Trinidad & Tobago
Mortgage Finance
Company Limited

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EXCEEDING EXPECTATIONS

FINANCIAL STATEMENTS 2016

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF TRINIDAD AND TOBAGO MORTGAGE FINANCE COMPANY LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Trinidad and Tobago Mortgage Finance Company Limited ("the Company"), which comprise the statement of financial position as at December 31 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF TRINIDAD AND TOBAGO MORTGAGE FINANCE COMPANY LIMITED

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst + Young

Port of Spain,
TRINIDAD

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)

	Notes	2016	2015
ASSETS			
Cash and cash equivalents	4	46,561	34,524
Debtors and prepayments	5	6,753	8,367
Investment securities	6	252,301	252,138
Mortgage loans	7	3,356,053	3,114,503
Property and equipment	8	47,018	46,199
Deferred tax assets	9	187,552	162,903
TOTAL ASSETS		3,896,238	3,618,634
LIABILITIES AND EQUITY			
LIABILITIES			
Prepayments by mortgagors	10	172,843	140,789
Amount due under IDB loan programme	11	507	1,419
Amount due to HDC	12	858	2,009
Sundry creditors and accruals	13	52,573	49,660
Short-term debt	14	325,000	331,047
Interest payable on debt		30,382	28,471
Long-term debt	15	2,351,907	2,140,160
Subsidy 2% and 5% mortgage programmes	16	16,716	68,927
Pension plan liability	18	15,585	7,049
TOTAL LIABILITIES		2,966,371	2,769,531
EQUITY			
Share capital	19	12,408	12,408
Retained earnings		917,459	836,695
TOTAL EQUITY		929,867	849,103
TOTAL EQUITY AND LIABILITIES		3,896,238	3,618,634

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

On March 21, 2017, the Board of Directors of Trinidad and Tobago Mortgage Finance Company Limited authorised these Financial Statements for issue.

: Director

: Director

: Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)

	Notes	2016	2015
Income			
Mortgage interest		199,687	197,898
Net interest expense	20	(72,226)	(74,619)
Net interest income		127,461	123,279
Investment income	21	21,463	21,451
Rental income		557	868
Other income	22	22,663	23,186
		172,144	168,784
Expenses			
Administration	23	(60,840)	(67,114)
Loan impairment expense	7	(4,824)	(6,283)
Building expenses		(5,753)	(5,708)
		(71,417)	(79,105)
Net income before tax		100,727	89,679
Taxation	9	19,798	(6,611)
Net income after taxation		120,525	83,068
Other comprehensive income, net of taxes			
Items that will not be reclassified subsequently to profit or loss:			
- Re-measurement losses on defined benefit plans	18 (c)	(9,582)	(843)
- Income tax credit	9	3,048	211
Other comprehensive loss for the year, net of tax		(6,534)	(632)
Total comprehensive income for the year		**113,991**	**82,436**

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)

	Notes	Share Capital	Retained earnings	Total
Balance at December 31 2014		12,408	781,103	793,511
Net income for the period		–	83,068	83,068
Other comprehensive loss for the year		–	(632)	(632)
Dividends paid	19	–	(26,844)	(26,844)
Balance at December 31 2015		12,408	836,695	849,103
Net income for the period		–	120,525	120,525
Other comprehensive loss for the year		–	(6,534)	(6,534)
Dividends paid	19	–	(33,227)	(33,227)
Balance at December 31 2016		**12,408**	**917,459**	**929,867**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)

	Notes	2016	2015
Cash flows from operating activities			
Net income before tax		100,727	89,679
Adjustments for			
Depreciation	23	4,848	4,280
Loss/(gain) on sale of property and equipment		12	(403)
Amortisation of discount on investment securities		(163)	(300)
Amortised subsidy 2% and 5% mortgage programmes	16	(52,211)	(25,907)
Accretion on long-term debt		5,419	–
Other non-cash movement		–	529
Surplus before working capital changes		**58,632**	**67,878**
Decrease in debtors and prepayments		1,614	1,980
Increase in mortgages		(241,550)	(43,538)
Increase in prepayment by mortgagors		32,054	49,873
(Decrease)/increase in amount due under IDB loan programme		(912)	603
Decrease in amount due to HDC		(1,151)	(13,854)
Increase in sundry creditors and accruals		2,913	3,985
Increase in pension liability	18	(1,046)	(1,208)
Increase/(decrease) in interest payable on debt		1,911	(1,725)
Taxes paid		(1,803)	(754)
Net cash (used in)/generated from operating activities		(149,338)	63,240

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)

(Continued)

	Notes	2016	2015
Cash flows from investing activities			
Purchase of fixed assets	8	(5,979)	(4,483)
Proceeds from sale of fixed assets		300	422
Net cash used in investing activities		(5,679)	(4,061)
Cash flows from financing activities			
Proceeds from debt		714,451	735,324
Repayments on debt		(514,170)	(870,604)
Dividends paid	19	(33,227)	(26,844)
Net cash generated from/(used in) financing activities		167,054	(162,124)
Net increase/(decrease) in cash and cash equivalents		12,037	(102,945)
Cash and cash equivalents at the beginning of year		34,524	137,469
Cash and cash equivalents at the end of year	4	46,561	34,524
Supplemental information			
Interest received		221,970	194,750
Interest paid		114,432	97,728

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)

1. Incorporation and principal activity

Trinidad and Tobago Mortgage Finance Company Limited (TTMF) or the 'Company' is incorporated in the Republic of Trinidad and Tobago and provides mortgage financing secured by 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.

The registered office is located at 61 Dundonald Street, Port of Spain.

