

Financial Statements of

**HOME MORTGAGE BANK  
MORTGAGE PARTICIPATION FUND**

December 31, 2014

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**KPMG**  
**Chartered Accountants**  
Trinre Building  
69-71 Edward Street  
P.O. Box 1328  
Port of Spain  
Trinidad and Tobago, WI

Telephone 868 623 1081  
Fax 868 623 1084  
e-Mail kpmg@kpmg.co.tt

## **Independent Auditors' Report to the Members of**

### **Home Mortgage Bank Mortgage Participation Fund**

We have audited the accompanying financial statements of Home Mortgage Bank Mortgage Participation Fund (the Fund), which comprise the statement of financial position as at December 31, 2014, the 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 financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



*Opinion*

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

KPMG

Chartered Accountants

April 29, 2015

Port of Spain

Trinidad and Tobago

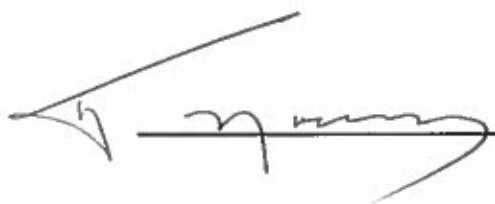
**HOME MORTGAGE BANK  
MORTGAGE PARTICIPATION FUND**

Statement of Financial Position

December 31, 2014

	Notes	2014	2013
		\$	\$
<b>ASSETS</b>			
Mortgage Assets (acquired under trust)	4	491,547,981	510,821,571
Cash at Bank	5	<u>3,507,536</u>	<u>1,201,348</u>
Total Assets		<u>495,055,517</u>	<u>512,022,919</u>
<b>EQUITY AND LIABILITIES</b>			
Equity	7	494,991,202	511,928,519
<b>Liabilities</b>			
Other payables		<u>64,315</u>	<u>94,400</u>
Total equity and liabilities		<u>495,055,517</u>	<u>512,022,919</u>

*The accompanying notes are an integral part of the financial statements.*

 Director

 Trustee

**HOME MORTGAGE BANK  
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Statement of Comprehensive Income

Year ended December 31, 2014

	Notes	2014	2013
		\$	\$
<b>Income</b>			
Interest income		<u>32,851,353</u>	<u>40,326,786</u>
<b>Expenses</b>			
Audit fees		60,375	60,375
Interest expense		6,682,170	8,951,066
Management fees	6	6,191,318	6,573,076
Legal and professional fees		11,625	11,625
Mortgage Risk Guarantee fee		19,898,161	24,722,228
Other administrative expenses		<u>7,704</u>	<u>8,416</u>
Total expenses		<u>32,851,353</u>	<u>40,326,786</u>
Operating profit being comprehensive income for the year		<u>-</u>	<u>-</u>

*The accompanying notes are an integral part of the financial statements.*

**HOME MORTGAGE BANK  
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Statement of Changes in Equity

Year ended December 31, 2014

	<u>Notes</u>	<u>Net amounts attributable to Unit holders</u>	<u>Total Equity</u>
		\$	\$
<b>Balance as at December 31, 2012</b>	7	554,815,295	554,815,295
<i>Transactions with unitholders:</i>			
Interest reinvested		7,609,972	7,609,972
Subscriptions		57,771,742	57,771,742
Redemptions		<u>(108,268,490)</u>	<u>(108,268,490)</u>
<b>Balance as at December 31, 2013</b>	7	511,928,519	511,928,519
<i>Transactions with unitholders:</i>			
Interest reinvested		5,819,418	5,819,481
Subscriptions		102,818,077	102,818,077
Redemptions		<u>(125,574,812)</u>	<u>(125,574,812)</u>
<b>Balance as at December 31, 2014</b>	7	<u>494,991,202</u>	<u>494,991,202</u>

