HOME MORTGAGE BANK

ANNUAL REPORT 2011

25 YEARS

Mission Statement

Home Mortgage Bank was created through legislation and enacted by the Parliament of the Republic of Trinidad and Tobago by way of the Home Mortgage Bank Act, Chap. 79:08

The Purpose of the Bank is as follows:

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

Contents

Chairman's Report 2011

Harry Hospedales

PERFORMANCE OF THE GROUP

The financial year proved to be quite a challenge in terms of the reduction in demand for residential mortgages, an extremely liquid, low-interest-rate environment and the increasingly competitive nature of the mortgage market.

Despite these challenges, Home Mortgage Bank has achieved Net Profit after Taxes attributable to equity holders of the Parent of $37.4 million, an improvement of 18.9% over that achieved for 2010. There has been a 22.5% growth in total assets to $2.3 billion as at December 31, 2011. This is reflective primarily of the net impact of a $366.6 million or 36.4% increase in Cash, short term funds and investment securities offset by a decrease of $109.4 million or 15.4% in loans and advances. Shareholders' equity has increased by 43.1% to $490.9 million.

THE INTERNATIONAL AND REGIONAL ECONOMIES

Crises in the international economies, namely the sovereign debt issue currently engaging Greece and Ireland has eroded confidence in the European fiscal system and the subsequent downgrading of credit rating of nations including the United States, has created new uncertainties particularly with respect to employment and growth rates at the global levels. These factors have impacted on the domestic economy through the impact on oil, gas and other commodity prices, the performance of the Caribbean region and the declining export markets.

Internationally and regionally, widening current account deficits and rising global prices are requiring large adjustments in national budgets. The further slowdown in the US economy will have adverse effects on overseas remittances and tourist arrivals, putting additional pressure on already fragile economies.

THE DOMESTIC ECONOMY

The local economy has not been as adversely affected by the weakening of the global economies as our Caribbean counterparts as a result of its financial buffers, the adequacy of our international reserves, relatively low levels of public debt that provide capacity to borrow in an emergency and the resources in our Heritage and Stabilisation Fund. Trinidad & Tobago's credit rating by Standard and Poors has remained consistent for 2010 at an "A" rating.

The Trinidad and Tobago economy is estimated to have contracted by 1.4% in 2011. An average headline inflation rate of 5.2% and an average unemployment rate of 5.5% are expected for 2011. Both the energy and non-energy sectors experienced declines.

RESIDENTIAL REAL ESTATE MORTGAGE MARKET

The combined effects of lower mortgage rates and focused marketing by the commercial banks fuelled growth in real estate mortgage lending during 2011. The local mortgage market is intensely competitive. Ecommerce, intense advertising, loan campaigns, institutionalised group seminars and recent publications by the CBTT has enabled potential borrowers to engage in greater comparative shopping around for better mortgage terms in the market.

Residential Real Estate Mortgage Market Guideline

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

- For NEW residential mortgages, December 01, 2011
- For EXISTING residential mortgages, March 01, 2012

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

The MMRR was first introduced in December 2011 at a benchmark rate of 3.50% based on data for the quarter ended September 2011. The MMRR for March 2012 based on data for the quarter ended December 2011 is 3.25%.

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

CAPITAL MARKETS

Bond Market

Provisional data for 2011 suggest only a marginal increase in primary bond market activity. There were twenty primary issues in 2011 raising $7.2 billion compared with nineteen bond issues in 2010 raising $7.1 billion.

Trading on the secondary government bond market fell significantly in 2011. Bonds with a cumulative face value of $176.9 million were traded in 2011 compared with $1,737.6 million in 2010. Bonds continued to trade at a premium given the high demand for fixed income securities. This has resulted in a decline in yields on the Central Government yield curve for 2011.

Home Mortgage Bank's bonds in issue as at December 31, 2011 stood at $1.638 billion up from $1.414 billion as at December 31, 2010, an increase of 15.9%.

Stock Market

Despite the sluggishness of economic activity, the Trinidad and Tobago stock market performed well in 2011 with a growth of approximately 21%. Market capitalisation rose to $94.5 billion at the end of 2011 from $77.8 billion at the end of 2010.

Home Mortgage Bank held a portfolio of local equities with a market value of $623.1 million at the end of 2011 up from $475.9 million at the end of 2010, an increase of 30.9% representing an appreciation in value.

Mutual Funds

During 2011, mutual funds under management rose by 3.1% compared to an increase of 0.4% in 2010. At the end of 2011, aggregate funds under management stood at $36,750.9 million up from $35,649 million at the end of 2010.

Home Mortgage Bank's mortgage participation fund balance as at December 31, 2011 stood at $478.2 million up from $456.9 million as at December 31, 2010, an increase of 4.7%.

CHANGES ON THE BOARD OF DIRECTORS

A new Board was appointed at the 23rd Annual General Meeting held on August 23, 2011. The composition of this new Board consisted of four (4) directors nominated by the Bank's majority shareholder, National Insurance Board (51.25%), one (1) director nominated by Republic Bank Limited (24%) and one (1) director appointed by the Ministry of Finance in accordance with Clause (11) of the HMB Act.

TRINIDAD & TOBAGO MORTGAGE BANK

In the 2011 Budget Statement, the Minister of Finance outlined the creation of a new holding company TTMB, with the Bank and TTMF as two newly own subsidiaries. Discussions are on going on this matter with the Ministry of Finance seeking advice on the best way forward.

REGULATION BY THE CENTRAL BANK OF TRINIDAD AND TOBAGO

In 2007, following the amendment of the Home Mortgage Bank Act, the CBTT assumed overall responsibility for the supervision of HMB's financial activities as defined in schedule 2 of the HMB (Amendment) Act 2007. In July 2008, CBTT solicited comments on Draft Regulations for HMB developed in accordance with Section 35 of the HMB Act (amended). In November 2011, revisions to the Draft Regulations were re-submitted to HMB for further comments. The review of these Draft Regulations is currently underway.

TOBAGO DEVELOPMENT PROJECT

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

Despite many setbacks, the twenty Tobago villas were completed in 2011 and are now ready to be placed on the market. The general slowdown in the Tobago economy as a result of the sluggish global economy and other factors has impacted negatively on the timing of bringing these villas to the market. However, based on evaluations performed and Government's commitment to the development of Tobago, the Bank will offer these luxury units on the market during the year.

