in the carrying value of the Group's Available for Sale equity portfolio. If the value of this portfolio increases or decreases based on market prices, this movement is recognised in equity under the heading revaluation reserve and other comprehensive income. These assets are tested for impairment and once the indicators of impairment are achieved the impairment loss is recognised in the income statement. For the year ended 31 December 2012 the Group recognised an impairment loss on the available for sale equity portfolio of TT$4.7million.

Shareholders

The stated capital is 16,000,000 ordinary shares to a value of $16,000,000, subscribed as follows at 31st December, 2012:

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
Scotiabank 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

Corporate Information

MANAGEMENT
Rawle Ramlogan
Chief Executive Officer (Acting)
Corporate Manager, Securities and Investments
Assistant Corporate Secretary

Janice Dickson
Manager, Mortgage Sales and Operations

Mark Wight
Manager, Finance and Administration

COMPANY SECRETARY
Carla Morton-Campbell

REGISTERED OFFICE
Home Mortgage Bank
Ground Floor, Prince's Court
Corner Keate & Pembroke Streets, Port of Spain

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

ATTORNEYS – AT – LAW
Pollonais, Blanc, de la Bastide and Jacelon
17 – 19 Pembroke Street, Port of Spain

BANKERS
Republic Bank Limited
Independence Square, Port of Spain

TRUSTEE, REGISTRAR AND PAYING AGENTS FOR BOND ISSUES
Republic Bank Limited
Trust and Asset Management Division
(*Trustee*)
Republic House
9–17 Park Street, Port of Spain

First Citizens Trustee Services Limited
(*Registrar and Paying Agents*)
45 Abercromby Street, Port of Spain

PHOTO OPPOSITE:
Bottom row left to right:
Mrs. Janice Dickson, Mr. Rawle Ramlogan, Mr. Mark Wight
Second row (from bottom) left to right:
Mr. Marc Trestrail, Mr. Dwayne Hunte, Mrs. Parbatie Chin Cheong, Mr. Sunil Teeluck
Third row left to right:
Mrs. Yolanda Roy-Ramirez, Mrs. Cynthia Isaac, Mrs. Anna Gonzales
Top row left to right:
Mrs. Avian Harris-Khan, Mr. Nigel Gibson, Mrs. Natalie Hector, Ms. Usha Gajadhar, Mr. Sanjay Roodal, Mrs. C. Allison John-Baptiste, Ms. Padma Bhual-Ali
Missing from photo:
Mrs. Carla Morton-Campbell, Mrs. Debbie Aguillera-Sammy, Ms. Janelle Archibald

Our Employees

Employees 2012

Notes

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