*The accompanying notes are an integral part of the financial statements.*

**HOME MORTGAGE BANK  
MORTGAGE PARTICIPATION FUND**

Statement of Cash Flows

Year ended December 31, 2014

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	2014	2013
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating profit for the year	-	-
Adjustments for:		
Change other payables	<u>(30,085)</u>	<u>(51,737)</u>
<b>Net cash used in operating activities</b>	<u>(30,085)</u>	<u>(51,737)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net purchase of mortgage assets	<u>19,273,590</u>	<u>42,917,916</u>
<b>Net cash from investing activities</b>	<u>19,273,590</u>	<u>42,917,916</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Subscriptions and reinvested interest	108,637,495	65,381,714
Redemptions	<u>(125,574,812)</u>	<u>(108,268,490)</u>
<b>Net cash (used in) financing activities</b>	<u>(16,937,317)</u>	<u>(42,886,774)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	2,306,188	(20,595)
<b>Cash and cash equivalents at the beginning of the year</b>	<u>1,201,348</u>	<u>1,221,943</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>3,507,536</u></u>	<u><u>1,201,348</u></u>
<b>Represented by:</b>		
Cash and cash equivalents	<u><u>3,507,536</u></u>	<u><u>1,201,348</u></u>

*The accompanying notes are an integral part of the financial statements.*

**HOME MORTGAGE BANK  
MORTGAGE PARTICIPATION FUND**

Notes to the Financial Statement

December 31, 2014

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**1. Description of the Fund**

The following brief description of the Home Mortgage Bank Mortgage Participation Fund (the Fund) is provided for general information purposes only. Reference should be made to the Trust Deed and rules of the Fund for more complete information.

**General Information**

The Fund was established as an open-ended mutual fund. An open-ended fund is one in which the amount of Participations, which may be issued by the Fund, is unlimited. The Fund was established by the Original Trustee, the Home Mortgage Bank (the Bank) under a Trust Deed (the Deed) dated September 24, 2001. The Trust Deed is governed by the laws of the Republic of Trinidad and Tobago.

The principal activity of the Fund is to seek a high total investment return with safety of capital by investing primarily in a portfolio of mortgages secured by properties, which have either been identified and separated in the books of the Bank or purchased from Approved Mortgage Lenders and such other securities as permitted under the terms of the Deed.

The address of its registered office is Ground Floor, Prince's Court, Corner Keate and Pembroke Streets, Port of Spain, Trinidad, W.I.

**Subscriptions**

Participations in the Fund is offered at \$1.00 per unit subject to the Bank determining otherwise, the minimum initial subscription for Units by an investor is \$500 and thereafter, the minimum amount of an additional subscription by a Holder, save and except in the instances of the re-investment of any distributions payable in the Fund, is \$100.

**Distributions**

The Bank makes distributions out of the net income at the declared rate of interest. The amount of such distributions is determined and declared by the Bank and paid monthly. Participations accrue entitlement to distributions as long as they are issued and outstanding. Participations are entitled to distributions as of the Subscription Date to (but not including) the Redemption Date.



**HOME MORTGAGE BANK  
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Notes to the Financial Statement

December 31, 2014

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**1. Description of The Fund (continued)**

**Distributions (continued)**

Distributions payable in this Fund is ordinarily reinvested automatically in additional Participations of the Fund at the Issue Price as at the relevant Distribution Date unless investors or until Holders request that their Distributions be paid to them in the form of a cheque.

**Redemptions**

Participations in the Fund is redeemed at \$1.00 per unit without any penalties. Redemption of Participations is effected on every business day. To effect Redemption of Participation Holders must notify the Bank no later than 12 noon, or any later time specified by the Bank, on the relevant Business Day. Participations are redeemed at the Redemption Price less any stamp duty or taxation leviable thereon on the relevant Business Day. Remittance of the Redemption Proceeds is effected on the relevant Redemption Date.

**Mortgage risk guarantee fee**

Mortgage Risk Guarantee Fees are paid to the Bank for bearing the credit risk associated with guaranteeing a fixed return on mortgage assets.

**Management fees**

Management fees are paid to the Bank at a rate of 1.25% per month on the Net Asset Value of the Fund.

**Taxation**

Resident Individual Holders under the age of 60 years, is subject to 5% tax on income deducted prior to distribution. No further taxation is payable and the distributions do not have to be included in the Holder's annual income tax return. Resident Corporate Holders will be paid distributions without any deductions of taxes.

These financial statements were authorised for issue by the Trustees on April 29, 2015.

**2. Summary of Significant Accounting Policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

**(a) Basis of preparation**

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention.

**HOME MORTGAGE BANK  
MORTGAGE PARTICIPATION FUND**

Notes to the Financial Statement

December 31, 2014

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**2. Summary of Significant Accounting Policies (continued)**

**(a) *Basis of preparation* (continued)**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Trustee to exercise its judgment in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

*(i) Standards, amendment and interpretations which are effective and have been adopted by the Fund*

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning January 1, 2014 that would be expected to have a material impact on the Fund.