2012 AND BEYOND

Home Mortgage Bank is celebrating its 25th year of operation and we continue to add value to our shareholders' equity from year to year. In light of the changing landscape of the environment in which we operate, it is imperative that we continually reevaluate our operations to make the necessary adjustments required to continue to achieve sustainability and growth in 2012 and beyond.

Despite the challenges facing the global, regional and local economies, the Bank remains committed to its original mandate of supporting the development of a system of real property and housing finance and providing leadership in the housing and home finance industry.

Despite the continued gloomy international landscape predicted for 2012, Trinidad and Tobago is forecasted to return to positive growth of 1.5% in 2012 as the Government has embarked on a number of investment initiatives to increase investment in the economy and address the unemployment rate.

The new Board stands committed to ensuring the continued sustainability and profitability of the Bank in 2012 and beyond.

I would like to express sincere thanks to the outgoing Chairman (Acting), Mrs. Lucille Mair, for her dedicated and sterling contribution to the Bank during our 25 years of operation. Mrs. Mair has been with the bank since its inception and served as Corporate Secretary, Director, Deputy Chairman and Chairman (Acting).

I would also like to thank the outgoing Directors, Mr. Michael Annisette and Mr. Jeffrey Mc Farlane, for their valuable contributions to the Bank. I also take this opportunity to welcome the new Board and to thank them for their commitment and oversight, our shareholders for their loyalty and support, the Management and Staff for their continued dedication and hard work and our clients for their loyalty and trust.

Harry Hospedales

Chairman

Board of Directors

Standing: Harry Hospedales, Chairman
Seated: Sylvester Ramquar, Deputy Chairman
Ermine De Bique Meade, Director
Walton A. Hilton-Clarke, Director

Seated: Joanne Milford-Walcott, Director
Joshey Mahabir, Director

About our Directors

Harry Hospedales — Chairman

Harry Hospedales has been a career banker with over forty years experience in all areas of banking, in particular merchant banking. He was a member of the management team that formed the first merchant bank in the region (a joint venture between National Commercial Bank and Banque Paribas). He subsequently went on to become a Vice President in Citibank (T&T) and RBTT Merchant Bank, excelling in the area of distribution of financial products.

Mr. Hospedales is currently a Director of the National Insurance Board, where he is Chairman of the Audit Committee, Land Use and Development Committee and a member of the Corporate Governance Committee. He is a Director at a motor insurance company and is a former Deputy Chairman of National Quarries Limited.

Sylvester Ramquar — Deputy Chairman

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

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

Walton Hilton-Clarke — Director

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

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

Ermine De Bique Meade — Director

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

Joanne Milford-Walcott — Director

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

Joshey Mahabir — Director

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

Directors' Report

The Directors have pleasure in submitting their Report and the Audited Consolidated Financial Statements for the year ended 31st December, 2011.

FINANCIAL RESULTS	$ 000's
Net Profit before taxation	33,002
Taxation	4,426
Net Profit for the year	37,428
Retained earnings at the beginning of the year	233,348
	270,776
Less :	
Transfer from mortgage risk reserve	420
Retained earnings at the end of the year	271,196

DIVIDENDS

No dividends were paid during the financial year.

DIRECTORS' INTEREST

None of the Directors holds shares in the Bank.
No Director had, during the year, or at the end of the year, any interest in any contract pertaining to the Bank's business.

AUDITORS

The auditors, Ernst & Young retire, and being eligible, offer themselves for re-appointment.

BY ORDER OF THE BOARD

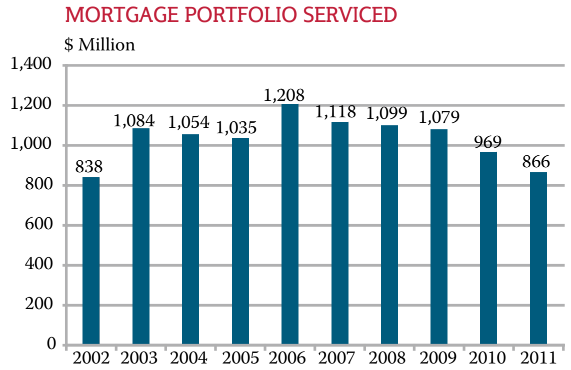
Rawle Ramlogan
Assistant Corporate Secretary

Residential Mortgage Programmes

Home Mortgage Bank continues to take a proactive approach to mortgage financing by continuously reviewing the market and its mortgage products. The Bank has a rate structure for its new mortgage business that provides a choice between a variable rate and a range of fixed rate products.

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

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



Our regular mortgage products are:

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

Land Acquisition Mortgages
This product facilitates the purchase of land that will ultimately be used for the construction of a primary residence

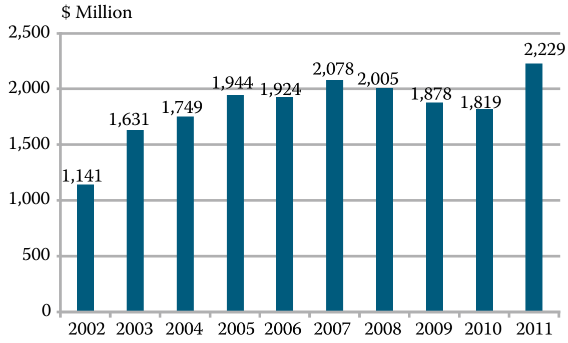
Construction Mortgages
This construction loan facility includes Bridging Finance and is geared toward providing financing for the construction of a primary residence.

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

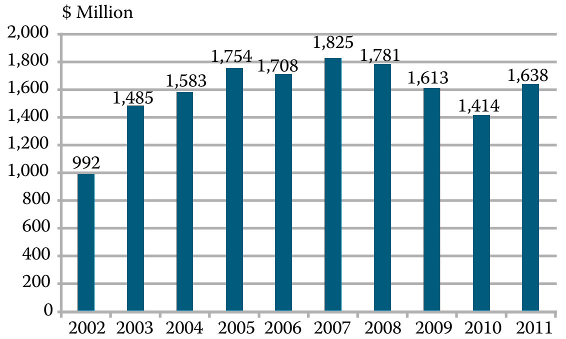
Reverse Mortgages
After you have built-up equity in your home over the years, a Reverse Mortgage allows you to convert that equity into cash or a line of credit. Home Mortgage Bank is the only institution offering this unique mortgage programme in the market. Home Mortgage Bank plans to continue offering attractive loan features and competitive mortgage rates to ensure that its mandate of affordable mortgage financing to the citizens of Trinidad & Tobago is fulfilled.

