Financial Statements

FOREWORD

SUMMARY FINANCIAL STATEMENTS

The summary financial statements contain the Group's Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows. It does not contain sufficient information to allow a full understanding of the results and state of affairs of Trinidad and Tobago Mortgage Finance Company Limited.

Trinidad & Tobago Mortgage Finance Company Limited

From here... to Home.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

TO THE SHAREHOLDERS OF TRINIDAD AND TOBAGO MORTGAGE FINANCE COMPANY LIMITED

We have audited the accompanying consolidated financial statements of Trinidad and Tobago Mortgage Finance Company Limited and its subsidiary (the "Group") which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2010, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

Port of Spain
TRINIDAD:
24 March 2011

Trinidad & Tobago Mortgage Finance Company Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER, 2010

(Expressed in Thousands of Trinidad and Tobago dollars)

	Notes	2010	2009
ASSETS			
Cash and cash equivalents	4	128,052	262,649
Debtors and prepayments	5	15,616	15,146
Investment securities - held to maturity	6	251,257	250,464
Mortgage loans	7	2,633,865	2,577,626
Property and equipment	8	30,474	32,270
Pension asset	9	2,845	2,151
Deferred tax asset	10	144,133	135,466
TOTAL ASSETS		3,206,242	3,275,772
LIABILITIES AND EQUITY			
LIABILITIES			
Bank overdraft		–	162
Prepayments by mortgagors		28,441	23,955
Amount due under IDB loan programme	11	1,513	15,587
Sundry creditors and accruals	12	34,825	49,154
Short-term debt	13	883,763	883,763
Interest payable on debt		15,537	15,528
Long-term debt	14	1,457,917	1,521,770
Subsidy 2% mortgage programme	16	172,104	183,721
Deferred tax liability	10	711	931
TOTAL LIABILITIES		2,594,811	2,694,571

The accompanying notes form integral part of these financial statements.

Trinidad & Tobago
Mortgage Finance
Company Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER, 2010

(Expressed in Thousands of Trinidad and Tobago dollars)

Continued

	Notes	2010	2009
EQUITY			
Share capital	18	12,408	12,408
Retained earnings		599,023	568,793
TOTAL EQUITY		611,431	581,201
TOTAL EQUITY AND LIABILITIES		3,206,242	3,275,772

The accompanying notes form integral part of these financial statements.

On 24th March, 2011, the Board of Directors of Trinidad and Tobago Mortgage Finance Company Limited authorised these financial statements for issue.

: Director

Feroze Khan : Director

: Director

Trinidad & Tobago Mortgage Finance Company Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER, 2010

(Expressed in Thousands of Trinidad and Tobago dollars)

	Notes	2010	2009
Income			
Mortgage interest		194,399	178,003
Interest expense (net)	15	(148,426)	(130,408)
Net interest income		45,973	47,595
Investment income	19	21,020	21,318
Rental income		532	258
Other income	20	9,389	8,339
		76,914	77,510
Expenses			
Administration	21	(34,649)	(34,238)
Building		(3,670)	(3,807)
Loan loss write back	7 b	–	2,997
		(38,318)	(35,048)
Profit before tax		38,595	42,462
Taxation	23	8,619	5,466
Profit after tax and comprehensive income for the year		47,214	47,928

The accompanying notes form integral part of these financial statements.

Trinidad & Tobago Mortgage Finance Company Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER, 2010

(Expressed in Thousands of Trinidad and Tobago dollars)

	Share capital	Retained earnings	Total
Balance as at 31 December 2008	12,408	535,747	548,155
Dividend 2008	-	(14,882)	(14,882)
Comprehensive income for the year	-	47,928	47,928
Balance at 31 December 2009	12,408	568,793	581,201
Balance as at 31 December 2009	12,408	568,793	581,201
Dividend 2009	–	(16,984)	(16,984)
Comprehensive income for the year	-	47,214	47,214
Balance at 31 December 2010	12,408	599,023	611,431

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

Trinidad & Tobago Mortgage Finance Company Limited

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER, 2010

(Expressed in Thousands of Trinidad and Tobago dollars)

	2010	2009
Cash flows from operating activities		
Profit before tax	38,595	42,462
Adjustments for		
Depreciation	3,922	3,770
(Gain)/loss on sale of fixed assets	(39)	48
Interest capitalized	(793)	(1,772)
Amortized subsidy 2% mortgage programme	(11,617)	(11,004)
Increase in pension asset	(694)	(1,094)
Surplus before working capital changes	29,374	32,410
(Increase)/decrease in debtors and prepayments	(470)	410
Increase in mortgages	(56,239)	(334,707)
Increase in prepayment by mortgagors	4,487	6,343
(Decrease)/increase in amount due under IDB loan programme	(14,074)	11,589
Decrease in sundry creditors and accruals	(14,329)	(42,268)
Increase/(decrease) in interest payable on debt	9	(25,648)
Taxes paid	(268)	(2,751)
Net cash used in operating activities	(51,510)	(354,622)
Cash flows from investing activities		
Purchase of fixed assets	(2,409)	(2,259)
Proceeds from sale of fixed assets	322	89
Net cash used in investing activities	(2,087)	(2,170)
Cash flows from financing activities		
Proceeds from debt	–	751,596
Repayments on debt	(63,853)	(120,953)
Dividends paid	(16,985)	(14,882)
Net cash (used in)/generated from financing activities	(80,838)	615,761
Net cash (used in)/generated for the year	(134,435)	258,969
Cash and cash equivalents at the beginning of year	262,487	3,518
Cash and cash equivalents at the end of year	128,052	262,487

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER, 2010
(Expressed in Thousands of Trinidad and Tobago dollars)
(Continued)

	2010	2009
Represented by:		
Cash at bank	128,052	262,649
Bank overdraft	–	(162)
	128,052	262,487
Supplemental information		
Interest received	223,578	201,479
Interest paid	148,416	172,228

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

1. Incorporation and principal activity

Trinidad and Tobago Mortgage Finance Company Limited (TTMF), the parent company, is incorporated in the Republic of Trinidad and Tobago and provides mortgage financing for the purchase of residential property. The Company is also an "approved mortgage company" under the provisions of the Housing Act, Ch. 33.01. The Company is a subsidiary of The National Insurance Board which is a statutory board under the National Insurance Act. Ultimately, The National Insurance Board is controlled by the Government of Trinidad and Tobago.