*(ii) Standards effective after January 1, 2014 that have been early adopted by the Fund*

The Fund has not early adopted any new standards, interpretations or amendments.

*(ii) Standards, amendments and interpretations issued but not yet effective and not early adopted by the Fund (although relevant to the Fund's operations)*

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 financial statements. These are not expected to have a significant effect on the financial statements of the Fund with the exception of the following set out below:

- IAS 32 – Financial instruments – Presentation on offsetting financial liabilities - Amendment to IAS 32 (effective for annual periods beginning on or after 1 January 2014 and applicable to the Fund from 1 July 2014). This amendment updates the application guidance in IAS 32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. This amendment is not expected to significantly impact the financial statements of the Fund.

**HOME MORTGAGE BANK  
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Notes to the Financial Statement

December 31, 2014

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**2. Summary of Significant Accounting Policies (continued)**

**(a) Basis of preparation (continued)**

*(ii) Standards, amendments and interpretations issued but not yet effective and not early adopted by the Fund (although relevant to the Fund's operations)(continued)*

- IAS 36 – Impairment of assets – Amendments to IAS 36 (effective for annual periods, beginning on or after 1 January 2014 and applicable to the Fund from January 1, 2005). These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. These amendments are not expected to significantly impact the financial statements of the Fund.
- IFRS 9 – Financial instruments – classification and measurement – effective for annual periods beginning on or after 1 January 2018 and applicable to the Fund from 1 July 2018). This standard on classification and measurement of financial assets and financial liabilities will replace IAS 39, ‘Financial instruments: Recognition and measurement’. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortised-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This change will mainly affect financial institutions. The new standard is not expected to impact the Net Asset Value calculations.

**HOME MORTGAGE BANK  
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Notes to the Financial Statement

December 31, 2014

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**2. Summary of Significant Accounting Policies (continued)**

**(b) *Functional and Presentation currency***

The primary activity of the Fund is to invest in mortgage assets denominated in Trinidad and Tobago dollars. Subscriptions and redemptions of units are denominated in Trinidad and Tobago dollars. The performance of the Fund is measured and reported to the investors in Trinidad and Tobago dollars. The Trustee considers the Trinidad and Tobago dollar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Trinidad and Tobago dollars which is the Fund's functional and presentation currency.

**(c) *Financial assets***

*i. Classification*

The Fund classifies its investments as loans and receivables. The Trustee determines the classification of its financial assets at initial recognition. Loans and receivables are those that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

*ii. Recognition/de-recognition*

All purchases and sales of loans and receivables are recognised on the trade date - the date on which the Fund commits to purchase or sell the financial asset. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all risks and rewards of ownership.

*iii. Measurement*

Loans and receivables are initially recognised at fair value plus transaction costs. Subsequent to initial recognition, loans and receivables are carried at amortised rate.

**HOME MORTGAGE BANK  
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Notes to the Financial Statement

Year ended December 31, 2014

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**2. Summary of Significant Accounting Policies (continued)**

**(d) *Impairment of financial assets***

The Trustee assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Trustee uses to determine that there is objective evidence of an impairment loss include:

- (i) significant financial difficulty of the issuer or debtor
- (ii) a breach of contract, such as default or delinquency in payments
- (iii) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation
- (iv) the disappearance of an active market for that financial asset because of financial difficulties
- (v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of individual assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group;
  - or
  - national or local economic conditions that correlate with defaults on assets in the group.

**HOME MORTGAGE BANK  
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Notes to the Financial Statement

Year ended December 31, 2014

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**2. Summary of Significant Accounting Policies (continued)**

**(d) *Impairment of financial assets (continued)***

If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit or loss.

If loans and receivables have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Fund may measure impairment on the basis of an instrument's fair value using an observable market price.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

**(e) *Cash and cash equivalents***

Cash and cash equivalents comprise of cash balances held in the bank account for the purpose of either investing into a mortgage or cash held for redemption purposes.

**(f) *Provisions***

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**HOME MORTGAGE BANK  
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Notes to the Financial Statement

Year ended December 31, 2014

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**2. Summary of Significant Accounting Policies (continued)**

**(g) *Net assets attributable to unitholders***

The Fund issues one class of units. These are redeemable at the unit holder's option and are classified as equity in accordance with IAS 1 (Amendment). Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation'.

Redeemable units can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's net asset value calculated in accordance with the Fund's regulations.