Ten Year Review

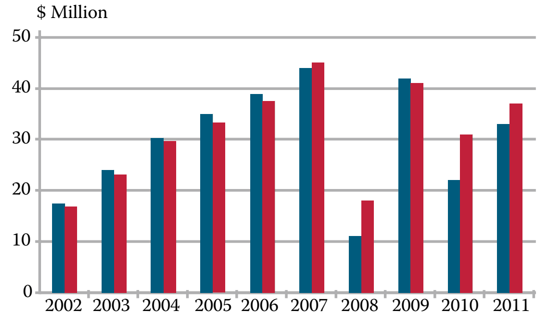
TOTAL ASSETS



TOTAL BONDS IN ISSUE



COMPARATIVE NET INCOME



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Profit before Taxation	17	24	30	35	39	44	11	42	22	33
Profit after Taxation	17	23	30	33	38	45	18	41	31	37

Five Year Review

December 31st,	2011 $'000	2010 $'000	2009 $'000	2008 $'000	2007 $'000
Balance Sheet					
Loans & Advances	598,963	708,369	764,851	1,155,972	932,632
Investment Securities	1,127,872	961,727	793,150	377,915	276,018
Total Assets	2,229,003	1,819,410	1,877,537	2,004,944	2,077,555
Bonds in Issue	1,638,003	1,413,518	1,613,023	1,781,161	1,825,005
Total Liabilities	1,738,120	1,476,362	1,649,604	1,817,685	1,866,344
Share Capital	16,000	16,000	16,000	16,000	16,000
Retained Earnings	271,196	233,348	201,399	160,149	183,919
Income Statement					
Income	147,817	158,355	169,212	208,746	165,287
Profit before Taxation	33,002	21,846	41,851	11,303	44,118
Net Income	37,428	31,491	40,674	18,448	45,151
Operating Expenses	15,578	12,650	10,038	22,888	14,586
Earnings per share	$2.34	$1.97	$2.54	$1.15	$2.83

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

TO THE SHAREHOLDERS OF HOME MORTGAGE BANK

We have audited the consolidated financial statements of Home Mortgage Bank and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 these financial statements based on our audit. Except as discussed in the following paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

Basis for Qualified Opinion

As disclosed in note 16, in 2008, a net fee of $27.2 million was earned by the Group for a transaction with CL Financial Limited. In December 2009 and May 2010, CL Financial Limited challenged the quantum of fees earned by the Group. This matter is unresolved at the date of this report and we are unable to determine whether any adjustments were required in respect of recorded assets, fee income and retained earnings.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

Ernst + Young

Port of Spain,
TRINIDAD:
9 March 2012

Consolidated Statement of Financial Position

HOME MORTGAGE BANK
Annual Report 2011

Consolidated Financial Statements for the Year ended 31 December 2011

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

Assets	Notes	2011 $'000	2010 $'000
Cash and short-term funds	4	246,869	46,412
Investment securities	5	1,127,872	961,727
Interest receivable and sundry debtors	6	169,402	23,185
Lands for development	7	58,424	56,085
Loans and advances	8	598,963	708,369
Property and equipment	9	881	1,227
Capitalised bond issue costs	10	540	629
Deferred tax asset	11	22,940	18,335
Taxation recoverable		3,112	3,441
Total assets		2,229,003	1,819,410
Liabilities			
Other liabilities	12	35,071	34,429
Bonds in issue	13	1,638,003	1,413,518
Deferred income tax liability	11	65,046	28,415
		1,738,120	1,476,362
Shareholders' equity			
Stated capital	14	16,000	16,000
Retained earnings		271,196	233,348
		287,196	249,348
Revaluation reserve		194,031	83,624
Mortgage risk reserve	15	9,656	10,076
		490,883	343,048
Total liabilities and shareholders' equity		2,229,003	1,819,410

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

These consolidated financial statements were approved by the Board of Directors on 9 March 2012 and signed on its behalf by:

Director Director

Consolidated Statement of Comprehensive Income

Consolidated Financial Statements for the Year ended 31 December 2011

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

Income	**Notes**	**2011**	**2010**
		$'000	**$'000**
Interest on loans and advances (net)		73,796	82,977
Interest income on investments		49,055	44,824
Dividend income		24,916	29,576
Other income (net)		50	978
		147,817	158,355
Expenditure			
Bond expenses and other costs		95,541	105,904
General and administrative expenses	17	15,578	12,650
(Write back of provision)/ provision for loan losses	8	(141)	278
Provision for impairment on lands for development	7	3,837	17,677
		114,815	136,509
Operating profit/net profit before taxation		33,002	21,846
Taxation	18	4,426	9,645
Net profit after taxation attributable to equity holders of the Parent		37,428	31,491
Other comprehensive income:			
Revaluation of available-for-sale investments		147,211	111,498
Tax effect		(36,804)	(27,874)
Other comprehensive income for the year, net of tax		110,407	83,624
Total comprehensive income for the year, net of tax attributable to equity holders of the Parent		147,835	115,115
Earnings per share ($)		2.34	1.97
Number of shares ('000)		16,000	16,000

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

Consolidated Statement of Changes in Shareholders' Equity

Consolidated Financial Statements for the Year ended 31 December 2011

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

	Stated capital $'000	Retained earnings $'000	Revaluation reserve $'000	Mortgage risk reserves $'000	Total share-holders' equity $'000
Balance at 31 December 2009	16,000	201,399	-	10,534	227,933
Total comprehensive income for the year	–	31,491	83,624	–	115,115
Transfer from mortgage risk reserve	–	458	–	(458)	–
Balance at 31 December 2010	16,000	233,348	83,624	10,076	343,048
Total comprehensive income for the year	–	37,428	110,407	–	147,835
Transfer from mortgage risk reserve	–	420	–	(420)	–
Balance at 31 December 2011	16,000	271,196	194,031	9,656	490,883

