ANNUAL REPORT 2014

HOME MORTGAGE BANK

Mortgages | Investments

Mission Statement

Home Mortgage Bank was created through legislation and enacted by the Parliament 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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CHAIRMAN'S REPORT 2014

Mr. Joshey Mahabir
Chairman

PERFORMANCE OF THE GROUP

I am pleased to report that The Home Mortgage Bank had another successful year in 2014 with overall profit after taxation of $75.6 million. The reduction in profits when compared to the $80.3 million in 2013 was due to the maturity of high yielding assets which were reinvested at lower interest rates arising from surplus liquidity in the system.

While the results show a small decline, the 2014 results was particularly gratifying because these results were achieved in a climate of severe competition and in a challenged economy.

THE DOMESTIC ECONOMY

Following no growth in 2010 and in 2011, the Trinidad & Tobago economy showed some recovery in 2012 with growth of 1½% in 2012 and 1.7% in 2013. The Central Bank projected growth of 2½ % in 2014 however this did not materialize and was downgraded to a modest ½ percent in November 2014.

The unexpected slowdown in the economy was caused mainly by challenges within the energy sector with declines most pronounced in natural gas and LNG production.

In January and May 2014, BpTT took down the company's largest production platform, Savonette, to facilitate drilling activities. BGTT had a planned shutdown of its Dolphin platform for five (5) days in June 2014 to facilitate the installation of equipment required for the Starfish development programme. Routine maintenance by Atlantic LNG Train 2 facility and Petrotrin's oil refinery worsened the situation in the energy sector. Energy output, therefore, contracted by an estimated 1½ % in the first nine months of 2014.

CHAIRMAN'S REPORT

On a more positive note, output in the non-energy sector increased by just over 2% in the first nine months of 2014. Much of the growth in the non-energy sector has been concentrated in three areas: construction, distribution and finance.

High construction activity reflected several on-going, large public sector projects such as: the Point Fortin Highway, the Children's Hospital in Couva, the National Aquatic Centre and the Port at Galeota. In the private sector, projects such as the "C3" movie and shopping complex in Corinth, South Trinidad and the Centre City expansion also broke ground.

Demand for commercial credit continued to be low however some recovery in this area was noted. Over the nine months leading up to September 2014, business lending increased by an average of 4½ percent compared to an average decline of nearly 4% over the same period in 2013.

Consumer lendings continued to accelerate into 2014. The increase in consumer loans averaged 7½% over the period January to September 2014, up from an average increase of 5% over the first nine months of 2013. A breakdown of consumer credit showed strong growth of loans for the purchase of vehicles, home renovation and debt consolidation. Record low mortgage rates continued to spur demand for real estate mortgage financing.

2014 also saw a persistent shortage of foreign exchange necessitating frequent interventions by the Central Bank totaling over US$1.75 billion.

The last quarter of 2014 saw a dramatic turn of events within the energy sector with falling international crude oil prices. The 2014/2015 National Budget which was read in September 2014 was premised on a price of US$80 per barrel. By December prices were hovering around $50 per barrel necessitating an announcement by the Minister of Finance and the Economy of plans to slash $1.3 billion in expenditure across Ministries.

THE INTERNATIONAL AND REGIONAL ECONOMIES

The Managing Director of the International Monetary Fund, Christine Lagarde, at the Annual Meetings of the IMF and World Bank, talked about the "new mediocre" as the descriptor for low economic growth which is now the new reality globally.

The US Bureau of Economic Analysis — a division of the Department of Commerce – reported 2.4% GDP growth over 2013 while the UK economy grew by 2.6%. Recovery in the Eurozone remains fragile while Japan's economy has slipped back into its fourth recession since 2008.

Emerging markets, which fuelled a great deal of global activity in the recent past have slowed particularly China, the world's second-largest economy, which has slowed to a five (5) year low. The Indian economy is rallying, while the other two (2) members of the BRIC bloc, Russia and Brazil, are facing significant challenges.

Geopolitical risks are also mounting in various parts of the world. We started 2014 with a possible escalation of conflict between Russia and Ukraine and ended the year with an Ebola outbreak in Africa and an upsurge of ISIS in the Middle East.

These international issues matter as they are early warning signs for global financial markets which can have an impact on our small island state. Perhaps the greatest threat foreseeable at this time is the increases in US interest rates expected from the summer of 2015. At current interest rates, US dollar assets are more attractive to TT dollar assets, prompting movements of portfolio capital in search of higher yields. In short, capital flight.

As a countermeasure, the Central Bank made 2 consecutive increases in the Repo rate in September and December 2014 ending the year at 3.25%. This will mean higher lending rates. However, they felt it was necessary to shield the Trinidad and Tobago economy from the threats that the higher interest rates in other territories will bring.

CAPITAL MARKETS

Bond Market

There was a decrease in primary bond market activity in 2014, with ten (10) bonds issued raising a total of $7 billion compared with twelve (12) issues in 2013 raising $10 billion.

CHAIRMAN'S REPORT

Trading on the secondary government bond market decreased in 2014 from 2013. Bonds with a cumulative face value of $909 million were traded in 2014 compared with $1.5 billion in 2013. There were 150 trades occurring in 2014 compared with 175 trades in 2013.

Stock Market
The Trinidad and Tobago stock market declined by 2.9% in 2014 compared to a growth of 17% for 2013. Market capitalization at the end of 2014 was $109.7 billion when compared to $144 billion at the end of 2013.

CHANGES ON THE BOARD OF DIRECTORS
There were no changes to the Board of Directors during the year.

RESTRUCTURING OF THE BANK
In the 2011 Budget statement, it was stated that the ownership of the Bank and Trinidad & Tobago Mortgage Finance Co Limited ("TTMF") be reviewed. By the end of 2014, The National Insurance Board of Trinidad & Tobago ("NIB") increased its ownership in the Bank from 51.25% to 99.375%; NIB also owns 51% of the TTMF. At this stage, the NIB is reviewing its holdings in these two entities with the objective to ensure that it can meet its pension liabilities by maximizing the value of its assets.

REGULATION BY THE CENTRAL BANK OF TRINIDAD AND TOBAGO
The Central Bank of Trinidad and Tobago ("the Central Bank") is responsible for the supervision of the financial activities of the Bank under the provisions of the Home Mortgage Bank Act Ch. 79:08, as amended. The classes of financial activity for which the Bank is supervised by the Central Bank include Merchant Bank, Mortgage Institution, Trust Company and Collective Investment Schemes.

The regulatory perimeter of the Central Bank of Trinidad and Tobago was broadened to include regulatory oversight of financial institutions that are deemed to be systemically important (SIFI's). On the basis of criteria of systemic importance, such as size and non-substitutability, the Bank was deemed a SIFI along with the National Insurance Board of Trinidad and Tobago, Trinidad and Tobago Unit Trust Corporation, Trinidad and Tobago Mortgage Finance Company Limited and the Agricultural Development Bank. The Central Bank will be developing the appropriate legislative, supervisory and regulatory architecture for SIFI's.

The Bank is also registered as a Broker-Dealer with the Trinidad and Tobago Securities Exchange Commission ("the Commission"). The Commission is the regulator for the Bank's activities as a Broker-Dealer as defined by the Securities Act 2012. The Commission is also the supervisory authority responsible for ensuring that Broker-Dealers comply with laws in relation to Anti-Money Laundering and the Combating of Terrorist Financing ("AML/CTF").

2014 AND BEYOND

The proposed restructuring of the operations of The Home Mortgage Bank and the Trinidad and Tobago Mortgage Finance Company Limited continues to engage our attention however, until a final decision is made on the way forward, we remain focused on the Bank's mandate.

The Board remains committed to ensuring the continued sustainability and profitability of the Bank and growth in shareholders' value through its strategic guidance and leadership. In the next year we plan to open a second branch in the central region to provide greater accessibility to our clientele who are scattered throughout the country.

In closing, I take the opportunity to thank my fellow directors for their support and guidance, the management and staff for their commitment and dedication and our customers for their continued loyalty to and support of the Bank.

Joshey Mahabir
Chairman

BOARD OF DIRECTORS

Joshey Mahabir
Chairman

Mr. Mahabir is currently the Chief Executive Officer of National Helicopter Services Limited and has over twenty (20) years of experience in the field of Management, Strategy, Business, 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 was appointed to the Board of the HMB as a member in 2011 and subsequently in 2014 he was elected as Chairman. He is the holder of a BSc in Business Management and an Executive MBA from the University of the West Indies.