The units are carried at the redemption amount that is payable at the statement of financial position date if the holder exercises the right to put the unit back to the Fund. Units are issued and redeemed at the holder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. Should the redeemable units' terms and conditions change such that they do not comply with the strict criteria contained in the amendment, the redeemable units would be reclassified to a financial liability from the date the instrument ceases to meet the criteria. The financial liability would be measured at the instrument's fair value at the date of reclassification. Any difference between the carrying value of the equity instrument and fair value of the liability on the date of reclassification would be recognised in equity.

**(h) *Interest income***

Interest income is recognised on a time-proportionate basis using the effective interest method and is included in the income statement. It includes interest income from cash and cash equivalents and on loans and receivables. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

**HOME MORTGAGE BANK  
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Notes to the Financial Statement

Year ended December 31, 2014

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**2. Summary of Significant Accounting Policies (continued)**

**(i) *Expenses***

Expenses are accounted for on the accrual basis.

**(j) *Subscriptions and redemptions***

Subscriptions and redemptions are accounted for on the accrual basis.

**(k) *Offsetting financial instruments***

Financial assets and liabilities are offset and the net amount reported in the statement of financial position sheet where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

**(l) *Distributions***

Distributions are accounted for on the accrual basis when declared by the Trustee. These are recognised in the statement of changes in equity.



**HOME MORTGAGE BANK  
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Notes to the Financial Statement

Year ended December 31, 2014

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**3. Critical Accounting Estimates And Judgments In Applying Accounting Principles**

**Impairment losses on financial assets**

The Fund reviews its mortgage assets to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Fund makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from investment securities. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**4. Mortgage Assets**

	<u>2014</u>	<u>2013</u>
	\$	\$
Balance brought forward	510,821,571	553,739,487
Additions	53,678,195	19,223,094
Disposals	(72,951,785)	(62,136,129)
(Over) allocation of mortgages	<u>-</u>	<u>(4,881)</u>
Balance carried forward	<u>491,547,981</u>	<u>510,821,571</u>

**5. Cash at Bank**

Balances with banks	<u>3,507,536</u>	<u>1,201,348</u>
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**HOME MORTGAGE BANK  
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Notes to the Financial Statement

Year ended December 31, 2014

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**6. Related Parties and Other Key Contract**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Fund appointed the Home Mortgage Bank which was 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 'Amendment Act') as the investment management company and administrator of the Fund.

Under the administrative agreement, the Home Mortgage Bank is required to provide administrative services for the Fund including financial accounting services. The investment manager and administrator receives a management fee at a monthly rate of 1.25% of the Net Asset Value attributable to holders of redeemable shares on each valuation day as defined in the prospectus.

The Home Mortgage Bank receives a fee for bearing the credit risk associated with guaranteeing a fixed return on the Mortgage assets. The fluctuates to make the overall returns NIL.

All transactions with related parties have been executed at arms' length in the normal course of the Fund's operations.

Total transactions for the year, and balances outstanding at the end of the year, are detailed below.

	<u>2014</u>	<u>2013</u>
	\$	\$
Managements fee for the year	6,191,318	6,573,076
Mortgage Risk Guarantee fee	19,837,786	24,722,228
Interest income	705,255	832,055
Distributions	(705,255)	(916,745)
<b>Other balances</b>		
Net assets attributable to unitholders	52,642,394	49,530,824

**HOME MORTGAGE BANK  
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Notes to the Financial Statement

Year ended December 31, 2014

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**7. Net Assets Attributable To Unitholders**

In accordance with the terms of the Fund's Trust Deed, distributions to unit holders are at the Trustee's discretion.

The Fund issues one class of Units. At the Statement of Financial Position Date, the net asset value would be \$1 per unit since the fund is managed in such a way to keep a steady value of \$1 per unit.

The table below illustrates the calculation of the operating net asset value (NAV) of a unit in the Fund at the reporting date used for the execution of subscriptions and redemptions of units:

	<u>2014</u>	<u>2013</u>
	\$	\$
Balance at beginning of year	511,928,519	554,815,295
Interest re-invested	5,819,418	7,609,972
Subscriptions	102,818,077	57,771,742
Redemptions	<u>(125,574,812)</u>	<u>(108,268,490)</u>
Net assets attributable to unitholders	<u>494,991,202</u>	<u>511,928,519</u>
Number of units outstanding at end of year	<u>494,991,202</u>	<u>511,928,519</u>
Net asset value per unit	\$1.00	\$1.00

**8. Distributions**

	<u>2014</u>	<u>2013</u>
	%	%
Average rate of return without reinvestment option	1.35	1.70
Annualised effective yield with the reinvestment option	1.36	1.71

**9. Financial Risk Management**

The Fund's activities expose it to a variety of financial risks and those activities involve the acceptance, analysis and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Fund's investment manager has been given discretionary authority to manage the assets in line with the Fund's investment objectives.