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

Consolidated Statement of Cash Flows

Consolidated Financial Statements for the Year ended 31 December 2011

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

	2011 $'000	2010 $'000
Cash flows from operating activities		
Net profit before taxation	33,002	21,846
Adjustments for:		
(Writeback)/provision for loan losses	(141)	278
Write off of provision for loan losses	(149)	–
Provision for impairment on lands for development	3,837	17,677
Depreciation	355	334
Bond issue costs amortised	124	135
Operating profit before working capital changes	37,028	40,270
(Increase)/decrease in interest receivable and sundry debtors	(146,218)	760
Increase/(decrease) in other liabilities	642	(1,428)
Corporation taxes paid	(357)	(483)
Taxation recovered	335	–
Net cash (used in)/generated from operating activities	(108,570)	39,119
Cash flows from investment activities		
Net increase in short-term funds	–	(54,000)
Increase in investment securities – held-to-maturity	(18,934)	(57,079)
Net decrease in guaranteed mortgage securities	(4,714)	(5,086)
Net increase/(decrease) in mortgage participation fund	21,248	(27,706)
Purchase of loans	(35,514)	(49,463)
Proceeds from repayment on mortgages	145,786	166,889
Purchase of fixed assets	(9)	(538)
Proceeds from sale of fixed assets	–	87
Development costs on land	(6,176)	(2,616)
Increase in construction loan advances	(17,110)	(28,430)
Net cash generated from /(used in) investing activities	84,577	(57,942)

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

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

	2011 $'000	2010 $'000
Cash flows from financing activities		
Proceeds from bonds issued	385,000	311,585
Redemption of bonds	(160,515)	(511,090)
Bond issue costs incurred	(35)	(104)
Net cash generated from/(used in) financing activities	224,450	(199,609)
Net increase/(decrease) in cash and cash equivalents	200,457	(218,432)
Cash and cash equivalents		
at the beginning of the year	(111,588)	106,844
at the end of the period/year	88,869	(111,588)
Represented by:		
Cash and cash equivalents	88,869	7,775
Bank overdraft	–	(119,363)
	88,869	(111,588)
Supplemental information:		
Income received during the period/year	81,941	120,567
Interest paid during the period/year	96,449	106,789

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

Notes to the Consolidated Financial Statements

1. General information

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

The Bank has two subsidiary companies, Tobago Fairways Villas Limited and Tobago Plantation House Limited. These subsidiaries are 100% owned and are incorporated in Trinidad & Tobago under the Companies Act, 1995. The principal activity of these subsidiaries is real estate development.

The registered office of the parent and its subsidiaries is located at Ground Floor, Prince's Court, Corner Keate and Pembroke Streets, Port of Spain.

2. Significant accounting policies

a) Basis of preparation

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

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

b) Changes in accounting policy

New accounting policies adopted

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010 except for the standard and interpretation noted below:

IAS 24 Related Party Disclosures (Revised) (effective 1 January 2011)

The definition of a related part has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control.

A partial exemption from the disclosures has been included for government-related entities, whereby the general disclosure requirements of IAS 24 will not apply.

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

2. Significant accounting policies (continued)

b) Changes in accounting policy (continued)

New accounting policies adopted (continued)

The adoption of these standards had no effect on the financial position or performance of the Group.

New accounting policies not adopted

The Group has not adopted the following new and revised IFRSs and IFRIC Interpretations that have been issued as these standards/interpretations do not apply to the activities of the Group:

IFRS 1 -	First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective 1 January 2011)
IAS 32 -	Financial Instruments: Presentation – Classification of Rights Issues (Amendment) (Effective 1 February 2010)
IFRIC 14 -	Prepayments of a Minimum Funding Requirement (Amendment) (Effective 1 January 2011)
IFRIC 19 -	Extinguishing Financial Liabilities with Equity Instruments (Effective 1 July 2010)

c) Standards issued but not yet effective

The Group has not early adopted the following new and revised IFRSs and IFRIC Interpretations that have been issued but are not yet effective. The Group is currently assessing the impact of these standards and interpretations.

IFRS 1 -	First-time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Effective 1 July 2011)
IFRS 7 -	Financial Instruments: Disclosures (Amendment) (Effective 1 July 2011)
IAS 12 -	Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets (Effective 1 January 2012)
IFRS 9 -	Financial Instruments – Classification and Measurement (Effective 1 January 2013)
IFRS 10 -	Consolidated Financial Statements, IAS 27 Separate Financial Statements (Effective 1 January 2013)
IFRS 11 -	Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures (Effective 1 January 2013)
IFRS 12 -	Disclosure of Interests in Other Entities (Effective 1 January 2013)

2. Significant accounting policies (continued)

c) Standards issued but not yet effective (continued)

IFRS 13 - Fair Value Measurement (Effective 1 January 2013)

IAS 1 - Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 (Effective 1 July 2012)

IAS 19 - Employee Benefits (Revised) (Effective 1 January 2013)

Improvements to International Financial Reporting Standards (issued 2010)

The International Accounting Standards Board (IASB) issued the "Improvement to IFRSs" which is part of its annual improvement project and a vehicle for making non-urgent but necessary amendments to various IFRSs. These amendments are effective for periods beginning on or after 1 January 2011 unless otherwise stated. The following shows the IFRSs and topics addressed by the amendments.

IFRS	Subject of Amendment
IFRS 1 First-time Adoption of International Financial Reporting Standards	Accounting policy changes in the year of Adoption
IFRS 1 First-time Adoption of International Financial Reporting Standards	Revaluation basis as deemed cost
IFRS 1 First-time Adoption of International Financial Reporting Standards	Use of deemed cost for operations subject to rate regulation
IFRS 3 Business Combinations	Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS
IFRS 3 Business Combinations	Measurement of non-controlling interests (NCI)
IFRS 3 Business Combinations	Un-replaced and voluntarily replaced share-based payment awards
IFRS 7 Financial Instruments Disclosures	Clarification of disclosures
IAS 1 Presentation of Financial Statements	Clarification of statement of changes in equity

2. Significant accounting policies (continued)

c) Standards issued but not yet effective (continued)

Improvements to International Financial Reporting Standards (issued 2010) (continued)

IAS 27 Consolidated and Separate Financial Statements	Transition requirements for amendments made as a result of IAS 27 Consolidated and Separate Financial Statements
IAS 34 Interim Financial Reporting	Significant events and transactions
IFRIC 13 Customer Loyalty Programmes	Fair value of award credit

d) Basis of consolidation

Group

The consolidated financial statements comprise the financial statements of Home Mortgage Bank and its subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiary companies

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

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

e) Revenue recognition

Income and expenditure are accounted for on the accruals basis, with the exception of dividend income which is accounted for on a receipts basis.