Ruthven A. Boyer Jaggassar
Deputy Chairman

Mr. Jaggassar is a career banker of 33 years with the RBTT Group where he held several senior positions including-- General Manager-Corporate and International Banking, Executive Director- Corporate Banking and Executive Director Retail and Commercial Banking Group until his retirement. He is the holder of an Intermediate Certificate from the ACCA, London and has Management Diplomas and Leadership Certificates from the American Management Assoc. among others and has received extensive training in Banking and Finance both locally and internationally. He was a former Director of several companies within the RBTT Group including RBTT Merchant and Finance Ltd., Roytec and RBTT Insurance Services Ltd. He has also served on several Boards among them, The Trinidad &Tobago Manufacturers Assoc, National Enterprises Ltd., Development Finance Ltd., Caribbean Micro finance Ltd (Chairman),Caribbean Micro Finance Holdings Ltd., West Indies Stock Brokers Ltd (Chairman) and is currently Chairman of EximBank T&T Ltd. He is also a former President of St. Andrews Golf Club.

Walton Hilton-Clarke
Director

Mr. 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.

Joanne Milford-Walcott
Director

Mrs. 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.

Ermine De Bique Meade
Director

With her industrial relations experience, Mrs. 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.

BOARD OF DIRECTORS

Keston Nancoo
Director
Mr. Nancoo is currently the Group Vice President – Human Resource and Corporate Services at Guardian Holdings Limited and has 30 years experience within the manufacturing sector locally and regionally, in such areas as Employee Relations, Industrial Relations, Marketing and Communications. He served for some 10 years as the Branch Secretary of NUGFW, and is currently a director of the Employer's Consultative Association. Mr. Nancoo has a B.Sc. (cum laude) in Business Administration and an MBA in Marketing from Andrews University in Michigan, USA. He has gained additional training at The Chicago Business School- Leading Change and Innovation; Harvard Business School- Strategic Human Resource Management; London Business School- Talent Management; Cornell University- HR Strategy: Creating Competitive Advantage through People; Arthur Lok Jack Business School- Building and Implementing Balanced Scorecard.

Sylvan N. Wilson
Director
Sylvan N. Wilson's professional life is a combination of active trade union activism and industrial plant operations. In his 28 years of plant operations, he progressed through the ranks from trainee operator to that of Shift Supervisor. His trade union activities extend well over 35 years. His career began in the Education and Research Committee in the then Federation Chemicals branch and he moved through the ranks of the Oilfield Workers' Trade Union (OWTU) to the position of Executive Vice President. He headed the Union's Labour Relations Department and led many negotiations though-out the various units of the OWTU. Mr. Wilson represented the Union at numerous Conferences, Seminars and Committees. He attended many training programmes in pension plans, health and safety, employee assistance programmes and industrial relations. He worked closely with others in developing and negotiating the union's social wage programme particularly in pensions, employee home ownership programmes (utilizing pension funds), medical plans. Mr Wilson retired from Yara Trinidad Limited (formerly Hydro Agri and Federation Chemicals) at the end of December 2011. He was appointed honorary General Council member of the OWTU and continues to serve the general trade union movement.

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report and the Audited Consolidated Financial Statements for the year ended 31st December, 2014

FINANCIAL RESULTS

	$ 000's
Net Profit before taxation	83,257
Taxation	(7,607)
Net Profit for the year	75,650
Retained earnings at the beginning of the year	393,494
	469,144
Add :	
Transfer from mortgage risk reserve	(1,291)
Less :	
Dividends paid	(9,760)
Retained earnings at the end of the year	458,093

LIQUIDITY

The Bank continues to maintain a positive liquidity position to meet its current and future business needs, with a Cash & Cash equivalent figure of $15.9 million representing 1% of total assets at the end of financial year.

DIVIDENDS

Dividends of 61 cents per share was paid during the year (2013 – 55 cents).

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 KPMG retired, and being eligible, offered themselves for re- appointment.

BY ORDER OF THE BOARD

Patricia Ilkhtchoui
Corporate Secretary

Joshey Mahabir
Chairman

Ruthven A. Boyer Jaggassar
Deputy Chairman

Walton Hilton-Clarke
Director

Joanne Milford-Walcott
Director

Ermine De Bique Meade
Director

Keston Nancoo
Director

Sylvan Wilson
Director

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

Home Mortgage Bank recorded profits after tax of $75.6 million for the year ending December 31, 2014. The decrease of 6% or $4.7 million in profits compared to 2013 was a direct result of the maturity of high yielding mortgage assets which was held for most of 2013. The Bank was however able to mitigate some of these losses with growth in our primary and secondary mortgage portfolios which increased by $265 million or 107%.

The Bank's total asset base increased by 16%, from $1.968 billion to $2.289 billion and shareholders' equity increased by 8% from $918 million to $990 million.

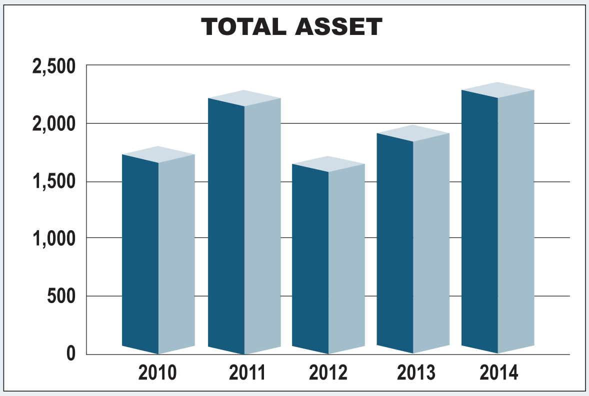
Overall, revenues decreased over prior year by 7% to $119 million from $128 million due to the maturity of higher yielding mortgage investments in 2013, which were reinvested at lower rates of return. The Bank was also able to maintain its Investment Income and received an increase in its dividend income by 20% or $6.9 million.

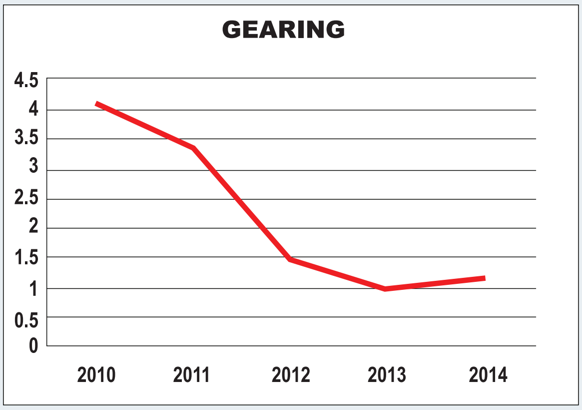
The funding liabilities increased to $1.114 billion from $871 million in 2013. Operating Expense increased from $14.586 million to $16.338 million.

The dividends paid in 2014 for the financial year 2013 was $0.61 per share ($0.55 – 2012); this was consistent with the strategy of increasing dividends by 10% per year.