TTMF has one subsidiary, Trinidad Mortgage Agency Company Limited (TRINMAC). This subsidiary is 100% owned and is incorporated in Trinidad and Tobago under the Companies Act of 1995. Its principal business activity is also mortgage financing. Prior to 2007, all taxable mortgages were booked under TRINMAC.

The registered office of the parent and its subsidiary is located at 61 Dundonald Street, Port of Spain.

2. Significant accounting policies

a) Basis of presentation

The financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS), and are stated in thousands of Trinidad and Tobago dollars. These financial statements have been prepared on a historical cost basis.

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.

2. Significant accounting policies (continued)

b) Changes in accounting policy (continued)

i) New accounting policies adopted

The following amendments to published standards are mandatory for the Group's accounting periods beginning on 1 January 2010.

IAS 39 Financial Instruments: Recognition and Measurement - Eligible hedged items (Amendments)

The final amendment addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

An entity can designate the changes in fair value or cash flows related to a one-sided risk as the hedged item in an effective hedge relationship. In most cases, the intrinsic value of a purchased option hedging instrument, but not its time value, reflects a one-sided risk in a hedged item.

The designated risks and portions of cash flows or fair values in an effective hedge relationship must be separately identifiable components of the financial instrument. Additionally, the changes in cash flows or fair value of the entire financial instrument arising from changes in the designated risks and portions must be reliably measurable.

The amendment indicates that inflation is not a separately identifiable risk and cannot be designated as the hedged risk unless it represents a contractually specified cash flow.

The adoption of this amendment did not have any impact on the financial position of the Group.

2. Significant accounting policies (continued)

b) Changes in accounting policy (continued)

i) New accounting policies adopted (continued)

Improvements to IFRSs (issued 2009)
These amendments are part of the second omnibus of amendments and are effective for periods beginning on or after 1 January 2010. The adoption of these amendments did not have any impact on the financial position of the Group:

IAS 1 Presentation of Financial Statements
The terms of a liability that could at anytime result in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. This is effective for annual periods beginning on or after 1 January 2010.

IAS 7 Statement of Cash Flows
Only expenditure that results in a recognized asset can be classified as a cash flow from investing activities. This is effective for annual periods beginning on or after 1 January 2010.

IAS 17 Leases
The specific guidance on classifying land as a lease has been removed so that only the general guidance remains. This is effective for annual periods beginning on or after 1 January 2010.

IAS 36 Impairment of Assets
The largest unit permitted for allocating goodwill acquired in a business combination is the operating segment defined in IFRS 8 before aggregation for reporting purposes. This is effective prospectively for annual periods beginning on or after 1 January 2010.

2. **Significant accounting policies** (continued)

b) **Changes in accounting policy** (continued)

i) **New accounting policies adopted (continued)**

Improvements to IFRSs (issued 2009) (continued)

IAS 39 Financial Instruments: Recognition and Measurement
Assessment of loan prepayment penalties as embedded derivatives. A prepayment option is considered closely related to the host contract when the exercise price reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. This is effective for annual periods beginning on or after 1 January 2010.

Scope exemption for business combination contract
The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, not derivative contracts where further actions are still to be taken. This is effective prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010.

Cash flow hedge accounting
Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges or recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss. This is effective prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010.

2. Significant accounting policies (continued)

b) Changes in accounting policy (continued)

ii) 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 — Additional Exemptions for First-time Adopters (Amendments)*
IFRS 3 *Business Combinations (Revised)*
IAS 27 *Consolidated and Separate Financial Statements (Amendment)*
IFRIC 17 *Distributions of Non-cash Assets to Owners*
IFRS 2 *Group Cash – settled Share-based Payment Arrangements*

Improvements to IFRSs (issued 2008)
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Improvements to IFRSs (issued 2009)
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
IAS 38 *Intangible Assets*
IFRIC 9 *Reassessment of Embedded Derivatives*
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
IFRS 2 *Share-based Payment*
IFRS 8 *Operating Segments*

2. Significant accounting policies (continued)

b) Changes in accounting policy (continued)

iii) Standards issued but not yet effective

Standards and interpretations issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. The Group is currently assessing the impact of these standards and interpretations.

IFRS 1 *First-time Adoption of International Financial Reporting Standards (Amendment) – Limited Exemption from Comparative IFRS 7 Disclosures – Effective 1 July 2010*
IFRS 9 *Financial Instruments – Effective 1 January 2013*
IAS 24 *Related Party Disclosures (Revised) – Effective 1 January 2011*
IAS 32 *Financial Instruments: Presentation (Amendment) – Classification of Rights Issues – 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.*

Improvements to IFRSs (issued in May 2010)
The improvements become effective for annual periods on or after either 1 July 2010 or 1 January 2011.

- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- IFRS 3 *Business Combinations*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Presentation of Financial Statements*
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Reporting*
- IFRIC 13 *Customer Loyalty Programmes*

2. Significant accounting policies (continued)

c) Basis of consolidation

Subsidiary undertakings, which is the Company in which the Parent directly has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operation, has been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Parent and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

d) Financial instruments

The Group's financial assets and liabilities are recognised in the statement of financial position when it becomes party to the contractual obligations of the instrument. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

The Group derecognises its financial assets when the rights to receive cash flows from the assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised only when the obligation under the liability is discharged, cancelled or expires. All "regular way" purchases and sales are recognized on the trade date, which is the date that the Group commits to purchase or sell the instrument.

e) Investment securities

The Group classifies its investment securities as held-to-maturity financial assets. Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost, less allowance for impairment. Premiums and discounts are amortized over the life of the instrument using the effective interest rate method. The amortization of premiums and discounts is taken to the Consolidated Statement of Comprehensive Income.