2. Significant accounting policies (continued)

f) Financial instruments

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

Loans and advances

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

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

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

Investment securities

The Group classifies its investment securities into the following categories:

i) Available-for-sale

ii) Held-to-maturity

i) Available-for-sale

Available-for-sale investments are securities which are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates. These investments are initially recognised at cost. After initial recognition, available-for-sale investments are measured at fair value.

2. Significant accounting policies (continued)

f) Financial instruments (continued)

i) Available-for-sale (continued)

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is derecognised or until the investment is determined impaired at which time the cumulative gain or loss previously reported in equity is included in the Consolidated Statement of Comprehensive Income.

ii) Held-to-maturity

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

Financial liabilities

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

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

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

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

For MPF, the investors earn a stated rate of return (variable) and there are no repayments of capital until investors elect to redeem their investments in part or in full. (Refer to Notes 8 & 25).

h) Lands for development

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

2. Significant accounting policies (continued)

i) Property and equipment

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

The rates used are as follows:

Furniture, fixtures, office machinery and equipment	7 1/2% to 25% on reducing balance
Motor vehicles	25% on (cost)/straight line

j) Capitalised bond issue costs

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

k) Pension benefits

The Group operates a defined contribution pension plan which covers all of its eligible employees. The Group's contribution expense in relation to this plan for the year amounts to $299,870 (2010: $372,428).

l) Taxation

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

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

m) Earnings per share

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

n) Cash and cash equivalents

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

2. Significant accounting policies (continued)

o) Impairment of financial assets

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

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

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

If an available-for-sale equity security is impaired based upon the Group's qualitative or quantitative impairment criteria, any further declines in the fair value at subsequent reporting dates are 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 the Consolidated Statement of Comprehensive Income.

2. Significant accounting policies (continued)

p) Comparative information

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

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

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

Impairment of financial assets

Management makes judgements at each reporting period to determine whether financial assets are impaired. Financial assets are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

Valuation of investments

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

Lands for Development

An impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less cost to sell calculation is based on Management's estimates in an arm's length transaction of similar assets or observable market prices less incremental costs for completing and disposing of the asset.

Deferred tax assets

Deferred tax assets are 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.

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

4. Cash and short-term funds

	2011 $'000	2010 $'000
Cash and cash equivalents	124,869	43,775
Less: Provision for cash and cash equivalents	(36,000)	(36,000)
	88,869	7,775
Less: Bank overdraft	–	(119,363)
Net (bank overdraft)/cash and cash equivalents	88,869	(111,588)
Fixed deposits with original maturities greater than three months	170,638	170,638
Less: Provision for fixed deposits	(12,638)	(12,638)
	158,000	158,000
Total cash and short-term funds	246,869	46,412

The average effective interest rate on cash and short-term funds for the current year is 5.80% (2010: 4.64%).

The Bank overdraft is secured by a Government of Trinidad and Tobago 8% Fixed Rate Bond (FRB) due 27 April 2014 in the amount of $32.5 million, Trinidad and Tobago Housing Development Corporation 8% FRB due 17 February 2024 in the amount of $25 million and First Citizens Bank Limited 8.35% FRB due 6 February 2014 in the amount of $50 million. These assets are recorded within investment securities in the Consolidated Statement of Financial Position.

	2011 $'000	2010 $'000
Provision for cash and short-term funds	48,638	48,638

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

Consolidated Financial Statements for the Year ended 31 December 2011

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

5. Investment securities

	2011 $'000	2010 $'000
Held to maturity		
State-owned company securities	447,143	428,172
Government securities	57,584	57,621
	504,727	485,793
Available for sale		
Local equities	623,145	475,934
	1,127,872	961,727

The average effective rate of return on investment securities for the current year is 6.11% (2010: 7.41%).

6. Interest receivable and sundry debtors

	2011 $'000	2010 $'000
Amounts to be remitted on 76th Bond Issue	139,130	–
Interest receivable	21,691	14,829
Sundry debtors	8,581	8,356
	169,402	23,185

7. Lands for development

	2011 $'000	2010 $'000
Balance brought forward	73,762	71,146
Costs incurred for the period	6,176	2,616
Balance carried forward	79,938	73,762
Less: Provision for impairment in value	(21,514)	(17,677)
Net balance carried forward	58,424	56,085

After considering the results of the valuation and the estimated costs to complete this project, an impairment provision was established on the basis of prudence and conservatism at 31 December 2011, to write down this asset to its net realizable value in accordance with the accounting policy of the Bank.

8. Loans and advances

	2011 $'000	2010 $'000
Retained mortgages loans (Note 8(a))	370,235	489,353
Construction loan advances (Note 8(b))	207,243	190,133
Other loans (Note 8(c))	21,485	28,883
	598,963	708,369

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

8. Loans and advances (continued)

	2011 $'000	2010 $'000
(a) Retained mortgage portfolio		
Principal balances and unamortised discounts:		
Balance at the beginning of the year	967,889	1,078,517
New mortgage/transfers from construction loan advances	35,514	49,463
Less: Principal repayments	(138,388)	(160,091)
	865,015	967,889
Less: Specific provision for doubtful mortgages	(80)	(370)
Less: Guaranteed mortgage investment Certificates (Gareemics)	(16,507)	(21,221)
Less: Mortgage participation fund	(478,193)	(456,945)
Balance at the end of the period	370,235	489,353
Specific provision for loan losses		
Provision brought forward	370	92
Write off of provision	(149)	–
(Net write back to income)/increase in provision	(141)	278
Provision carried forward	80	370
Represented by:		
Mortgages with recourse	–	1,314
Mortgages without recourse	370,235	488,039
Balance at the end of the year	370,235	489,353

The average effective interest rate on the retained mortgage portfolio for the current year is 7.86% (2010: 8.98%).

(b) Construction loan advances

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

	2011 $'000	2010 $'000
Balance brought forward	190,133	161,703
New advances	69,992	86,601
Advances converted to mortgages	(52,882)	(58,171)
Balance carried forward	207,243	190,133

The average effective interest rate on construction loan advances for the current year is 7.82% (2010: 7.77%).