Mr. Rawle Ramlogan
Chief Executive Officer

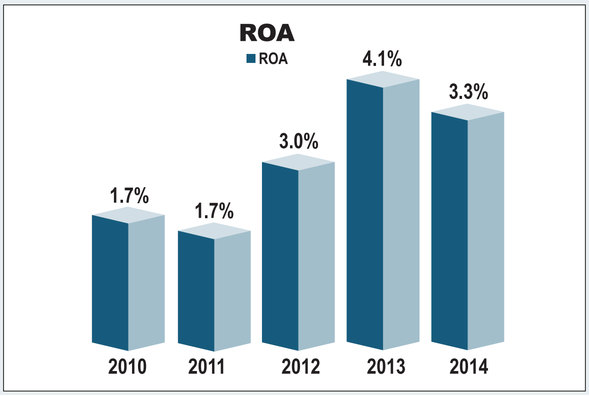
MANAGEMENT DISCUSSION AND ANALYSIS

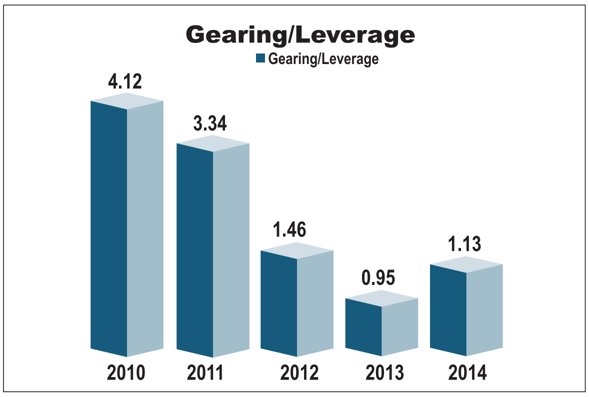


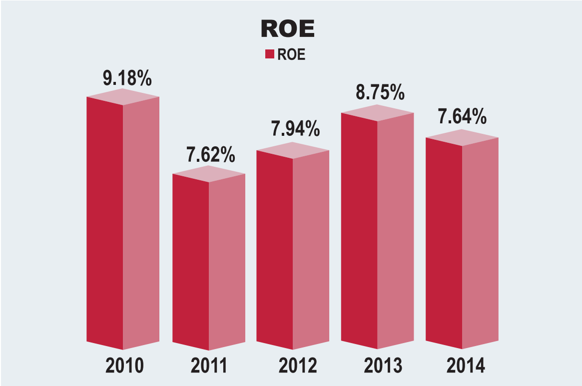


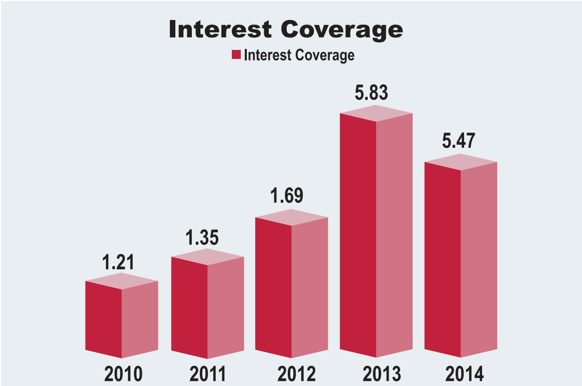
The Bank continues to be guided by its strategy of growing its balance sheet by utilizing its internal strengths and accessing the capital market as needed. The Bank maintains a strong gearing position of 1.13:1 which strengthens its ability to access funding from the capital market. The main focus of the Bank continues to be an increase in shareholder value. The Bank achieved an EPS of $4.73 for the year 2014.

Some key financial ratios highlighting the strength of the Bank are as follows:-

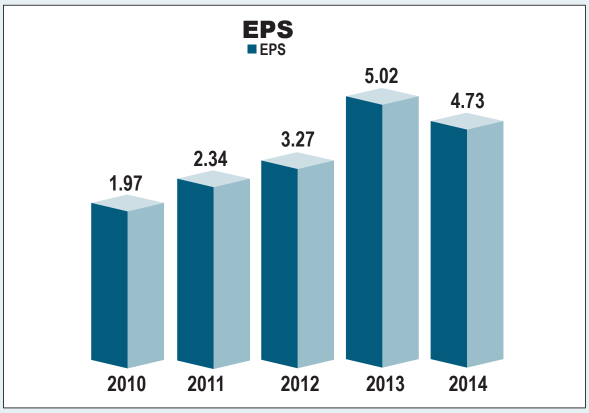








MANAGEMENT DISCUSSION AND ANALYSIS



RESIDENTIAL REAL ESTATE MORTGAGE MARKET

The residential real estate market continued to be very competitive in 2014 fuelled by the high liquidity in the financial system and low interest rates. Prospective homeowners have found themselves competing with speculative investors in the real estate market who are seeking better returns on their investments than what can be obtained from traditional savings and investments products.

On the other side of the coin, demand for commercial borrowings remained low, resulting in primary lenders training their attention on the residential mortgage market which is one of the few growth sectors in the financial market with year on year growth averaging 10% over the past 2 years. Additionally, the Central Bank's Mortgage Market Reference Rate (MMRR) has held steady at 2.25% for the past 2 years making financing for home ownership affordable.

There is unsatisfied demand in the market for residential properties in the $1-1.5 million range which is the sector targeted at the middle income bracket and which is experiencing the heaviest demand. Developers claim that the high cost of land and labour coupled with the long wait time for approvals are among the main contributors to the escalating cost of the finished product, oftentimes pushing it outside of the reach of the middle income earner.

Despite these challenges, HMB's primary mortgage operations were able to originate over $123 million in new mortgages in 2014 from its single location in Port of Spain through the adroit use of market intelligence to focus its direct marketing efforts and proactively respond to opportunities and threats in the market. The success in 2014 follows growth in 2013 of $112 million.

HMB continues to fulfill its mandate to create and maintain a secondary market for mortgages. During 2014, the Bank acquired a substantial portfolio of mortgages under its secondary mortgage portfolio operations.

The Bank's interest rate for new residential mortgage business are very competitive; the Bank also offers fixed rate options to borrowers looking to lock in their monthly payments for a given period.

Mortgage Loan products offered by the Bank include:

Home Acquisition Mortgages to facilitate purchase of owner-occupied properties or investment properties.

Land Acquisition Mortgages for the purchase of residential land that will ultimately be used for the construction of a primary residence. The term of the loan for this product can be extended up to 20 years.

Construction Mortgages includes Bridging Finance and is geared towards providing financing for the construction of a residence either on lands owned by the applicant or to be purchased as part of the construction process. The rate for this type of mortgage during the construction period is the same as the rate on the long term amortized mortgage loan.

Equity Mortgages which allow homeowners to access financing through the equity or value that they have 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 Mortgage facility is for the acquisition or construction of multi-family residences up to six (6) units which is geared to the domestic rental market.

Reverse Mortgages which are ideal for retired persons who can readily access the equity in their homes, either via lump sum cash payments, or regular monthly payments or a line of credit to be drawn as needed, or a combination of the aforementioned various facilities.

MANAGEMENT DISCUSSION AND ANALYSIS

INVESTMENTS AND FUNDING

Funding Activities

Data for 2014 shows that there was a decrease in primary bond market volume. There were ten (10) bond issues in 2014 raising a total of $6.95 billion compared with twelve (12) primary issues in 2013 raising $10 billion.

Trading on the secondary government bond market decreased in 2014 from 2013. Bonds with a cumulative face value of $909 million were traded in 2014 compared with $1.5 billion in 2013. There were 150 trades occurring in 2014 compared with 175 trades in 2013

As at December 31, 2014, the Bank's bonds in issue stood at $938.6 million up from $745 million as at December 31, 2013, an increase of 26%.

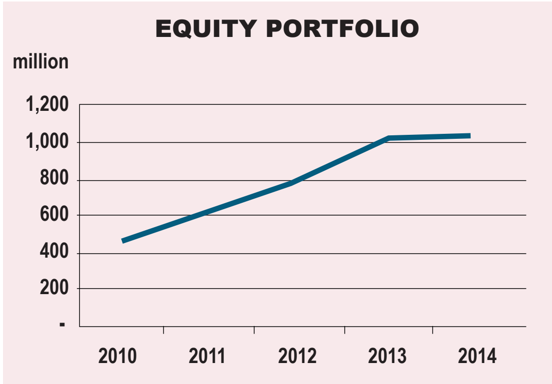
Asset Backed Securities
During 2014, aggregate mutual funds market showed an improvement of $41.8 billion in funds under management a 6.3% increase compared to 2013.

The Bank under its Mortgage Participation Fund programme, which is registered with the Trinidad and Tobago Securities and Exchange Commission as a collective investment programme, had funds under management as at December 31, 2014 at $494.9 million down from $511.9 million as at December 31, 2013, a decrease of 3.3%. The rate offered to investors as at the end of 2014 was 1.35%.

Fixed Income Investment Securities
The Bank held a portfolio of high grade fixed income securities totaling $645.3 million up from $580 million in the prior year; an increase of 11.3%. These securities are used in part to secure the short term facilities.

Equity Portfolio
The Trinidad and Tobago stock market experienced a decline of approximately 2.9% in 2014 compared to growth of 17% for 2013. Market capitalization declined to $109.7 billion at the end of 2014 from $144 billion at the end of 2013.

The Bank held a portfolio of local equities with a market value of $1,037.1 million at the end of 2014 up from $1,029 million at the end of 2013, an increase of 0.80% representing an appreciation in value. This portfolio contributed to over $41 million in dividends during the year 2014.



Outlook
The Bank is poised to continue its growth in the residential mortgage market building on the systems and processes introduced over the prior years. To support this growth, the Bank will be expanding its footprint with a new branch in Chaguanas by the second quarter of 2015. We see the strategic location as a base for the growth in the mortgage portfolio as well as being able to offer our attractive investment product to investors. We expect the residential mortgage market to remain very competitive and price sensitive going forward.

As the Bank business model evolves, we will be seeking to engage in expanded lending and advisory services to add value to our stakeholders while being cognizant of the proposal to restructure the operations which is currently been reviewed by our major shareholder. While the Bank will be focusing on expanding is business model, we are pleased to note that all approvals are in hand for our Tobago Villas project and we expect to complete the sale of these units in 2015.