2. Significant accounting policies (continued)

f) Repurchase and reverse repurchase agreements

Securities purchased under an agreement to resell ('reverse repo') are recorded as cash and cash equivalents when the term to maturity is less than 90 days. The difference between the sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective yield.

g) Mortgage loans

Mortgage loans are financial assets provided directly to a customer. These carry fixed or determinable payments and are not quoted in an active market. Mortgage loans are carried at amortized cost using the effective interest method, less provision for impairment.

h) Impairment of financial assets

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.

Provision for impairment is assessed for all loans where there is objective evidence that the full amount due to the Group would not be repaid. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset original effective interest rate.

When properties are seized by the Group, provisions are also made for the differences between the carrying value of the mortgages and the value of the related properties in the possession of the Group at the balance sheet date. Any change in provisions required is recorded in the Consolidated Statement of Comprehensive Income.

i) Property and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

2. Significant accounting policies (continued)

i) Property and equipment (continued)

All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated as it is deemed to have an infinite life. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Office buildings	-	2 to 33 1/3%
Motor vehicles	-	25%
Furniture and equipment	-	12 1/2%
Computer equipment	-	20 to 25%

Property and equipment are reviewed periodically for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals of property and equipment are determined by reference to their carrying amounts and are taken into the Consolidated Statement of Comprehensive Income.

j) Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, bank overdraft, demand deposits and short term, highly liquid investments readily convertible to known amounts of cash with original maturities of three months or less and subject to insignificant risks of change in value.

k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events from which, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2. Significant accounting policies (continued)

k) Provisions (continued)

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the Statement of Financial Position date.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

l) Employee benefits

Pension obligations

The Group operates a defined benefit plan, the assets of which are held in a separate trustee-administered fund. The pension plan is funded by payments from employees and by the Group, taking account of the recommendations of an independent qualified actuary. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The asset/liability recognized in the Consolidated Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the Statement of Financial Position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Under this method, the cost of providing pensions is charged to the Consolidated Statement of Comprehensive Income so as to spread the regular cost over the service lives of the employees.

2. Significant accounting policies (continued)

l) Employee benefits (continued)

Pension obligations (continued)

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past-service costs are recognized immediately in administrative expenses, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

m) Financial liabilities

Financial liabilities are recognized initially at fair value net of transaction costs, and subsequently measured at amortized cost using the effective interest rate method.

n) Taxation

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

2. Significant accounting policies (continued)

n) Taxation (continued)

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Statement of Financial Position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized. The tax effects of income tax losses available for carry forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

o) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are expressed in Trinidad and Tobago dollars at rates of exchange ruling on 31 December 2010. All revenue and expenditure transactions denominated in foreign currencies are translated at mid-exchange rates and the resulting profits and losses on exchange from these trading activities are dealt with in the Consolidated Statement of Comprehensive Income.

p) Revenue recognition

Mortgage loans

Income from mortgage loans, including origination fees, is recognized on an amortized basis. Interest is accounted for on the accruals basis except where a loan becomes contractually three months in arrears and the interest is suspended and then accounted for on a cash basis until the loan is brought up to date.

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2. Significant accounting policies (continued)

p) Revenue recognition (continued)

Investment income

Interest income is recognized in the Consolidated Statement of Comprehensive Income as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income includes the amortization of any discount or premium. Investment income also includes dividends.

Rental income under operating leases is recognized in the Consolidated Statement of Comprehensive Income on a straight line basis over the term of the lease.

Fees and commissions

Unless included in the effective interest calculation, fees are recognized on an accrual basis as the service is provided. Fees and commissions not integral to the effective interest arising from negotiating or participating in the negotiation of a transaction from a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contract.

Other income and expenditure

Other income and expenditure, inclusive of borrowing costs and related government subsidies are brought into account on the accruals basis.

q) Mortgage agency business

The Group manages the disbursement and collection of mortgage loans on behalf of other mortgage companies. The loan portfolios managed under these agreements totalled $590.6 million (2009: $535.5 million) and is not reflected in these financial statements.

2. Significant accounting policies (continued)

r) Share capital

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares, other than in connection with business combinations, are shown in equity as a deduction, net of tax, from the proceeds. Share issue costs incurred directly in connection with a business are included in the cost of acquisition.

s) Capitalized transaction costs

The costs incurred in the issue of bonds for investment in housing is amortized over the duration of the respective bond issue (see Note 14).

t) Comparative information

Certain changes in presentation have been made in these financial statements. These changes were primarily made to the Consolidated Statement of Financial Position, with the reclassification of assets and liabilities and income and expenses. These changes had no effect on the operating results or the profit after tax of the Group for the previous year.

3. Critical accounting judgments and key sources of estimation uncertainty

Key sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

3. Critical accounting judgments and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgments

The following are the critical judgments, apart from those involving estimations that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in financial statements.

a) *Deferred tax asset*

In calculating the provision for deferred taxation, management uses judgment to determine the possibility that future taxable profits will be available to facilitate utilization of taxable losses which have arisen to the Statement of Financial Position date.

b) *Impairment of financial assets*

Management makes judgments at the end of the reporting period to determine whether 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.

c) *Net pension asset/liability*

In conducting valuation exercises to measure the effect of employees benefit plans throughout the Group, judgment is used and assumptions are made, in determining discount rates, salary increases, National Insurance ceiling increases, pension increases and the rate of return on the assets of the Plan. These are detailed in Note 9 – Pension and other post employment benefits.