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

8. Loans and advances (continued)

	2011 $'000	2010 $'000
(c) Other loans		
Balance brought forward	28,883	35,681
Principal repayments	(7,398)	(6,798)
	21,485	28,883

The average effective interest rate on other loans for the current year is 8.58% (2010:8.56%).

9. Property and equipment

	Furniture, fixtures, office machinery & equipment	Motor vehicles	Total 2011 $'000	Total 2010 $'000
Cost				
Balance brought forward	3,222	1,103	4,325	4,192
Additions	9	–	9	538
Disposals	(122)	–	(122)	(405)
	3,109	1,103	4,212	4,325
Depreciation				
Balance brought forward	2,715	383	3,098	3,082
Charge for the period	98	257	355	334
Disposals	(122)	–	(122)	(318)
Depreciation carried forward	2,691	640	3,331	3,098
Net book value	418	463	881	1,227

10. Capitalised bond issue costs

	2011 $'000	2010 $'000
Balance at the beginning of the year	629	660
Add: Costs incurred during the period	35	104
	664	764
Less: Costs amortised during the period	(124)	(135)
	540	629

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

11. Components of deferred tax asset and deferred tax liability

	2011 $'000	2010 $'000
Deferred income tax asset:		
Tax losses	17,561	13,916
Impairment of lands for development	5,379	4,419
	22,940	18,335

As at 31 December 2011, the Group had unutilised tax losses of $70,244,706 (2010: $55,664,152). These losses have not yet been agreed by the Board of Inland Revenue.

	2011 $'000	2010 $'000
Deferred income tax liability:		
Discount on purchase of Mortgage Pools	222	348
Revaluation of available-for-sale investments	64,677	27,875
Bond issue costs	135	157
Property and equipment	12	35
	65,046	28,415

Note:
The Group has adopted the policy of writing off costs incurred in the issue of bonds over the duration of the respective bonds. However, for taxation purposes, these expenses are allowed in the year they are incurred.

12. Other liabilities

	2011 $'000	2010 $'000
Interest payable on bonds	21,090	21,659
Sundry creditors and accruals	13,796	12,133
Gareemic holders payable	185	637
	35,071	34,429

13. Bonds in issue

	2011 $'000	2010 $'000
Balance at the beginning of the year	1,413,518	1,613,023
Add: Issues during the period	385,000	311,585
Less: Redemptions during the period	(160,515)	(511,090)
Balance at the end of the period	1,638,003	1,413,518

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

13. Bonds in issue (continued)

Notes:

(a) These bonds are secured by debentures created at the time of issue and rank pari-passu over the fixed and floating assets of the Group. The average effective interest rate on bonds in issue for the current year is 6.41% (2010: 6.62%).

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

	2011 $'000	2010 $'000
Within 1 year	180,617	160,515
1 to 2 years	215,935	180,617
2 to 3 years	155,250	215,935
3 to 4 years	237,944	155,250
4 to 5 years	210,645	237,944
Over 5 years	637,612	463,257
	1,638,003	1,413,518
(c) Tax free bonds	575,268	526,228
Other bonds	1,062,735	887,290
	1,638,003	1,413,518

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

14. Stated capital

	2011 $'000	2010 $'000
Authorised		
An unlimited number of ordinary shares of no par value.		
Issued and fully paid		
16,000,000 ordinary shares of no par value	16,000	16,000

15. Mortgage risk reserves

	2011 $'000	2010 $'000
Balance brought forward	10,076	10,534
Transfer to retained earnings	(420)	(458)
Balance carried forward	9,656	10,076

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.

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

16. Other income

In 2008, the Group earned a gross fee of $47.6 million, of which it retained $27.2 million after costs incurred for legal and professional services. This was a one off fee earned for negotiating and arranging financing for a party (considered to be a related party at that time) to acquire the issued and outstanding preference and ordinary shares of a targeted entity. In December 2009 and in May 2010, the party, under a new Board of Directors, wrote to the Group challenging the quantum of fees earned by the Group. The Group considers that this challenge is without merit.

17. General & administrative expenses

	2011 $'000	2010 $'000
Staff costs	4,239	4,044
Accommodation expenses	3,261	1,836
Other operating expenses	8,078	6,770
	15,578	12,650
Included within general and administrative expenses are the following charges:		
Depreciation	355	334
Directors' fees	788	652

18. Taxation charge for the period

	2011 $'000	2010 $'000
Reconciliation between tax expense and the product of accounting profits multiplied by applicable tax rate:		
Accounting profit/(loss)	33,002	21,846
Tax at the statutory rate of 25%	(8,251)	(5,462)
Tax effect of items that are adjustable in determining taxable profit:		
Tax exempt income	13,028	15,735
Other permanent differences	(351)	(628)
	4,426	9,645
Current year's tax provision:		
Business levy	(197)	(258)
Green fund levy	(152)	(162)
Deferred income tax	4,775	10,065
Taxation charge/(credit) for the period	4,426	9,645

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

19. Related party transactions and balances

In accordance with International Accounting Standard 24, parties are considered to be related if, directly or indirectly, one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. A number of banking transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and conditions, at market rates.

	2011 $'000	2010 $'000
Outstanding balances		
Loans, investments and other assets		
The National Insurance Board & its subsidiaries	21,485	28,883
Directors and key management personnel	1,034	3,889
Bonds in issue and other liabilities		
The National Insurance Board & its subsidiaries	111,130	72,750
Directors and key management personnel	93	264
Interest and other income		
The National Insurance Board & its subsidiaries	2,166	2,767
Directors and key management personnel	242	311
Bond interest and other expense		
The National Insurance Board and its subsidiaries	9,411	11,746
Directors and key management personnel	6	11
Directors & management compensation		
Short-term benefits	3,195	2,750
Post-retirement benefits	192	213

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

20. Mortgage commitments

The Group has issued standby commitments for the purchase of mortgages and/or for project developments, of which undrawn balances amount to $16,303,500 at 31 December 2011 (2010: $52,392,775).

21. Risk management

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

21. Risk management (continued)

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.
- 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.