I want to thank the management team and staff for their commitment and contributions to the Bank, the Directors for their guidance and counsel, and our investors, customers and shareholders for their support and confidence in the Bank.

Rawle Ramlogan
Chief Executive Officer

TEN-YEAR OVERVIEW 2014

Year	FUNDING LIABILITIES	MORTGAGE PORTFOLIO SERVICED	TOTAL ASSETS	Mortgages Purchased	Accumulated Value of Mortgages Purchased	Profit before Taxation	Profit after Taxation
2005	1,754	1,035	1,944	143	2,027	35	33
2006	1,708	1,208	1,924	334	2,361	39	38
2007	1,825	1,118	2,078	52	2,413	44	45
2008	1,781	1,099	2,005	107	2,520	11	18
2009	1,613	1,079	1,878	162	2,682	42	41
2010	1,414	969	1,819	49	2,731	22	31
2011	1,638	866	2,229	36	2,767	33	37
2012	965	775	1,747	48	2,815	53	52
2013	871	739	1,968	100	2,915	91	80
2014	1,114	993	2,290	386	3,301	83	76

FIVE-YEAR REVIEW

December 31st,	2014 $'000	2013 $'000	2012 $'000	2011 $'000	2010 $'000
Balance Sheet					
Loans & Advances	514,051	248,488	447,940	598,963	708,369
Investment Securities	1,681,974	1,609,555	1,140,763	1,127,872	961,727
Total Assets	2,289,641	1,967,587	1,747,167	2,229,003	1,819,410
Funding Liabilities	1,114,317	870,511	964,814	1,638,003	1,413,518
Total Liabilities	1,299,296	1,049,182	1,087,095	1,738,120	1,476,362
Share Capital	16,000	16,000	16,000	16,000	16,000
Retained Earnings	458,093	393,494	315,964	271,196	233,348
Income Statement					
Income	119,377	128,432	149,036	147,817	158,355
Profit before Taxation	83,257	90,695	52,548	33,002	21,846
Net Income	**75,650**	**80,335**	**52,388**	**37,428**	**31,491**
Operating Expenses	16,338	14,586	14,671	15,578	12,650
Earnings per share	$4.73	$5.02	$3.27	$2.34	$1.97
Total Equity	990,345	918,406	660,072	490,883	343,048
Interest Expense	18,615	18,793	76,805	95,541	105,904
ROA	3.3%	4.1%	3.0%	1.7%	1.7%
ROE	7.6%	8.7%	7.9%	7.6%	9.2%
Interest Coverage	5.47	5.83	1.68	1.35	1.21

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 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 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/collateralized 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 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 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.

CORPORATE GOVERNANCE

CHANGES ON THE BOARD OF DIRECTORS

There were no changes to the Board of Directors, subsequent to changes reflected in the 2013 Report.

MANAGEMENT AND CORPORATE GOVERNANCE

The Bank's management structure comprises:

- A Chief Executive Officer
- A Manager, Finance and Administration
- A Manager Treasury and Investment
- A Manager, Risk Management
- A Manager, Mortgage Sales and Operations
- A Corporate Secretary

Home Mortgage Bank is committed to its continued growth and profitability and to the strengthening and enhancement of its corporate governance programme. In this regard, the Bank employed a Manager, Risk Management in June, 2014. The Bank has maintained its engagement of internal auditors and external auditors.

The Board established two (2) Committees, namely Audit, Risk and Investment Committee and the Human Resources and Remuneration Committee.

Audit, Risk and Investment Committee

This Committee meets monthly to review the financial reporting process, the system of internal control, management of financial risks, the audit process, the Bank's process for monitoring compliance with laws and regulations, the investment process and its own code of business. There was no change in the membership of the Committee, as reported in 2013:

- Ruthven A Boyer Jaggassar – Chairman
- Joanne Milford-Walcott
- Walton Hilton-Clarke

Human Resources and Remuneration Committee

The Committee met monthly (from January to May) to review human resource matters affecting management and staff, including remuneration of senior management and other key personnel, and to ensure consistency with the culture, objectives, strategy and control environment of the Bank. Subsequent to May, 2014 the Committee met as necessary. There was no change in the membership, as reflected in the 2013 Report:

- Joanne Milford-Walcott - Chairman
- Keston Nancoo
- Ermine De Bique-Meade
- Sylvan Wilson

AUDITORS' REPORT

Independent Auditors' Report to the Shareholders of Home Mortgage Bank

We have audited the accompanying financial statements of Home Mortgage Bank and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2014, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

Chartered Accountants

February 24, 2015
Port of Spain
Trinidad and Tobago

Consolidated Statement of Financial Position

Year ended December 31, 2014
(Expressed in Trinidad and Tobago Dollars)

	Notes	2014 $'000	2013 $'000
ASSETS			
Cash and cash equivalents	8	15,978	23,991
Investment securities	9	1,681,974	1,609,555
Loans and advances to customers	10	514,051	248,488
Other assets	11	8,191	11,618
Capitalised bond issue costs	12	231	135
Property development costs	13	55,881	55,881
Property and equipment	14	2,658	1,804
Taxation recoverable		3,061	3,071
Deferred tax asset	15	7,616	13,044
Total assets		2,289,641	1,967,587
EQUITY AND LIABILITIES			
EQUITY			
Stated capital	16	16,000	16,000
Retained earnings		458,093	393,494
Revaluation reserve	17	511,680	505,630
Mortgage risk reserve	18	4,572	3,281
Total equity		990,345	918,405
LIABILITIES			
Other liabilities	19	14,135	9,815
Short-term borrowings	20	175,700	125,000
Debt securities	21	938,617	745,511
Deferred tax liability	15	170,844	168,856
Total liabilities		1,299,296	1,049,182
Total equity and liabilities		2,289,641	1,967,587

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

These consolidated financial statements have been approved for issue by the Board of Directors on February 24 2015 and signed on its behalf by:

Director

Director

Consolidated Statement of Comprehenmsive Income

Year ended December 31, 2014
(Expressed in Trinidad and Tobago Dollars)

	Notes	2014	2013
		$'000	**$'000**
Income			
Interest on loans and advances (net)	23	47,365	60,614
Interest income on investment securities		30,451	30,477
Dividend income		41,541	34,664
Other income (net)		20	2,677
		119,377	128,432
Expenditure			
Finance costs		18,615	18,793
General and administrative expenses	24	16,338	14,586
Provision for loan losses	10	752	538
Impairment loss on property development costs	13	-	3,820
Impairment loss on available-for-sale securities		415	-
		36,120	37,737
Profit before taxation		83,257	90,695
Taxation	25	(7,607)	(10,360)
Profit for the year		75,650	80,335
Other comprehensive income for the year			
Items that are or may be reclassified to profit or loss			
Revaluation of available-for-sale investments		8,066	249,064
Related tax	15	(2,016)	(62,266)
Other comprehensive income for the year, net of tax		6,050	186,798
Total comprehensive income for the year		81,700	267,133
Basic and diluted earnings per share ($)		4.73	5.02
Number of shares ('000)		16,000	16,000

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

HOME MORTGAGE BANK
Mortgages | Investments

Consolidated Statement of Changes in Equity

Year ended December 31, 2014
(Expressed in Trinidad and Tobago Dollars)

	Note	Stated Capital $'000	Retained Earnings $'000	Revaluation Reserve $'000	Mortgage Risk Reserve $'000	Total Shareholders' Equity $'000
Balance at December 31, 2013						
Balance at January 1, 2013		16,000	315,964	318,832	9,276	660,072
Transfer from mortgage risk reserve	18	-	5,995	-	(5,995)	-
		16,000	321,959	318,832	3,281	660,072
Total comprehensive income						
Profit for the year		-	80,335	-	-	80,335
Other comprehensive income for the year		-	-	186,798	-	186,798
Total comprehensive income for the year		-	80,335	186,798	-	267,133
Transaction with owners of the Company, recognised directly in equity						
Dividends		-	(8,800)	-	-	(8,800)
Balance at December 31, 2013		16,000	393,494	505,630	3,281	918,405
Balance at December 31, 2014						
Balance at January 1, 2014		16,000	393,494	505,630	3,281	918,405
Transfer to mortgage risk reserve	18	-	(1,291)	-	1,291	-
		16,000	392,203	505,630	4,572	918,405
Total comprehensive income						
Profit for the year		-	75,650	-	-	75,650
Other comprehensive income for the year		-	-	6,050	-	6,050
Total comprehensive income for the year		-	75,650	6,050	-	81,700
Transaction with owners of the Company, recognised directly in equity						
Dividends		-	(9,760)	-	-	(9,760)
Balance at December 31, 2014		16,000	458,093	511,680	4,572	990,345