Trinidad & Tobago Mortgage Finance Company Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2010

(Expressed in Thousands of Trinidad and Tobago dollars)

(Continued)

4. Cash and cash equivalents

	2010	2009
Cash in hand	7	7
Cash at bank	128,045	262,642
	128,052	262,649

The average effective interest rate on cash and cash equivalents for the current year is 0.57% (2009: 0.25%).

The Parent Company has overdraft facilities with Republic Bank Limited secured by a $50 million Government Guaranteed Trinidad and Tobago Housing Development Corporation Fixed Rate Bond.

5. Debtors and prepayments

	2010	2009
Interest receivable on investments	4,422	4,894
Interest subsidy receivable	1,550	2,776
Mortgage interest receivable	6,676	5,978
IDB service fee	594	323
HDC Administered Portfolio	314	673
Staff debtors	908	458
Sundry debtors	37	33
Other	1,115	11
	15,616	15,146

6. Investment securities

	2010	2009
Securities held-to-maturity		
HDC Fixed Rate 8.5% Bond	225,018	224,703
First Caribbean International Bank Investment	26,239	25,761
	251,257	250,464

The average effective interest rate on held-to-maturity securities for the current year is 7.96% (2009: 8.40%).

The FirstCaribbean International Bank investment secures the $100 million Bond held with them.

(Expressed in Thousands of Trinidad and Tobago dollars)

7. Mortgage loans

	2009	2008
a) Gross mortgages	2,639,275	2,583,036
Less: Impairment provision (7b)	(5,410)	(5,410)
Net balance	2,633,865	2,577,626
b) Impairment provision:		
Balance at beginning	5,410	8,429
Write back for the year	–	(3,019)
Balance at end	5,410	5,410

The average effective interest rate on the mortgage loan portfolio for the current year is 7.46% (2009: 7.39%).

(Expressed in Thousands of Trinidad and Tobago dollars)

9. Pension and other post employment benefits

	2010	2009
a) Amounts recognized in the Consolidated Statement of Financial Position:		
Defined benefit obligations	32,532	24,140
Fair value of plan assets	(29,245)	(25,279)
Unrecognised actuarial losses	(6,132)	(1,012)
Net defined benefits asset	(2,845)	(2,151)
b) Amounts recognized in the Consolidated Statement of Comprehensive Income:		
Current service cost	1,346	1,007
Interest costs	1,847	1,695
Expected return on plan assets:	(1,955)	(1,952)
Net benefit cost	1,238	750
c) Actual return on plan assets:		
Expected return on plan assets	1,955	1,952
Experience adjustments on plan assets – Gain /(Loss)	446	(104)
Actual return on plan assets	2,401	1,848

d) Changes in the present value of the defined benefit obligation are as follows:

	2010	2009
Opening defined benefit obligation	24,140	19,114
Current service cost	1,346	1,007
Interest costs	1,847	1,695
Members' contributions	662	623
Actuarial losses	5,567	2,819
Benefits paid	(1,029)	(1,118)
Closing defined benefit obligation	32,533	24,140

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2010

(Expressed in Thousands of Trinidad and Tobago dollars)

(Continued)

8. Property and equipment

	Land & buildings	Motor vehicle	Furniture & equipment	Computer equipment	Total 2010	Total 2009
Cost						
At beginning of the period	33,625	1,496	4,386	12,152	51,659	56,391
Additions	260	1,085	482	583	2,410	2,259
Disposals	(12)	(1,222)	(32)	(6)	(1,272)	(6,991)
At end of period	33,873	1,359	4,836	12,729	52,797	51,659
Accumulated depreciation						
At beginning of the period	10,485	938	1,798	6,168	19,389	22,475
Current depreciation	765	392	575	2,191	3,923	3,770
Depreciation on disposals	(6)	(953)	(26)	(4)	(989)	(6,856)
At end of period	11,244	377	2,347	8,355	22,323	19,389
Net book value	22,629	982	2,489	4,374	30,474	32,270

Included in land and buildings is a residential property at St. Andrews Terrace, Maraval which is subject to a lease of 199 years from May 1956.

(Expressed in Thousands of Trinidad and Tobago dollars)

9. Pension and other post employment benefits (continued)

c) Changes in the fair value of plan assets are as follows:

	2010	**2009**
Opening fair value of plan assets	25,279	22,081
Expected return	1,955	1,952
Employer contributions	1,932	1,844
Members' contributions	662	623
Actuarial gain/(loss) on plan assets	446	(104)
Benefits paid	(1,029)	(1,118)
Closing fair value of plan assets	29,245	25,278

f) The major categories of plan assets as a percentage of total plan assets are as follows:

	2010	**2009**
Deposit administration contracts	70%	70%
Individual annuity contracts	30%	30%
	100%	100%

g) Summary of principal actuarial assumptions

Discount rate	6.0%	7.5%
Salary increases	5.0%	6.0%
Expected return on plan assets	5.3%	7.5%

h) The Group is expected to contribute $2,066 (2009: $1,931) to its defined benefit plan in 2011.

(Expressed in Thousands of Trinidad and Tobago dollars)

10. Deferred tax assets and liabilities

	2010	2009
Components of deferred tax asset and liabilities		
(a) Deferred tax assets		
Taxation losses	140,567	132,304
Other	3,566	3,162
	144,133	135,466
(b) Deferred tax liability – Pension asset	711	931

11. Amount due under IDB loan programme

The Parent Company has been appointed agents by the Government of Trinidad and Tobago to disburse funds to beneficiaries under the IDB Settlements Programme. This balance includes funds received and not yet disbursed and repayments from borrowers received and not yet remitted.

12. Sundry creditors and accruals

	2010	2009
Unearned loan fees	13,346	12,647
Home Mortgage Bank	4,755	13,065
Provision for staff bonus and unpaid leave	2,999	2,866
Advance – Beneficiary Owned Land Subsidy	3,341	2,826
Mortgage clearing accounts	5,206	9,801
Corporation tax payable	–	3,584
Other	5,178	4,365
	34,825	49,154

(Expressed in Thousands of Trinidad and Tobago dollars)

13. Short-term debt

This represents short-term advances by the major shareholder to assist in the granting of mortgages and operational expenses. The average effective interest rate on short-term debt for the current year is 7.50% (2009:8.89%).