**HOME MORTGAGE BANK  
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Notes to the Financial Statement

Year ended December 31, 2014

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**9. Financial Risk Management (continued)**

Compliance with the target asset allocations and the composition of the portfolio are monitored on a regular basis. In instances where the portfolio has diverged from target asset allocations, the Fund's investment manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits. The most important types of financial risk are credit risk, market risk, operational risk and liquidity risk. Market risk includes currency risk, interest rate and other price risk.

**a) Credit Risk**

'Credit risk' is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund.

The Fund's policy over credit risk is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the credit standards set out in the Fund's prospectus and by taking collateral. This risk is mitigated by only investing cash provided by investors into mortgages. There is therefore hardly any risk involved since failure by the mortgage customer to pay their installment would result in the company selling the property and using the funds received from the sale to repay the investor or to invest in another property. Credit risk is monitored regularly by the Investment Manager in accordance with the policies and procedures put in place. If the credit risk is not in accordance with the investment policy or guidelines of the Fund, then the investment manager is obliged to rebalance the portfolio of each determination that the portfolio is not in compliance with the stated investment parameters.

*i. Definition*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

*ii. Management of risk*

Credit risk is mitigated to some extent by limiting the Fund's exposure to a single debtor. The Fund also reduces this risk by prudent credit analysis of issuers to restrict questionable exposures in the Fund.

*iii. Maximum exposure to credit risk before collateral held or other credit enhancements*

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Notes to the Financial Statement

Year ended December 31, 2014

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**9. Financial Risk Management (continued)**

**a) Credit Risk (continued)**

(iii) The following table shows assets bearing credit risk for the Fund:

	<u>2014</u>	<u>2013</u>
	\$	\$
Mortgage assets	491,547,981	510,821,571
Cash and cash equivalents	<u>3,507,536</u>	<u>1,201,348</u>
	<u>495,055,517</u>	<u>512,022,919</u>

	<u>Financial Institutions</u>	<u>Private Sector</u>	<u>Total</u>
	\$	\$	\$
<b>As at December 31, 2014</b>			
Mortgage assets	-	491,547,981	491,547,981
Cash and cash equivalents	<u>3,507,536</u>	-	<u>3,507,536</u>
	<u>3,507,536</u>	<u>491,547,981</u>	<u>495,055,517</u>

**As at December 31, 2013**

Mortgage assets	-	510,821,571	510,821,571
Cash and cash equivalents	<u>1,201,348</u>	-	<u>1,201,348</u>
	<u>1,201,348</u>	<u>510,821,571</u>	<u>512,022,919</u>

At the reporting date, there are no financial assets which were either impaired or past due.

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MORTGAGE PARTICIPATION FUND**

Notes to the Financial Statement

Year ended December 31, 2014

**9. Financial Risk Management (continued)**

**b) Market Risk**

'Market risk' is the risk that changes in market prices, such as interest rates, foreign exchange rates, equity prices and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Fund's income or the fair value of its holdings of financial instruments. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The fund is not exposed to currency risk as it only deals in local currency.

*(i) Interest rate risk*

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value and future cash flows of financial assets and liabilities. Fixed interest securities expose the Fund to fair value interest rate risk. Floating rate debt instruments and cash equivalents expose the Fund to cash flow interest rate risk.

The Fund's available mortgage assets are exposed to fair value interest rate risk. This risk is managed by maintaining fixed rate instruments with an appropriate mix of maturity profiles. As the Fund's investments generally comprise of fixed rate instruments there is no significant exposure to cash flow interest rate risk.