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

Consolidated Statement of Cash Flow

Year ended December 31, 2014
(Expressed in Trinidad and Tobago Dollars)

	2014	2013
	$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	83,257	90,695
Adjustments for:		
Provision for loan losses	752	538
Impairment loss on property development costs	-	3,820
Impairment loss on available for sale equities	415	-
Depreciation	458	140
Capitalised interest on managed funds	5,819	7,610
Bond issue costs amortised	17	16
Operating profit before working capital change	90,718	102,819
Change in other assets	3,427	10,270
Change in other liabilities	2,364	(1,435)
Corporation taxes paid	(261)	(321)
Tax refund received	20	53
Net cash from operating activities	96,268	111,386
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Issuance of new mortgages and loans	(407,092)	(129,134)
Proceeds from repayment on mortgages and loans	159,886	374,372
Purchase of property and equipment	(1,298)	(415)
Proceeds from sale of maturity investments	126,359	4,326
Purchase of investments	(191,141)	(228,908)
Proceeds from managed funds	103,124	57,458
Repayment of managed funds	(128,052)	(111,392)
Net cash used in investing activities	(338,214)	(33,693)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	496,000	416,000
Repayment of short-term borrowings	(445,300)	(649,074)
Proceeds from bonds issued	250,000	200,000
Redemption of bonds	(56,894)	(61,229)
Dividends paid	(9,760)	(8,800)
Bond issue costs incurred	(113)	(45)
Net cash from (used in) financing activities	233,933	(103,148)

Consolidated Statement of Cash Flow *(Continued)*

Year ended December 31, 2014
(Expressed in Trinidad and Tobago Dollars)

	2014 $'000	2013 $'000
Net decrease in cash and cash equivalents	(8,013)	(25,455)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	23,991	49,446
CASH AND CASH EQUIVALENTS AT END OF YEAR	15,978	23,991
Represented by:		
Cash at bank and on hand	15,732	18,262
Short-term deposits	246	5,729
	15,978	23,991
Supplemental information:		
Income received during the year	46,167	64,453
Interest paid during the year	17,585	18,528
Dividend received	41,541	34,340
Dividend paid	(9,760)	8,800

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

Notes to Consolidated Financial Statement

Year ended December 31, 2014
(Expressed in Trinidad and Tobago Dollars)

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 which are:

Company	Country of Incorporation	Percentage Owned
Tobago Fairways Villas Limited	Trinidad and Tobago	100%
Tobago Plantation House Limited	Trinidad and Tobago	100%

The principal activity of these subsidiaries is real estate development.

The registered office of the parent and its subsidiaries is located at Prince's Court, Corner Keate and Pembroke Streets, Port of Spain. The Bank's ultimate parent entity is The National Insurance Board of Trinidad and Tobago, a company incorporated in Trinidad and Tobago under Act No. 35 of 1971.

These consolidated financial statements were approved for issue by the Board of Directors on February 25, 2015.

2. Basis of Preparation

(a) *Basis of accounting*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(b) *Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Available-for-sale financial assets are measured at fair value.

(c) *Functional and presentation currency*

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Trinidad and Tobago dollars, which is the Bank's functional and presentation currency. Except as otherwise indicated, financial information presented has been rounded to the nearest thousand.

(d) *Use of critical estimates and judgements*

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

2. Basis of Preparation *(Continued)*

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 6.

3. Significant Accounting Policies

The Group has consistently applied the accounting policies as set out below to all periods presented in these consolidated financial statements.

a) Basis of consolidation

The consolidated financial statements of the Group include the assets and liabilities and results of operations of the Bank and those of the Subsidiaries after the elimination of inter-company transactions and balances.

(i) Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(ii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Foreign currency

Transactions denominated in foreign currencies are translated into the respective functional currencies at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined.

3. Significant Accounting Policies *(Continued)*

b) Foreign currency (Continued)

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

c) Financial instruments

Financial instruments comprise, cash and cash equivalents, investment securities, loans and advances to customers, short-term borrowings and debt securities.

(i) Recognition and initial measurement

The Group initially recognises loans and advances to customers, short-term borrowings and debt securities issued on the date at which they are originated.

All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the settlement date at which the Group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

ii) Classification

Financial assets

i) Loans and receivables

Loans and receivables include mortgages which are primarily personal residential mortgages. These are carried at principal outstanding net of adjustments for premiums and discounts on purchase. Premiums and discounts on the purchase of these mortgages are amortised over the remaining life of the related pool of mortgages using an amortisation method that in the aggregate, approximates a constant yield over the remaining life of the mortgages.

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

Other loan advances represent secured short term loan facilities, which are measured at amortised cost using the effective interest rate method, calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The 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'.

3. Significant Accounting Policies *(Continued)*

***c) Financial instruments** (Continued)*

***ii) Classification** (continued)*

Financial assets *(continued)*

ii) 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 profit or loss.

iii) 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.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of:

(i) the consideration received (including any new asset obtained less any new liability assumed); and

(ii) any cumulative gain or loss that had been recognized in other comprehensive income (OCI).

is recognised in profit or loss.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a consolidated asset or liability in the statement of financial position.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged, or cancelled, or expired.

3. Significant Accounting Policies *(Continued)*

***c) Financial instruments** (Continued)*

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3. Significant Accounting Policies *(Continued)*

***c) Financial instruments** (Continued)*

(vii) Identification and measurement of impairment

The carrying value of all financial assets not carried at fair value through profit or loss 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 recognized 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 recognized for the difference between the fair value and the original cost basis, less any previously recognized impairments.

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

viii) Designation at fair value through profit or loss

The Group has designated financial assets and financial liabilities at fair value through profit or loss in either of the following circumstances.

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 7 sets out the amount of each class of financial asset or financial liability that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

3. Significant Accounting Policies *(Continued)*

d) 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 10 and 22).

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 10 and 22).

e) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at banks and other short-term highly liquid investments with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

f) Property development costs

Property development costs 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 13).

g) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

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	7½% to 12½% on reducing balance
Computer equipment	25% on reducing balance
Motor vehicles	25% on cost/straight-line.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

h) Impairment of non-finandal assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the profit or loss.

3. Significant Accounting Policies *(Continued)*

h) Impairment of non - financial assets *(Continued)*

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i) Debt securities

Debt securities are the Group's source of debt funding. Debt securities are initially measured at fair value minus incremental direct transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss.

j) Capitalised bond issue costs

The costs incurred in the issue of bonds for investment in housing are amortised over the duration of the respective bond issues (Note 12).

k) Employee 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 $1,837,639 (2013: $288,979).

l) Other assets and liabilities

Other assets and liabilities, not classified as financial instruments, are initially recognised and subsequently measured at amortised cost in the statement of financial position with relevant costs recognised in profit or loss.

m) Revenue recognition

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial assets or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates the future cash flows considering all contractual terms of the financial instrument, but not the future credit losses.

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Interest income is recognised on an accrual basis in the period in which it is due and in accordance with the underlying loan contract terms and conditions except for loans classified as impaired or for loans classified as non-accrual when in management's judgment there was a deterioration in credit quality that if continued would lead to impairment.

3. Significant Accounting Policies *(Continued)*

m) Revenue recognition (Continued)

Interest income is shown net of the interest expense incurred on managed funds.

Other income is accounted for on the accruals basis.

n) Taxation

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

o) 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.

p) Dividends

Dividends are recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Board of Directors.

q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing these consolidated financial statements. Those that may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

3. Significant Accounting Policies *(Continued)*

q) New standards and interpretations not yet adopted *(Continued)*

- IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

  IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

  The Company is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

  Given the nature of the Company's operations, this standard is expected to have a pervasive impact on the Company's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.

- IFRS 15 Revenue from Contracts with Customers

  IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

  IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2017, with early adoption permitted

  The Company is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

  The following new or amended standards are not expected to have a significant impact of the consolidated financial statements.

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).
- Annual Improvements to IFRSs 2010–2012 Cycle.
- Annual Improvements to IFRSs 2011–2013 Cycle.
- Annual Improvements to IFRSs 2012–2014 Cycle – various standards
- IFRS 14 Regulatory Deferral Accounts.
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41).
- Equity Method in Separate Financial Statements (Amendments to IAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

3. Significant Accounting Policies *(Continued)*

r) Contingency for mortgage risks reserve

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. This reserve is not available for distribution to shareholders.

s) Comparative information

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

4. 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.

- 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 any recommendations and confirm that appropriate action has been taken.

4. **Risk Management** *(Continued)*

Board of Directors *(Continued)*

- Providing an independent and objective oversight and view of the information presented by management on corporate accountability and specifically associated risk.