The Group is currently evaluating its long-term funding strategy, which includes the analysis of its short-term debt position and the avenues available to the Group such as the conversion of this debt to long-term.

In the interim, the National Insurance Board, the provider of the short-term debt, has granted a moratorium on the principal and interest to 31 December 2010.

14. Long term debt

	2010	2009
Government of Trinidad and Tobago loans		
- 7.00% debentures 1999/2018	18,406	20,073
- 7.50% debentures 1999/2018	8,755	9,530
- 5.00% debentures 1999/2018	47,652	52,391
- 5.00% debentures 2018	127,490	127,490
	202,303	209,484
National Insurance Board loans		
- 5.00% debentures 1999/2018	9,062	9,486
- 5.00% debentures 1999/2018	62,366	65,282
	71,428	74,768

(Expressed in Thousands of Trinidad and Tobago dollars)

14. Long term debt

	2010	2009
Bonds		
5.5%/6.5%/7% 2004 Bond Issue	225,000	225,000
6.0% 2005 Bond Issue	167,500	201,000
2.375% 1994 Bond Issue 2019	22,500	25,000
2.25% 1995 Bond Issue 2020	41,290	41,290
9.475/10.45% 1998 Bond 2023	100,000	100,000
10.0% 2000 Bond Issue 2020	100,000	110,000
7%/6% 2009 Bond Issue	500,000	500,000
8.5% 2009 HMB Loan	28,883	35,771
	1,185,173	1,238,061
	1,458,904	1,522,313
Less: unamortized transaction cost	(987)	(543)
	1,457,917	1,521,770

Loans amounting to $71.4 million (2009: $74.8 million) are fully secured by government guarantee, whilst loans amounting to $892.5 million (2009: $926 million) are fully secured by the Group's mortgage assets.

The average effective interest rate on long-term debt for the current year is 6.56% (2009: 5.83%).

15. Interest expense

	2010	2009
Gross interest expense	164,589	146,579
Less Government subsidy:		
Bonds (Note 17)	(6,269)	(6,650)
2% Mortgage Programme (Note 16)	(9,894)	(9,521)
Net interest expense	148,426	130,408

(Expressed in Thousands of Trinidad and Tobago dollars)

16. Subsidy 2% mortgage programme

The Parent Company is the Government's partner in the provision of mortgage financing for affordable housing. The facility is provided to qualifying citizens at subsidized rates of interest through a Government subsidy.

A subsidy of TTD$200M was received from the Government of Trinidad and Tobago in June 2007 to assist with the financing and the provision of affordable housing at subsidized rates of interest to citizens of Trinidad and Tobago. This subsidy also compensates TTMF for the overall administration of this portfolio. The subsidy is being released to income on an amortized basis over the duration of the subsidized mortgages, with the interest element of the subsidy being net off against interest expense and the administration fees being recognized in other income.

	2010	2009
Grant balance b/f	183,721	194,725
Less amounts released:		
Interest expense (Note 15)	(9,894)	(9,521)
Other income (Note 20)	(1,723)	(1,483)
Balance deferred	172,104	183,721

17. Subsidy – Government $100M & $200M Bond

The subsidy received from the Government of Trinidad and Tobago is calculated on a quarterly basis as the difference between the cost of the bonds, plus an administrative fee, and the effective rate of return on the Group's mortgage loans, over the term of the bonds. This enabled the Group to lend at specified interest mortgage rates under the approved mortgage company programme. This is recognized on the accruals basis and is net off against interest expense in the Consolidated Statement of Comprehensive Income.

The total subsidy net off against interest expenses during the current year was $6.269 million (2009: $6.65 million). Refer to Note 15.

(Expressed in Thousands of Trinidad and Tobago dollars)

	2010	2009
18. Share capital		
Authorised		
Unlimited number of ordinary shares of no par value		
Issued and fully paid		
2,585,000 shares of no par value	12,408	12,408
19. Investment income		
Amortization of discount on held-to-maturity investment	315	315
Interest on call deposits and bank account	747	337
Interest on investments	19,958	20,666
	21,020	21,318
20. Other income		
Loan fees	1,688	1,491
IDB income	1,057	1,159
Home Mortgage Bank service and origination fee	3,510	3,868
Subsidy 2% mortgage programme – Administration fees	2,993	1,685
Other	141	136
	9,389	8,339
21. Administration expenses		
Included therein are the following items:		
Staff costs (Note 22)	24,218	20,318
Depreciation	3,922	3,770
Legal and professional fees	1,636	2,937
Advertising and public relations	1,647	1,812
Bank interest and charges	48	1,431
Other	3,178	3,971
	34,649	34,238

(Expressed in Thousands of Trinidad and Tobago dollars)

22. Staff costs

	2010	2009
Wages, salaries and other benefits	22,023	18,682
National insurance	926	867
Pension costs – defined benefit plan	1,269	769
	24,218	20,318

23. Taxation

a) Components of tax income

	2010	2009
Deferred tax	(8,887)	(8,245)
Current tax - current year	268	2,779
	(8,619)	(5,466)

b) Reconciliation of accounting to tax profit:

	2010	2009
Accounting profit	38,596	42,462
Tax at applicable statutory rate (25%)	9,649	10,616
Tax effect of items that are adjustable in determining taxable profit:		
Green fund levy/business levy	367	395
Tax exempt income	(20,293)	(21,067)
Other	1,658	4,590
Tax income	(8,619)	(5,466)

(Expressed in Thousands of Trinidad and Tobago dollars)

24. Mortgage commitments

At 31 December 2010 the Group had outstanding commitments totalling $336 million (2009: $358 million), to intending mortgagors.