	Up to One year \$	One to Five years \$	Over Five years \$	Non-Interest Bearing \$	Total \$
<b>As at December 31, 2014</b>					
Mortgage assets	1,303,664	43,584,089	446,660,228	-	491,547,981
Cash and cash equivalents	3,507,536	-	-	-	3,507,536
<b>Total assets</b>	<b>4,811,200</b>	<b>43,584,089</b>	<b>446,660,228</b>	<b>-</b>	<b>495,055,517</b>
Unit holders	494,991,202	-	-	-	494,991,202
Other payables	-	-	-	64,315	64,315
<b>Total liabilities</b>	<b>(494,991,202)</b>	<b>-</b>	<b>-</b>	<b>64,315</b>	<b>495,055,517</b>
Interest sensitivity gap	(490,180,002)	43,584,089	446,660,228	(64,315)	-
<b>As at December 31, 2013</b>					
Mortgage assets	2,195,341	54,352,091	454,274,139	-	510,821,571
Cash and cash equivalents	1,201,348	-	-	-	1,201,348
<b>Total assets</b>	<b>3,396,689</b>	<b>54,352,091</b>	<b>454,274,139</b>	<b>-</b>	<b>512,022,919</b>
Unit holders	511,928,519	-	-	-	511,928,519
Other payables	-	-	-	94,400	94,400
<b>Total liabilities</b>	<b>511,928,519</b>	<b>-</b>	<b>-</b>	<b>94,400</b>	<b>512,022,919</b>
Interest sensitivity gap	(508,251,830)	54,352,091	454,274,139	(94,400)	-

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Notes to the Financial Statement

Year ended December 31, 2014

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**9. Financial Risk Management (continued)**

*(ii) Price risk*

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from changes in interest rates or foreign exchange rates), whether those changes are caused by factors specific to the individual financial instruments or issuer, or factors affecting all similar financial instruments traded in the market.

During the period, the Fund did not hold any equity investments.

**(c) Liquidity risk**

'Liquidity risk' is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Fund's policy and the investment manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including estimated redemptions of shares, without incurring unacceptable losses or risking damage to the Fund's reputation. The Fund's liquidity risk is managed on a daily basis by the investment manager in accordance with the policies and procedures in place. Customers wishing to withdraw balances over \$500,000 are required to give 2 days notice. Should the MPF not have sufficient funds in its bank account, the balance would be transferred from the Home Mortgage Bank Account to the MPF Account to facilitate the withdrawal. Any withdrawals above the balance on the Home Mortgage Bank account would require sale of Home Mortgage Bank securities.

**(c) Liquidity risk (continued)**

*i) Definition*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities and redeemable units.

*ii) Management of risk*

The Fund is exposed to daily cash redemption of redeemable units. It therefore invests the majority of its assets in marketable securities which can be disposed of in a relatively short space of time if the need arises. The Fund has the ability to borrow using the Fund's assets as security at times when the Trustee considers it inadvisable to realise any of the assets of the Fund. Such borrowings may be used to provide cash to settle trades or to redeem units. No such borrowings have arisen during the year.

**HOME MORTGAGE BANK  
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Notes to the Financial Statement

Year ended December 31, 2014

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**9. Financial Risk Management (continued)**

**(c) Liquidity risk (continued)**

*ii) Management of risk (continued)*

The Fund also provides for certain restrictions on the maximum value of units that can be redeemed in cash over defined periods of time and for the redemption of units in specie where there is insufficient cash available.

*iii) Maturity analysis of financial liabilities*

All balances are due within twelve months of the reporting date and are equal to their carrying balances as the impact of discounting is not significant.

**(d) Fair value estimation**

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

All financial assets are measured at amortised cost. The fair values of financial assets at the reporting date is \$491,547,981 (2013:\$ 510,821,571). These have all been clarified as level 2 in the fair value hierarchy.

**(e) Operational Risk**

‘Operational risk’ is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund’s activities with financial instruments, either internally within the Fund or externally at the Fund’s service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour. The Fund’s objective is to manage operational risk so as to balance the limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to investors. The primary responsibility for the development and implementation of controls over operational risk rests with the board of directors. This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas:



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Year ended December 31, 2014

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**9. Financial Risk Management (continued)**

**(e) Operational Risk (continued)**

- the documentation of controls and procedures;
- appropriate segregation of duties between various functions, roles and responsibilities;
  - reconciliation and monitoring of transactions; and
  - periodic assessment of operational risk faced;
- the adequacy of controls and procedures to address the risks identified;
- compliance with regulatory and other legal requirements;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance if this is effective.

**10. Contingencies and Commitments**

The Fund has no undisclosed contingent liabilities or commitments which have not been provided for in these financial statements.

**11. Events after the Reporting Date**

There are no events which have taken place after the reporting date up to the date of authorisation of these financial statements for issue which would affect the carrying values of the Fund's assets and liabilities at that date.