- Keep the board informed on risk exposures and risk management activities through the submission of periodic reports from management.

Treasury

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

Risk measurement and reporting systems

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

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

Excessive risk concentration

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

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

Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the potential for loss due to the failure of a counter-party or borrower to meet its financial obligations. Credit risk arises in the Group's normal trading activity in mortgages. The Group's credit control processes emphasize early detection of deterioration and prompt implementation of remedial action. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

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

Where the recovery of the outstanding asset 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.

4. Risk Management *(Continued)*

Credit Risk *(Continued)*

	Gross Maximum Exposure 2014 $'000	2013 $'000
Gross mortgage portfolio	993,405	739,103
Construction advances	25,164	27,592
Other loans	-	4,668
Investment securities	1,681,974	1,609,555
Cash and cash equivalents	15,978	23,991
Other assets	8,191	11,618
Total gross financial assets	2,724,712	2,416,527
Mortgage commitments	23,808	40,087
Total credit risk exposure	2,748,520	2,456,614

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 type of collateral obtained is 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 items in the statement of financial position:

- Loans and advances to customers
- Investment securities.

Loans and advances to customers

Loans and advances to customers are 'classified' according to the arrears position as at the end of the financial year in addition to other risk factors. Neither past due nor impaired are where loan payments are up to date. Past due but not impaired advances are no 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.

Investment securities

Individually impaired investment securities 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.

Notes to Consolidated Financial Statement

4. 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 to customers' portfolio and investment securities based on the following:

- 99% of the loans and advances to customers' portfolio is categorized in the top two grades of the grading system (2013: 97%);
- Loans and advances to customers, which represent 37% (2013: 32%) of financial assets, are backed by collateral.

Credit quality analysis

	Loans and Advances to Customers		Investment Securities	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Carrying amount	1,016,837	770,383	1,681,974	1,609,555
Individually impaired				
Gross amount	7,468	5,246	48,638	48,638
Allowance for impairment	(1,732)	(980)	(48,638)	(48,638)
Carrying amount	5,735	4,266	-	-
Past due but not impaired				
Carrying amount	161,786	61,105	-	-
Past due comprises:				
30-60 days	132,416	34,908	-	-
60-90 days	18,902	9,377	-	-
90-180 days	6,158	10,892	-	-
180 days +	4,319	5,928	-	-
Carrying amount	161,794	61,105	-	-
Neither past due nor impaired				
Carrying amount	849,316	705,012	1,681,974	1,609,555

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 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.

4. Risk Management *(Continued)*

Liquidity risk and funding management

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

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

The table below summaries the maturity profile of the Group's financial assets and liabilities at December 31, 2014 based on contractual undiscounted repayment obligations, over the remaining life of those assets and liabilities. These balances include interest to be paid over the remaining life of the instruments and will therefore be greater than the carrying amounts on the consolidated statement of financial position.

2014	Within 1 Year $'000	2-5 Years $'000	Over 5 Years $'000	Total $'000
Financial Assets				
Cash and cash equivalents	15,978	-	-	15,978
Investments securities	33,226	1,055,044	593,705	1,681,974
Other assets	8,191	-	-	8,191
Loans and advances to customers	88,459	343,867	584,511	1,016,837
Interest receivable on loans and advances to customers	45,337	190,916	367,392	603,644
Total financial assets	191,191	1,589,826	1,545,607	3,326,624
Financial Liabilities				
Mortgage participation fund	494,991	-	-	494,991
Collaterised mortgage obligation	7,795	-	-	7,795
Short-term borrowings	175,700	-	-	175,700
Debt securities	56,894	227,575	654,148	938,617
Interest payable on debt securities	19,615	67,310	26,364	113,290
Total undiscounted financial liabilities	754,995	294,885	680,513	1,730,393
Net gap	(563,804)	1,294,941	865,094	1,596,231
Cumulative gap	(563,804)	731,137	1,596,231	-

4. Risk Management *(Continued)*

***Liquidity risk and funding management** Continued)*

2013	Within 1 Year $'000	2-5 Years $'000	Over 5 Years $'000	Total $'000
Financial Assets				
Cash and cash equivalents	23,991	-	-	23,991
Investments securities	87,824	1,270,122	251,609	1,609,555
Other assets	11,618	-	-	11,618
Loans and advances to customers	85,945	310,247	374,191	770,383
Interest receivable on loans and advances to customers	42,790	146,854	253,419	443,063
Total financial assets	252,168	1,727,223	879,219	2,858,610
Financial Liabilities				
Mortgage participation fund	511,928	-	-	511,928
Collaterised mortgage obligation	9,967	-	-	9,967
Short-term borrowings	125,000	-	-	125,000
Debt securities	56,894	227,936	460,681	745,511
Interest payable on debt securities	13,922	44,557	27,408	85,887
Total undiscounted financial liabilities	717,711	272,493	488,089	1,478,293
Net gap	(465,543)	1,454,730	391,130	1,380,317
Cumulative gap	(465,543)	989,187	1,380,317	-

	On Demand $'000	Less Than 3 Months $'000	3-12 Months $'000	1-5 Years $'000	Over 5 Years $'000	Total $'000
2014						
Commitments	-	23,808	-	-	-	23,808
2013						
Commitments	-	40,087	-	-	-	40,087

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

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices such as interest rate risk and other price risk trading portfolios.

Equity price risk

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

4. **Risk Management** *(Continued)*

Equity price risk *(Continued)*

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

The effect on equity and income at December 31, 2014 due to a reasonably possible change in equity indices of +/- 5% with all other variables held constant will have an impact on equity of +/- $51.8 million (2013: $51.5 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 to customers

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 95% of the total gross mortgage portfolio as at December 31, 2014 (2013: 93%).

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% to 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.

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

	Variable Rate 2014 $'000	Fixed Rate 2014 $'000	Total 2014 $'000	Variable Rate 2013 $'000	Fixed Rate 2013 $'000	Total 2013 $'000
Loans and advances to customers	970,173	48,527	1,018,700	717,520	54,075	771,595

4. Risk Management *(Continued)*

Interest rate risk *(Continued)*

	Variable Rate 2014 $'000	Fixed Rate 2014 $'000	Total 2014 $'000	Variable Rate 2013 $'000	Fixed Rate 2013 $'000	Total 2013 $'000
Percentage of total loans and advances to customers	95%	5%	100%	93%	7%	100%
Bonds in issue	938,617	-	938,617	745,511	-	745,511
Percentage of total bonds in issue	100%	0%	100%	100%	0%	100%

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
2014						
Loans and advances to customers	8,284	27,434	3,012	5,412	4,385	48,527
Percentage of total fixed loans and advances to customers	17%	57%	6%	11%	9%	100%

	Within 1 Year $'000	1-3 Years $'000	3-5 Years $'000	5-7 Years $'000	7-10 Years $'000	Total $'000
2013						
Loans and advances to customers	12,782	27,972	9,407	728	3,186	54,075
Percentage of total fixed loans and advances to customers	24%	52%	17%	1%	6%	100%

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.

4. Risk Management *(Continued)*

Interest rate risk *(Continued)*

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 95% (2013: 93%) of the mortgage pool which gives the Group the ability to change interest rates if needed, within a short time frame.

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.

5. 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.

6· Use of Critical Estimates and Judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and their application and assumptions made relating to major estimation uncertainties.

(a) Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(c)(v).

6. Use of Critical Estimates and Judgements *(Continued)*

(a) ***Key sources of estimation uncertainty*** *(Continued)*

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

(b) ***Critical accounting judgments made in applying the Group's accounting policies***

1) *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.

2) *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.

3) *Deferred tax assets*

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

4) *Determining fair values*

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(c)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on expected cash flows based on recent history, uncertainty of market factors and other risks affecting the specific instrument.