25. Related party transactions

Parties are considered to be related if one has the ability to control or exercise significant influence over the other party in making financial or operational decisions. A number of transactions are entered into with related parties in the normal course of business.

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

	2010	2009
Mortgage loans		
Key management personnel (including Directors)	9,626	10,845
Borrowings and other liabilities		
National Insurance Board		
Short term debt	883,763	883,763
Interest payable on debt	6,881	5,820
Borrowings	463,928	500,768
Interest and other income		
Key management personnel	540	645
Borrowings interest and other expense		
National Insurance Board	96,326	104,271

(Expressed in Thousands of Trinidad and Tobago dollars)

25. Related party transactions (continued)

Key management compensation

	2010	2009
Short-term benefits	2,384	2,333
Post employment benefits	247	297
Directors' remuneration	355	418

In normal course of the Group's business, Government and Government related entities invest in the Group's funding instruments offered to the public to provide financing for specifically designated arrangements. The Group also administers portfolios for Government and Government related entities and earns fees for these services. These specific arrangements have been disclosed in the financial statements.

26. Contingent liabilities - litigation

As at 31 December 2010, there were certain legal proceedings outstanding for the Group. This is expected in the normal course of business, with the re-possession of the underlying collateral supporting mortgage loans in arrears. This is taken into consideration in the establishment of individual and collective provisions in the assessment of the impairment of mortgages.

27. Capital management

The Group's objectives when managing capital, which is a broader concept than equity on the face of the Consolidated 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 to shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group defines capital as an appropriate mix of debt and equity. Capital decreased by $33 million and remained $3.0 billion during the year under review.

The Group reviews its capital adequacy annually at the Asset/Liability Risk Management committee and Board Level. The Group maintains healthy capital ratios in order to support its business and to maximize shareholder value.

28. Risk management

The Group's activities are primarily related to the provision of mortgage loans for the purchase of residential properties. The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets and emerging best practice. The most important types of risk that the Group is exposed to are credit risk, liquidity risk, market risk and other operational risk.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

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

Internal audit

Risk management processes throughout the Group are audited periodically by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. In addition, internal audit is responsible for the independent review of risk management and the control environment. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

(Expressed in Thousands of Trinidad and Tobago dollars)

28. Risk management (continued)

Credit risk

The Group takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss for the Group either by its unwillingness to perform on an obligation or its ability to perform such an obligation is impaired. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counter-parties and for geographical concentrations, and by monitoring exposures in relation to such limits.

Credit risk is the most important risk that the Group faces; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to mortgage loans, and investment activities that bring debt securities and other bills into the Group's asset portfolio. There is also credit risk in off-Statement of Financial Position financial instruments, such as loan commitments.

Maximum Exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to Statement of Financial Position assets are as follows:

Details	Maximum exposure	
	2010	**2009**
Financial assets		
Mortgage loans	2,639,275	2,583,036
Investment securities (held-to-maturity)	251,257	250,464
Other receivables	11,098	10,872
Cash at bank and cash equivalents	128,052	262,649
Total gross financial assets	3,029,682	3,107,021
Mortgage commitments	336,000	358,000
Total credit risk exposure	3,365,682	3,465,021

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December, without taking account of any collateral held or other credit enhancements attached.

28. Risk management (continued)

Credit risk (continued)

Of the Investment securities which the Group holds, $50M was pledged as security for overdraft facilities at Republic Bank Limited (see Note 4).

Off-balance sheet items – Mortgage commitments

The dates of the contractual amounts of the Group's off-Statement of Financial Position financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below. These commitments are due within one year of the financial year end.

Risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or Groups of borrowers and to geographical segments.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations.

The Group has developed a credit risk strategy that establishes the objectives guiding the organization's credit-granting activities and has adopted the necessary policies and procedures for conducting such activities having determined the acceptable risk/reward trade-off for its activities, factoring in the cost of capital. The credit risk strategy, as well as significant credit risk policies are approved and periodically reviewed by the Board of Directors.

The Group's credit strategy reflects its willingness to grant credit based on exposure type residential mortgages, geographic location, maturity and anticipated profitability. The strategy also encompasses the identification of specific target markets.

28. Risk management (continued)

Credit risk (continued)

Risk limit control and mitigation policies (continued)

Concentrations arise when a number of counterparties are engaged in similar activities in the same geographic region that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular geographic location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on a diversified portfolio.

Some specific risk control and mitigation measures are outlined below:

(1) Collateral

The Group employs various policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral type for mortgage loans is charges 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.

The Group's policy is to dispose of repossessed properties in a structured manner. The proceeds from the sale are used to repay the outstanding amounts. In general, the Group does not occupy repossessed properties for business use.

28. Risk management (continued)

Credit risk (continued)

Risk limit control and mitigation policies (continued)

(2) Lending

The Group lends up to a maximum of 90% of the property value and 100% under a special programme for projects of The Trinidad and Tobago Housing Development Corporation. During the period, the Group had a special promotion and offered 100% financing under certain conditions.

In measuring credit risk of mortgage loans, the Group assesses the probability of default by a counter party on its contractual obligation and the possibility of recovery on defaulted obligations.

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. These rating tools combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data.

(3) Geographical concentrations

The Group monitors the financial assets credit risk by geographical 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.

The table below breaks down mortgage loans, which are the Group's principal financial asset, by region, based upon where the land and building taxes are paid.