21. Risk management (continued)

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 Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

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

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

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

21. Risk management (continued)

	Gross maximum exposure 2011 $'000	2010 $'000
Gross mortgage portfolio	865,687	968,941
Construction advances	207,243	190,133
Other loans	21,485	28,883
Investment securities	504,727	485,793
Cash and short-term funds	295,507	95,050
Total gross financial assets	1,894,649	1,768,800
Mortgage commitments	16,304	52,393
Total credit risk exposure	1,910,953	1,821,193

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

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

Credit quality per class of financial assets

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

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

Loans and advances

Loans and advances to mortgagors are 'classified' according to the arrears position as at the end of the financial year in addition to other risk factors. High grade advances are where loan payments are up to date. Standard grade advances are no more than six months in arrears and sub-standard advances are advances more than six months in arrears and are very well secured based on Management's review of the collateral values. Individually impaired advances are advances that are also greater than six months in arrears and specific provisions have been established for these loans. Management closely monitors and follow up all loans in arrears.

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

21. Risk management (continued)

Credit quality per class of financial assets (continued)

Loans and advances (continued)

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

	High grade $'000	Standard grade $'000	Sub-Standard grade $'000	Individually impaired $'000	Total $'000
2011					
Gross balance	1,036,665	51,675	3,165	2,910	1,094,415
Fair value of collateral				(2,830)	
Net exposure				80	
Less provision				(80)	
				–	
Gross balance %	94.7%	4.7%	0.3%	0.3%	100.0%
Net balance %	95.0%	4.7%	0.3%	0.0%	100.0%
2010					
Gross balance	1,141,530	42,953	3,004	470	1,187,957
Fair value of collateral				(100)	
Net exposure				370	
Less provision				(370)	
				–	
Gross balance %	96.1%	3.6%	0.3%	0.0%	100.0%
Net balance %	96.1%	3.6%	0.3%	0.0%	100.0%

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

21. Risk management (continued)

Credit quality per class of financial assets (continued)

Investment securities and cash and short-term funds

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

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

	High grade $'000	Standard grade $'000	Sub-Standard grade $'000	Individually impaired $'000	Total $'000
2011					
Gross balance	–	246,869	–	48,638	295,507
Less: Provision				(48,638)	
Net exposure				–	
Gross balance %	0.0%	83.5%	0.0%	16.5%	100.0%
Net balance %	0.0%	100.0%	0.0%	0.0%	100.0%
2010					
Gross balance	–	46,412	–	48,638	95,050
Less: Provision				(48,638)	
Net exposure				–	
Gross balance %	0.0%	48.9%	0.0%	51.1%	100.0%
Net balance %	0.0%	100.0%	0.0%	0.0%	100.0%

The credit quality of investment securities as at 31 December 2011 and 31 December 2010 has been assessed as high grade.

21. Risk management (continued)

Credit quality per class of financial assets (continued)

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

- 99.7% of the loans and advances portfolio is categorized in the top two grades of the grading system (2010: 99.7%);
- Loans and advances, which represent 43.5% (2010: 53.0%) of financial assets, are backed by collateral.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of mortgagors or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

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

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

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

21. 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 liabilities at 31 December 2011 based on contractual undiscounted repayment obligations, over the remaining life of those liabilities. These balances include interest to be paid over the remaining life of the liabilities and will therefore be greater than the carrying amounts on the Consolidated Statement of Financial Position.

Financial liabilities	Within 1 year $'000	1 - 2 years $'000	2 - 3 years $'000	3 – 4 years $'000	4 – 5 years $'000	Over 5 years $'000	Total $'000
2011							
Mortgage participation fund	478,193	–	–	–	–	–	478,193
Collaterised mortgage obligation	16,507	–	–	–	–	–	16,507
Bonds in issue	180,617	215,935	155,250	237,944	210,645	637,612	1,638,003
Interest payable on bonds	89,796	86,542	69,533	60,751	45,409	121,923	473,954
Total undiscounted financial liabilities	765,113	302,477	224,783	298,695	256,054	759,535	2,606,657

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

21. Risk management (continued)

Liquidity risk and funding management (continued)

Financial liabilities	Within 1 year $'000	1 - 2 years $'000	2 - 3 years $'000	3 – 4 years $'000	4 – 5 years $'000	Over 5 years $'000	Total $'000
2010							
Mortgage participation fund	456,945	–	–	–	–	–	456,945
Collaterised mortgage obligation	21,221	–	–	–	–	–	21,221
Bonds in issue	160,515	180,617	215,935	155,250	237,944	463,257	1,413,518
Interest payable on bonds	88,432	69,564	66,367	49,357	40,575	56,558	370,853
Total undiscounted financial liabilities	727,113	250,181	282,302	204,607	278,519	519,815	2,262,537

The table below summaries the maturity profile of the Group's financial assets at 31 December 2011.

Financial assets	Within 1 year $'000	1 - 2 years $'000	2 - 3 years $'000	3 – 4 years $'000	4 – 5 years $'000	Over 5 years $'000	Total $'000
2011							
Cash and short-term funds	88,869	–	–	158,000	–	–	246,869
Investments securities	331,808	311,572	395,192	30,000	–	59,300	1,127,872
Interest receivables and sundry debtors	169,402	–	–	–	–	–	169,402
Loans and advances	311,312	119,779	114,673	110,457	106,361	331,083	1,093,665
Total financial assets	901,391	431,351	509,865	298,457	106,361	390,383	2,637,808

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

21. Risk management (continued)

As at 31 December 2011 included within the one year category is investment securities amounting to $190 million placed with a State Enterprise. The Group is in the process of renegotiating the repayment terms of these facilities.

Financial assets	Within 1 year $'000	1 - 2 years $'000	2 - 3 years $'000	3 – 4 years $'000	4 – 5 years $'000	Over 5 years $'000	Total $'000
2010							
Cash and short-term funds	(111,588)	–	–	–	158,000	–	46,412
Investments securities	312,819	–	–	83,674	30,000	535,234	961,727
Interest receivables and sundry debtors	23,185	–	–	–	–	–	23,185
Loans and advances	307,789	132,125	133,257	128,675	123,211	361,478	1,186,535
Total financial assets	532,205	132,125	133,257	212,349	311,211	896,712	2,217,859

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

	On demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2011						
Commitments	–	13,359	2,945	–	–	16,304
2010						
Commitments	–	–	52,393	–	–	52,393

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.

21. Risk management (continued)

Equity price risk

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

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

The effect on equity and income at 31 December due to a reasonably possible change in equity indices of +/- 5% with all other variables held constant will have an impact on equity of +/- $31million (2010: $24 million).

Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. It manages this risk by maintaining a positive interest rate gap between its major financial assets and liabilities as follows:

a) Financial assets

Loans and advances

The Group has the ability to vary interest rates on its variable rate portfolios by giving three to six months notice to mortgagors. The variable rate portfolios account for 93.9% of the total gross mortgage portfolio as at 31 December 2011 (2010: 94.1%).

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

b) Financial liabilities

Bonds in issue

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

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

Mortgage participation fund

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

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

21. Risk management (continued)

b) Financial liabilities (continued)

Collateralised mortgage obligations

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

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

	Variable rate 2011 $'000	Fixed rate 2011 $'000	Total 2011 $'000	Variable Rate 2010 $'000	Fixed Rate 2010 $'000	Total 2010 $'000
Loans and advances	1,027,470	66,945	1,094,415	1,118,187	69,770	1,187,957
Percentage of total loans and advances	93.9%	6.1%	100.0%	94.1%	5.9%	100.0%
Bonds in issue	54,030	1,583,973	1,638,003	62,510	1,351,008	1,413,518
Percentage of total bonds in issue	3.3%	96.7%	100.0%	4.4%	95.6%	100.0%

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

21. Risk management (continued)

b) Financial liabilities (continued)

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
2011						
Fixed rate loans and advances	1,479	17,691	40,391	1,684	5,700	66,945
Percentage of total fixed rate loans and advances	2.3%	26.4%	60.3%	2.5%	8.5%	100.0%
2010						
Fixed rate loans and advances	795	3,731	32,227	27,047	5,970	69,770
Percentage of total fixed rate loans and advances	1.1%	5.3%	46.2%	38.8%	8.6%	100.0%

Sensitivity analysis

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

However, it should be noted that the majority of the Group's financial assets are held in loans and advances to mortgagors. Variable rate mortgages account for 93.9% (2010: 94.1%) of the mortgage pool which gives the Group the ability to change interest rates if needed, within a short time frame. Also, a significant amount of the Group's liabilities are held in Bonds which are callable at par on any semi-annual interest payment date.

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

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

Operational risk

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

Expressed in thousands

22. 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.

23. Financial instruments

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

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

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

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

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

	2011	
	Carrying value $'000	**Fair value $'000**
Financial assets		
Cash and short-terms funds	246,869	258,987
Investment securities	1,127,872	1,151,649
Interest receivables	21,691	21,691
Retained mortgage loans	370,235	381,487
Construction loan advances	207,243	207,243
Other loans	21,485	21,485
Financial liabilities		
Bonds in issue	1,638,003	1,727,376
Bond interest payable	21,090	21,090

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

23. Financial instruments (continued)

	2010	
	Carrying value $'000	Fair value $'000
Financial assets		
Cash and short-terms funds	46,412	53,426
Investment securities	961,727	984,479
Interest receivables	14,829	14,829
Retained mortgage loans	489,353	510,168
Construction loan advances	190,133	190,133
Other loans	28,883	28,883
Financial liabilities		
Bonds in issue	1,413,518	1,413,518
Bond interest payable	21,659	21,659

(i) Determination of fair value and fair value hierarchies

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

Level 1

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

Level 2

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

Level 3

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

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

23. Financial instruments (continued)

(i) Determination of fair value and fair value hierarchies

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Value $'000
2011				
Financial assets:				
Equity securities	623,145	–	–	623,145
Debt securities:	–	504,727	–	504,727
	623,145	504,727	–	1,127,872
2010				
Financial assets:				
Equity securities	475,934	–	–	475,934
Debt securities	–	485,793	–	485,793
	475,934	485,793	–	961,727

Transfers between Level 1 and 2

For the year ended 31 December 2011 there was no transfer of assets between Level 1 and Level 2.

Reconciliation of movements in Level 3 financial instruments measured at fair value.

For the year ended 31st December 2011 there was no movement in Level 3 financial instruments.

24. Guaranteed Mortgage Investment Certificates (Gareemics)

As issuer and guarantor of Gareemics, the Group is obligated to disburse scheduled monthly instalments of principal and interest (at the coupon rate) and the full unpaid principal balance of any foreclosed mortgage to Gareemics investors, whether or not any such amounts have been received. The Group is also obligated to disburse unscheduled principal payments received from borrowers. At 31 December 2011 the outstanding balances of securitised mortgages and the related Gareemics issued amounts to $16,506,681 (2010: $21,221,001).

The Group's credit risk is mitigated to the extent that sellers of pools of mortgages elect to remain at risk for the loans sold to the Group or other credit enhancement was provided to protect against the risk of loss from borrower default. Lenders have the option to retain the primary default risk, in whole or in part, in exchange for a lower guarantee fee. The Home Mortgage Bank however, bears the ultimate risk of default.

25. Mortgage participation fund (MPF)

This fund is backed by mortgage and/or other securities. At 31 December 2011 the outstanding balance of securitized mortgages and related MPF outstanding amounts to $478,193,554 (2010: $456,945,128).

26. Employees

At 31 December 2011 the Group had in its employ a staff complement of 15 employees (2010: 15).

27. Guarantee

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

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

Expressed in thousands
dollars ($'000)

Shareholders

The stated capital is 16,000,000 ordinary shares to a value of $16,000,000, subscribed as follows at 31st December, 2011:

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

Corporate Information

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

Sharmila Mahase
Manager, Mortgage Operations

Laurette Kam Hong
Senior Manager, Finance and Administration

COMPANY SECRETARY
Sharmila Mahase

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ATTORNEYS – AT – LAW
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TRUSTEE, REGISTRAR AND PAYING AGENTS FOR BOND ISSUES
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(*Trustee*)
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First Citizens Trustee Services Limited
(*Registrar and Paying Agents*)
45 Abercromby Street, Port of Spain

Employees of Home Mortgage Bank

Back row, left to right: Nigel Gibson, Anna Gonzales, Avinash Matura, Rawle Ramlogan, Cynthia Isaac, Debbie Aguillera-Sammy, Yolanda Roy-Ramirez, Sanjay Roodal

Front row, left to right: Padma Bhual-Ali, C. Allison John-Baptiste, Parbatie Chin Cheong, Laurette Kam Hong, Avian Harris-Khan, Usha Gajadhar, Janelle Archibald

25 YEARS

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