7. Fair Value of Financial Instruments

The fair value of financial assets and liabilities that are traded in active markets are based on quoted market prices or dealer quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

7. Fair Value of Financial Instruments *(Continued)*

a) 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.

b) Financial instruments measured at fair value

	2014			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial assets				
Equity securities	1,036,678	-	-	1,036,678

	2013			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial assets				
Equity securities	1,029,040	-	-	1,029,040

Notes to Consolidated Financial Statement

Year ended December 31, 2014
(Expressed in Trinidad and Tobago Dollars)

7. Fair Value of Financial Instruments *(Continued)*

b) Financial instruments measured at fair value *(Continued)*

Transfers between and movement in Levels

For the year ended December 31, 2014 there were no transfers of assets between and movement in Levels.

c) Financial instruments not measured at fair value

The table below shows the financial assets and liabilities not measured at fair value and seeks to analyse them by the level in the fair value hierarchy into which they would be allocated had they been measured at fair value. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Level 1	Level 2	Level 3	Fair Value	Total Carrying Amount
	$'000	$'000	$'000	$'000	$'000
As at December 31, 2014					
Assets					
Investment securities	603,598	77,000	-	680,598	645,296
Loans and advances to customers	-	-	1,016,837	1,016,837	1,016,837
Liabilities					
Debt securities	338,929	601,914	-	940,842	938,617
Short-term borrowings	-	175,700	-	175,700	175,700
Mortgage Participation Fund	494,991	-	-	494,991	494,991
Collateral mortgage obligation	-	7,795	-	7,795	7,795

	Level 1	Level 2	Level 3	Fair Value	Total Carrying Amount
	$'000	$'000	$'000	$'000	$'000
As at December 31, 2013					
Assets					
Investment securities	248,244	379,425	-	627,669	580,515
Loans and advances to customers	-	-	770,383	770,383	770,383
Liabilities					
Debt securities	-	745,511	-	745,511	745,511
Short-term borrowings	-	125,000	-	125,000	125,000
Mortgage Participation Fund	511,928	-	-	511,928	511,928
Collateral mortgage obligation	-	9,967	-	9,967	9,967

7. Fair Value of Financial Instruments *(Continued)*

c) *Financial instruments not measured at fair value (Continued)*

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes interest rates and prepayment rates. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. Input into the models may include information obtained from other market participants, which includes observed primary and secondary transactions.

The fair value of debt securities is estimated using discounted cash flow techniques, applying the rates that are offered for debt securities of similar maturities and terms.

The fair value of cash and cash equivalents is the amount payable at the reporting date.

8. Cash and Cash Equivalents

	2014 $'000	2013 $'000
Cash and cash equivalents comprise:		
Cash at bank and on hand	15,732	18,262
Short-term deposits	246	5,729
Total cash and cash equivalents	15,978	23,991

The average effective interest rate on cash and cash equivalents for the current period is 0.02% (2013: 0.75%).

9. Investment Securities

	2014 $'000	2013 $'000
Investment securities comprise:		
Held-to-maturity (a)	645,296	580,515
Available-for-sale (b)	1,036,678	1,029,040
Other securities (c)	-	-
	1,681,974	1,609,555
(a) Held-to-maturity		
- State-owned company securities	419,242	327,807
- Government securities	226,054	252,708
	645,296	580,515
(b) Available-for-sale		
- Local equities	1,036,678	1,029,040
(c) Other securities		
- Matured investment securities	48,638	48,638
- Provision for impairment	(48,638)	(48,638)
	-	-

9. Investment Securities *(Continued)*

The average effective interest rate on investment securities for the current year is 4.65% (2013: 4.81%).

	2014 $'000	2013 $'000
Provision for impairment on other securities	48,638	48,638

On January 30, 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.

10. Loans and Advances to Customers

		2014 $'000	2013 $'000
Total loans administered		1,016,837	770,383
Mortgages held in trust (Note 22)		(502,786)	(521,895)
Net loans retained		514,051	248,488
The composition of loans and advances to customers is as follows:			
Retained mortgages loans	(a)	488,887	216,228
Construction loan advances	(b)	25,164	27,592
Other loans	(c)	-	4,668
		514,051	248,488

(a) Retained mortgage loans

Principal balances and unamortised discounts:

	2014	2013
Total loans administered at January 1	739,103	774,618
New mortgage/transfers from construction loan advances	388,692	99,531
Principal repayments	(134,390)	(135,046)
	993,405	739,103
Specific provision for doubtful mortgages	(1,732)	(980)
	991,673	738,123
Mortgages held in trust (Note 22)		
- Guaranteed Mortgage Investment Certificates	(7,795)	(9,967)
- Mortgage Participation Fund	(494,991)	(511,928)
	(502,786)	(521,895)

10. Loans and Advances to Customers *(Continued)*

	2014 $'000	2013 $'000
Retained mortgage loans	488,887	216,228
Represented by:		
Mortgages with recourse	5,706	1,351
Mortgages without recourse	483,181	214,877
Balance at December 31	488,887	216,228
Specific provision for loan losses:		
Balance at January 1	980	442
Charge for the year	752	538
Balance at December 31	1,732	980

The average effective interest rate on the retained mortgage portfolio for the current year is 7.43% (2013: 6.07%).

	2014 $'000	2013 $'000
(b) Construction loan advances		
Balance at January 1	27,592	228,551
New advances	18,400	29,603
Advances converted to mortgages	(20,828)	(230,562)
Balance at December 31	25,164	27,592

The average effective interest rate on construction loan advances for the current year is 6.10% (2013: 7.74%).

	2014 $'000	2013 $'000
(c) Other loans		
Balance at January 1	4,668	13,432
Principal repayments	(4,668)	(8,764)
Balance at December 31	-	4,668

The average effective interest rate on other loans for the current year is 8.50% (2013: 8.50%).

11. Other Assets

	2013 $'000	2012 $'000
Interest receivable	5,648	5,786
Sundry debtors	2,543	5,832
	8,191	11,618

Notes to Consolidated Financial Statement

Year ended December 31, 2014
(Expressed in Trinidad and Tobago Dollars)

12. Capitalised Bond Issue Costs

	2014 $'000	2013 $'000
Balance at January 1	135	106
Costs incurred during the year	113	45
	248	151
Costs amortised during the year	(17)	(16)
Balance at December 31	231	135

13. Property Development Costs

	2014 $'000	2013 $'000
Balance at January 1	81,215	81,215
Provision for impairment in value	(25,334)	(25,334)
Balance at December 31	55,881	55,881
Provision for Impairment:		
Balance at January 1	25,334	21,514
Charge for the year	-	3,820
Balance at December 31	25,334	25,334

After considering the results of the valuation of property development costs, which was prepared by a qualified independent valuator in February 2014, Management concluded that no additional provisions was required.

14. Property and Equipment

	Furniture Fixtures, Office Machinery and Equipment $'000	Motor Vehicles $'000	Total 2014 $'000	Total 2013 $'000
Cost				
Balance at January 1	3,795	1,050	4,845	4,640
Additions	214	1,084	1,298	415
Revaluations	14	-	14	299
Disposals	-	-	-	(509)
Balance at December 31	4,023	2,134	6,157	4,845
Depreciation				
Balance at January 1	2,655	386	3,041	3,410
Charge for the year	110	348	458	140
Disposals	-	-	-	(509)
Balance at December 31	2,765	734	3,499	3,041
Net book value	1,258	1,401	2,658	1,804

15. Deferred Tax Asset (Liability)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The Group does not offset deferred tax assets and deferred tax liabilities.

i. The movement in deferred tax assets and liabilities during the year is as follows:

	2013	(Charged) credited to Consolidated Statement of Comprehensive Income	2014
	$'000	$'000	$'000
Deferred tax assets			
Tax losses	5,531	(5,531)	-
Impairment provision of lands for development	6,334	-	6,334
Impairment provision on available-for-sale investments	1,179	103	1,282
	13,044	(5,428)	7,616
Deferred tax liabilities			
Discount on purchase of Mortgage Pools	(80)	30	(50)
Revaluation of available-for-sale investments	(168,543)	(2,016)	(170,559)
Bond issue costs	(35)	(23)	(58)
Property and equipment	(198)	21	(177)
	(168,856)	(1,988)	(170,844)
Net deferred tax liability	(155,812)	(7,416)	(163,228)

i. The movement in deferred tax assets and liabilities during the year is as follows: (continued)

	2012	(Charged) credited to Consolidated Statement of Comprehensive Income	2013
	$'000	$'000	$'000
Deferred tax assets			
Tax losses	16,376	(10,845)	5,531
Impairment provision of lands for development	5,379	955	6,334
Impairment provision on available-for-sale investments	1,247	(68)	1,179
	23,002	(9,958)	13,044

15. Deferred Tax Asset (Liability) *(Continued)*

Deferred tax liabilities			
Discount on purchase of Mortgage Pools	(138)	58	(80)
Revaluation of available-for-sale investments	(106,277)	(62,266)	(168,543)
Bond issue costs	(27)	(8)	(35)
Property and equipment	(34)	(164)	(198)
	(106,476)	(62,380)	168,856
Net deferred tax liability	(83,474)	(72,338)	(155,812)

As at December 31, 2014, the Bank had fully utilised its tax losses of $22 million. These losses have not yet been agreed by the Board of Inland Revenue.

ii. The movement on the deferred tax account is as follows:

	2014 $'000	**2013 $'000**
Balance at January 1	(155,812)	(83,474)
Charge to profit or loss (Note 25)	(5,400)	(10,072)
Charge to other comprehensive income	(2,016)	(62,266)
Balance at December 31	(163,228)	(155,812)

16. Stated Capital

Authorised

An unlimited number of ordinary shares of no par value

Issued and fully paid

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

17. Revaluation Reserves

The revaluation reserve is used to record increases or decreases in 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 profit or loss. At December 31, 2014 there was an impairment on the equity portfolio of $0.415 million (2013: NIL).