(Expressed in Thousands of Trinidad and Tobago dollars)

28. Risk management (continued)

Credit risk (continued)

Concentration of risks of financial assets with credit risk exposure

DETAILS	2010 Mortgage loans	2010 Other financial assets	2010 TOTALS		2009 Mortgage loans	2009 Other financial assets	2009 TOTALS	
	$	$	$	%	$	$	$	%
ARIMA BOROUGH COUNCIL	360,417		360,417	11.9	339,744		339,744	10.9
CHAGUANAS BOROUGH COUNCIL	398,812		398,812	13.2	386,850		386,850	12.5
COUVA/TABAQUITE/TALPARO REG.	271,001		271,001	8.9	266,774		266,774	8.6
D/MARTIN REGIONAL CORPORATION	233,319		233,319	7.7	232,676		232,676	7.5
LAVENTILLE/SAN JUAN REGIONAL CORPORATION	187,201		187,201	6.2	183,652		183,652	5.9
MAYARO/RIO CLARO REGIONAL CORPORATION	16,696		16,696	0.6	14,698		14,698	0.5
POS CITY COUNCIL	161,972		161,972	5.3	149,933		149,933	4.8
PENAL/DEBE REGIONAL CORPORATION	41,413		41,413	1.4	43,073		43,073	1.4
POINT FORTIN BOROUGH COUNCIL	32,084		32,084	1.1	33,157		33,157	1.1
PRINCESS TOWN REGIONAL CORPORATION	47,993		47,993	1.6	49,285		49,285	1.6
SAN FERNANDO CITY COUNCIL	217,538		217,538	7.2	225,067		225,067	7.2
SANGRE GRANDE REGIONAL CORPORATION	70,390		70,390	2.3	67,787		67,787	2.2
SCARBOROUGH	12,864		12,864	0.4	11,443		11,443	0.4
SIPARIA REGIONAL CORPORATION	63,054		63,054	2.0	61,556		61,556	2.0
TOBAGO EAST	27,187		27,187	0.9	24,068		24,068	0.8
TOBAGO WEST	28,051		28,051	0.9	28,892		28,892	0.9
TUNAPUNA/PIARCO REGIONAL CORPORATION	469,283		469,283	15.5	464,381		464,381	14.9
		390,407	390,407	12.9		523,985	523,985	16.8
TOTALS	**2,639,275**	**390,407**	**3,029,682**	**100.0**	**2,583,036**	**523,985**	**3,107,021**	**100.0**

(Expressed in Thousands of Trinidad and Tobago dollars)

28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The tables below show the credit quality of financial assets.

Mortgage loans are classified based on the arrears position at the end of the financial year in addition to other factors that may threaten the quality of the portfolio.

High grade mortgages are defined as those where loan payments are up to date. Standard grade mortgages are those where loan payments are no more than six months in arrears and sub-standard mortgages are those mortgages over six months in arrears. Individually impaired mortgages are mortgages that are not being serviced, legal action is being taken against the mortgages and specific provisions are made for the impaired portion.

INVESTMENT SECURITIES	High grade	Standard grade	Sub-standard grade	Individually impaired	Total
As at 31 December 2010					
Balance	1,174,571	1,248,262	166,165	50,277	2,639,275
	45%	47%	6%	2%	100%
As at 31 December 2009					
Balance	1,139,009	1,196,624	194,486	52,917	2,583,036
	44%	46%	8%	2%	100%

(Expressed in Thousands of Trinidad and Tobago dollars)

28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

Investment securities and cash and cash equivalents are classified as 'high grade' where the instruments were issued by the Government or government related organizations. Standard grade assets consist of instruments issued by other reputable financial institutions.

INVESTMENT SECURITIES	High grade	Standard grade	Sub-standard grade	Individually impaired	Total
As at 31 December 2010					
Held to maturity	225,018	26,239	–	–	251,257
	90%	10%	–	–	100%
As at 31 December 2009					
Held to maturity	224,703	25,761	–	–	250,4646
	90%	10%	_	_	100%

The credit quality of cash and cash equivalents as at 31 December 2010 and 31 December 2009 has been assessed as standard grade.

Management is confident in its ability to continue to ensure minimal exposure of credit risk to the Group resulting from its mortgage loans portfolio and investment securities based on the following:

- At 31 December 2010 mortgage loans which represent the largest portion of the Group's financial assets (82%), are backed by collateral. The comparative figure for 2009 was 83%.
- 2% of the mortgage loans portfolio is impaired (2009: 2%). The fair value of collateral supporting these impaired mortgage loans, exceeds the outstanding balances.

28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

Impairment assessment

The main considerations for the mortgage loans impairment assessment include whether any payments of principal or interest are overdue by more than 180 days or whether there are any known difficulties in the cash flows of mortgagors or infringement of the original term 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 significant mortgage loan on an individual basis. Items considered when determining allowance amounts include the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings.

The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

The fair value of individually impaired loans is determined by reference to external valuations or valuations updated by Management based on their knowledge of recent comparable transactions. No interest is accrued on individually impaired mortgage loans.

Where it is determined that the realizable value of collateral is insufficient to offset the balance of an impaired loan, the allowance account is offset against the receivable and the remaining balance is written off.

Legal action may be initiated against the mortgagor for the outstanding sum. If monies are recovered, these are offset against bad debt expense.

The carrying amounts of impaired financial assets are not otherwise directly reduced.

(Expressed in Thousands of Trinidad and Tobago dollars)

28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

Mortgage loans - Individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $50.277 million (2009: $52.917 million). The breakdown of the gross amount of individually impaired loans and advances, along with the fair value of the related collateral held by the Group as security, are as follows:

	2010	**2009**
Mortgage loans – Individually impaired		
Total	50,277	52,917
Fair value of collateral (before factoring in time to sell)	56,060	57,005

Collectively assessed allowances

Allowances are assessed collectively for losses on mortgage loans that are not individually significant and for individually significant loans 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 assessment 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 and Tobago dollars)

28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

Mortgage loans (continued)

Collectively assessed allowances (continued)

Following is a reconciliation of the movement in the impairment provision:

Impairment provision		**2010**			**2009**	
Details	**Individual**	**Collective**	**Total**	**Individual**	**Collective**	**Total**
Beginning balance	3,346	2,064	5,410	4,776	3,653	8,429
Recoveries/write-backs	–	–	–	–	(20)	(20)
Provision for the year	–	–	–	(1,430)	(1,569)	(2,999)
Balance at year end	3,346	2,064	5,410	3,346	2,064	5,410

Repossessed collateral

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. The fair value (after factoring in time to sell) of repossessed properties at 31 December 2010 is $12.015 million (2009: $73.792 million).

28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

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. Market risk comprises of interest rate risk, currency risk and other price risk. The Group has no significant exposure to currency risk and other price risk.

Interest rate risk

The Group is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates. This exposure is concentrated in the Group's financial liabilities, because the majority of the Group's financial assets carry fixed interest rates where movements in market rates will not affect the consolidated statement of income.

i. Financial assets

a) Mortgage loans

Mortgage loans account for 82% (2009: 79%) of the Group's total assets. A Ministerial decree is required by the Group for any changes in mortgage interest rates. These interest rates have not been changed within recent times.

b) Investment securities

Investments securities account for 8% (2009: 8%) of the Group's total assets. These are held-to-maturity financial assets comprising of a fixed rate bond and a sinking fund with a fixed maturity value.

(Expressed in Thousands of Trinidad and Tobago dollars)

28. Risk management (continued)

Interest rate risk (continued)

ii. Financial liabilities

Long-term and short-term debt accounts for 90% (2009: 89%) of the Group's financial liabilities. This is made up of fixed and floating bonds and debentures as follows:

	2009	%	2008	%
Short-term debt				
Fixed	883,763	100	883,763	100
Long-term debt				
Fixed	1,283,477	88	1,334,830	88
Floating	174,440	12	186,940	12
	1,457,917	100	1,521,770	100
Total debt	2,341,680		2,405,533	

Long-term and short-term debt is mainly fixed. However, we have assessed the impact of a 100 basis points change in interest rates on the long-term floating debt. Such movement is believed by management to represent those variable changes which are reasonably possible as at the balance sheet date.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Group's income. This change in interest rates does not give rise to changes in equity.

Effect on profit after tax of a 100 basis points change in interest rates	**100 Basis Points Increase**	**100 Basis Points Decrease**
31 December 2010		
Profit before tax	(1,744)	1,744
Tax impact 25%	436	(436)
Profit after tax	(1,308)	1,308
31 December 2009		
Profit before tax	(1,869)	1,869
Tax impact 25%	467	(467)
Profit after tax	(1,402)	1,402

28. Risk management (continued)

Interest rate risk (continued)

Interest rate risk is further mitigated by the subsidies received from the Government in support of granting subsidized mortgages. These subsidies serve to reduce borrowing cost.

Liquidity risk

Liquidity risk is financial risk due to uncertain liquidity. It is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The Group might lose liquidity if it experiences sudden unexpected cash outflows, or some other event causes counterparties to avoid trading with the Group. The consequence may be the failure to meet obligations to repay debts and fulfill commitments to lend.

Liquidity risk management process

The Group's liquidity management process includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Diversification of its funding base through access to an expanded range in terms of the number of financial institutions and longer term financing tenure;
- Monitoring balance sheet liquidity ratios against internal requirements; and managing the concentration and profile of debt maturities.

The Group also monitors unmatched medium-term assets, the level and type of undrawn lending commitments and the usage of overdraft facilities.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations.

(Expressed in Thousands of Trinidad and Tobago dollars)

28. Risk management (continued)

Liquidity risk (continued)

Liquidity risk management process (continued)

As at 31 December 2010	Up to 1 years $'000	One to five years $'000	Over 5 years $'000	Total $'000
Liabilities				
Bank overdraft	-	-	-	-
Dividend payable	-	-	-	-
Amounts due under IDB loan programme	1,513	-	-	1,513
Short-term debt	883,763	-	-	883,763
Interest payable on debt	15,537	-	-	15,537
Sundry creditors and accruals	34,825	-	-	34,825
Long-term debt	138,261	1,020,103	974,552	2,132,916
Total undiscounted financial liabilities	1,073,899	1,020,103	974,552	3,068,554

As at 31 December 2009	Up to 1 years $'000	One to five years $'000	Over 5 years $'000	Total $'000
Liabilities				
Bank overdraft	162	-	-	162
Dividend payable	-	-	-	-
Amounts due under IDB loan programme	15,587	-	-	15,587
Short-term debt	883,763	-	-	883,763
Interest payable on debt	15,528	-	-	15,528
Sundry creditors and accruals	49,154	-	-	49,154
Long-term debt	138,883	916,351	1,217,141	2,272,375
Total undiscounted financial liabilities	1,103,077	916,351	1,217,141	3,236,569

28. Risk management (continued)

Liquidity risk (continued)

Funding approach

Sources of liquidity are regularly reviewed to maintain a wide diversification by provider and term.

Fair value of financial assets and liabilities

The Group computes the estimated fair value of all financial instruments held at the balance sheet date and separately discloses information where the fair values are different from the carrying values. At 31 December, carrying values approximated their fair values for all classes of financial instruments as follows:

Financial instruments where the carrying values are assumed to approximate to their fair values, due to their short-term to maturity include: Cash and cash equivalents, debtors and prepayments, short-term debt and sundry creditors and accruals.

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The carrying value of Investment securities and floating long term debt approximate their fair values as market rates are comparable with the instruments' actual interest rates.

The Group's loan portfolio is net of specific provisions for impairment and a general provision. The fair value of performing mortgages approximates the present value of the estimated future cash flows discounted at the current market rate of return having factored in the subsidies received from the Government.

28. Risk management (continued)

Fair value of financial assets and liabilities (continued)

The Group's assets are all classified as Level 2. Included in the Level 2 category are financial assets that are measured using a valuation techniques 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 valued using the Group's own models whereby the majority of assumptions are market observable.

For the year ended 31 December 2010 there was no transfer of assets among any level.

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 controlled framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include a periodically reviewed disaster recovery plan and business continuity plan, effective segregation of duties, access, authorization and reconciliation procedures, staff training and development and assessment processes.

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