		2014 $'000	2013 $'000
18.	**Mortgage Risk Reserve**		
	Balance at January 1	3,281	9,276
	Transfer from (to) retained earnings	1,291	(5,995)
	Balance at December 31	4,572	3,281
19.	**Other Liabilities**		
	Taxation payable	1,956	-
	Interest payable on bonds	4,533	3,044
	Sundry creditors and accruals	7,460	6,566
	Gareemic holders payable	186	205
		14,135	9,815
20.	**Short-term Borrowings**		
	Balance at January 1	125,000	358,074
	Proceeds	496,000	416,000
	Repayments	(445,300)	(649,074)
	Balance at December 31	175,700	125,000

The short-term borrowing facility is comprised of RBC TT$300 million one year revolving facility renewable each September. These borrowings are secured by investment securities valued at $307 million.

		2014 $'000	2013 $'000
21.	**Debt Securities**		
	Balance at January 1	745,511	606,740
	Issues	250,000	200,000
	Redemptions	(56,894)	(61,229)
	Balance at December 31	938,617	745,511

Notes:

(a) These bonds are secured by debentures created at the time of issue and rank pari-passu over the fixed and floating assets of the Group.

21. Debt Securities *(Continued)*

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

	2014 $'000	2013 $'000
Within 1 year	56,894	56,894
1 to 2 years	56,894	56,894
2 to 3 years	56,894	56,894
3 to 4 years	56,894	56,894
4 to 5 years	56,894	56,894
Over 5 years	654,148	461,041
	938,617	745,511

	2014 $'000	2013 $'000
(c) Tax free bonds	137,373	142,204
Other bonds	801,245	603,307
	938,617	745,511

Under the Home Mortgage Bank Act 1985, the Group is authorised to issue tax-free bonds up to $600 million of which $137 million has been issued at year-end (2013: $142 million).

22. Managed Fund Liabilities

	2014 $'000	2013 $'000
Managed Funds comprises:		
Guaranteed Mortgage Investment Certificates	7,795	9,967
Mortgage Participation Fund	494,991	511,928
	502,786	521,895
Carrying value of loans backing the Managed Fund liabilities (Note 10)	(502,786)	(521,895)
Net liability	-	-

The maturity value of these financial liabilities is determined by the fair value of the Group's assets at maturity value. There will be no difference between the carrying amount and the maturity amount at the valuation date.

The movement in the Managed Fund liabilities is as follows:

	2014	2013
Balance at January 1	521,895	568,219
Additions	103,124	57,458
Capitalised interest	5,819	7,610
Repayments	(128,052)	(111,392)
Balance at December 31	502,786	521,895

22. Managed Fund Liabilities *(Continued)*

	2014 $'000	2013 $'000
Accrued interest		
Balance at January 1	-	-
Interest paid	(6,682)	(13,062)
Interest expense (Note 23)	6,682	13,062
Balance at December 31	-	-

Guaranteed Mortgage Investment Certificates (Gareemics)

As issuer and guarantor of Gareemics, the Group is obligated to disburse scheduled monthly instalments of principal and interest (at the coupon rate) and the full unpaid principal balance of any foreclosed mortgage to Gareemics investors, whether or not any such amounts have been received. The Group is also obligated to disburse unscheduled principal payments received from borrowers. At December 31, 2014 the outstanding balances of securitised mortgages and the related Gareemics issued amounts to $7,795 (2013: $9,967).

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 Group however, bears the ultimate risk of default.

Mortgage Participation Fund

The Bank guarantees the investments under its Mortgage Participation Fund (MPF) investment programme. This fund is backed by mortgage and/or other securities. At December 31, 2014 the outstanding balance under the MPF investment product was $494,991 (2013: $511,928).

	2014 $'000	2013 $'000
23. Interest on Loans and Advances (Net)		
Interest income	57,921	73,676
Managed fund (Note 22)	(6,682)	(8,951)
Other related costs	(3,874)	(4,111)
	47,365	60,614
24. General and Administrative Expenses		
Staff costs	7,089	4,497
Premises	2,070	1,944
Other operating expenses	7,179	8,145
	16,338	14,586

Included within other operating expenses are the following charges:

Depreciation	457	140
Directors' fees	1,388	1,214

25. Taxation

	2014 $'000	2013 $'000
(i) Current taxation:		
Corporation tax	1,955	-
Green fund levy	122	131
Business levy	130	157
Deferred taxation	5,400	10,072
Taxation charge for the year	7,607	10,360

(ii) Tax recognised in other comprehensive income:

	2014			2013		
	Before Tax $'000	Tax Expense $'000	Net of Tax $'000	Before Tax $'000	Tax Expense $'000	Net of Tax $'000
Available-for-sale investments	8,066	(2,016)	6,050	249,064	(62,266)	186,978

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

	2014 $'000	2013 $'000
Accounting profit	83,258	90,695
Tax at the statutory rate of 25%	20,814	22,674
(Over) under provision of deferred tax	(39)	362
Green Fund levy	122	131
Business levy	130	157
Tax exempt income	(14,301)	(13,373)
Other permanent differences	881	409
	7,607	10,360

26. Related Party Transactions and Balances

(a) Identity of related parties

The Group has a related party relationship with its affiliates, subsidiary, directors, key management personnel and their immediate relatives.

(b) Related party balances

	2014 $'000	2013 $'000
Loans, investments and other assets		
The National Insurance Board and its subsidiaries	117,000	4,668
Directors and key management personnel	2,576	923

Notes to Consolidated Financial Statement

Year ended December 31, 2014
(Expressed in Trinidad and Tobago Dollars)

26. Related Party Transactions and Balances *(Continued)*

	2014 $'000	2013 $'000
Bonds in issue and other liabilities		
The National Insurance Board and its subsidiaries	250,204	49,531
Directors and key management personnel	2,439	-

(c) **Related party transactions**

	2014 $'000	2013 $'000
Interest and other income		
The National Insurance Board and its subsidiaries	4,654	815
Directors and key management personnel	150	61
Bond interest and other expenses		
The National Insurance Board and its subsidiaries	2,014	2,985
Directors and key management personnel	189	-

(d) Key management compensation

	2014 $'000	2013 $'000
Directors and management compensation		
Short term benefits	4,016	3,202
Post-retirement benefits	297	153

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

27. Mortgage Commitments

The Group has issued standby commitments for the purchase mortgages, of which undrawn balances amount to $23.8 million (2013: $40.9 million).

28. Employees

At December 31, 2014 the Group had in its employ a staff complement of 25 employees (2013: 20).

29. Dividend Paid

The Group made a Dividend payout of sixty-one (61) cents per share which was paid on June 9, 2014, in relation to 2013 profits.

30. Contingent Liabilities

Claims of $5 million and $1.8 million have been made against the Bank at the reporting date. The Group considers this challenge is without merit and has given instructions to oppose the same. No provision has been made in the consolidated financial statements.

31. Events after the Reporting Date

There are no events occurring after the consolidated statement of financial position date and before the date of approval of the consolidated financial statements by the Board of Directors that require adjustment to or disclosure in these consolidated financial statements.

SHAREHOLDERS

The stated capital is 16,000,000 ordinary shares to a value of $16,000,000, subscribed as follows at 31st December, 2014:

Institution	Amount $	%
The National Insurance Board of Trinidad and Tobago	15,900,000	99.4
British American Insurance Company (Trinidad) Limited	100,000	0.6
	$16,000,000	100.0

CORPORATE INFORMATION

MANAGEMENT

Rawle Ramlogan
Chief Executive Officer

Mark Wight
Manager, Finance and Administration

Dirk Smith
Manager, Treasury & Investments

Indira Geeban
Manager, Risk Management

Sita Mangal
Manager, Mortgage Sales and Operations

COMPANY SECRETARY

Patricia Ilkhtchoui

REGISTERED OFFICE

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

AUDITORS

KPMG
Trinre Building
69-71 Edward Street
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

Our Employees 2014

HOME MORTGAGE BANK
Mortgages | Investments

Design: COJWIN CREATIVE
Staff Photography: Joseph Francis-Lau

HOME MORTGAGE BANK

Mortgages | Investments

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