2. Significant accounting policies

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

a) Basis of preparation

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

b) Changes in accounting policy

i) New standard and amendment/revision to published standards and interpretations effective in 2016

The following amendments to published standards are mandatory for the Company's accounting periods beginning on or after 1 January 2016:

IAS 1 - Amendments - Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1.
- That specific line items in the statement(s) of income and other comprehensive income and the statement of financial position may be disaggregated.
- That entities have flexibility as to the order in which they present the notes to financial statements.
- That the share of other comprehensive income arising from investments accounted for under the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial positon and the statement of comprehensive income.

The Company concluded that no changes are required to the presentation of its financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

2. Significant accounting policies (continued)

b) Changes in accounting policy (continued)

i) New standards and amendments/revisions to published standards and interpretations effective in 2016 (continued)

Annual Improvements to IFRSs 2012 - 2014 Cycle

(i) IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required.

The amendment also clarifies that the additional disclosures required by Disclosure: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) are not specifically required for inclusion in condensed interim financial statements for all interim periods; however, they are required if the general requirements of IAS 34 Interim Financial Reporting require their inclusion.

The amendments have no impact on the Company's financial position or performance.

(ii) IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied prospectively.

The amendment has no impact on the Company.

ii) New standards and amendments/revisions to published standards and interpretations effective in 2016 but not applicable to the Company

The following new IFRS standard and amendments that have been issued do not apply to the activities of the Company:

- IFRS 10, IFRS 12 and IAS 28 - Amendments - Investment Entities: Applying the Consolidation Exception
- IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRS 11 - Amendments - Accounting for Acquisitions of Interests in Joint Operations
- IFRS 14 - Regulatory Deferral Accounts
- IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 16 and IAS 41 - Amendments - Agriculture: Bearer Plants
- IAS 27 - Amendments - Equity Method in Separate Financial Statements

- Annual Improvements to IFRSs 2012 - 2014 Cycle:
  - IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations
  - IFRS 7 Financial Instruments: Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements.
  - IAS 34 Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)

(continued)

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

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

iii) ***New interpretations and revised or amended standards that are not yet effective and have not been early adopted by the Company***

The following is a list of new IFRS standards and amendments issued that are not yet effective and have not been early adopted by the Company. The Company has not yet assessed the impact of these new standards and amendments, but if applicable, the Company intends to adopt these standards/amendments when they become effective.

- IAS 7 Disclosure Initiative - Effective 1 January 2017
- IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Effective 1 January 2017
- IFRS 15 Revenue from Contracts with Customers - Effective 1 January 2018
- IFRS 9 Financial Instruments - Effective 1 January 2018
- IFRS 2 - Amendments - Classification and Measurement of Share-based Payment Transactions - Effective 1 January 2018
- IFRS 16 Leases - Effective 1 January 2019

c) **Financial instruments**

The Company'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 Company derecognises its financial assets when the rights to receive cash flows from the assets have expired or where the Company 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 recognised on the trade date, which is the date that the Company commits to purchase or sell the instrument.

d) **Investment securities**

The Company 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 Company's management has the positive intention and ability to hold to maturity.

After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost, less allowance for impairment. Premiums and discounts are amortised over the life of the instrument using the effective interest rate method. The amortization of premiums and discounts is taken to the Statement of Comprehensive Income.

e) **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 amortised cost using the effective interest method, less provision for impairment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)

(continued)

2. Significant accounting policies (continued)

f) 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 Company would not be repaid. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted for the period of time to sell at the asset's original effective interest rate.

When properties are seized by the Company, 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 Company at the balance sheet date.

Any change in provisions required is recorded in the income statement and other comprehensive income.

g) Property and equipment

All property 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 Company and the cost of the item can be measured reliably.

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. Artwork is not depreciated as it is deemed to appreciate in value. 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 33⅓%
Motor vehicles	-	25%
Furniture and equipment	-	12½%
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 statement of comprehensive income.

h) 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

2. Significant accounting policies (continued)

i) Provisions

Provisions are recognised when the Company 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.

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.

j) Employee benefits

The Company 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 Company, taking into account 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 recognised in the 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 unrecognised 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 income statement so as to spread the regular cost over the service lives of the employees.

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.

Re-measurement of the net defined benefit liability, which comprise of actuarial gains and losses and the return on Plan assets (excluding interest) are recognised immediately through the statement of comprehensive income.

The defined benefit plan mainly exposes the Company to actuarial risks such as investment risk, inherent rate risk and longevity risks.

Past service cost is recognised as an expense at the earlier of the date when a plan amendment or curtailment occurs and the date when an entity recognises any termination benefits or related restructuring costs.

k) Financial liabilities

Initial recognition and measurement
Financial liabilities are recognized initially at fair value net of transactions costs, and subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in Net Interest Expense in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

2. Significant accounting policies (continued)

k) Financial liabilities

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

l) Taxation

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement and other 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 Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

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 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 recognised 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 recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

m) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are expressed in Trinidad and Tobago dollars at rates of exchange ruling on December 31 2016. All revenue and expenditure transactions denominated in foreign currencies are translated at the buying (cash) rate of our bankers and the resulting profits and losses on exchange from these trading activities are dealt with in the statement of comprehensive income.

n) Revenue recognition

Mortgage loans

Income from mortgage loans, including origination fees, is recognised on an amortised basis. Interest is accounted for on the accrual basis except where a loan becomes contractually three months in arrears and the interest is suspended and then accounted for on a cash basis of at least 6 months subsequent to the loan being brought up to date.

Investment income

Interest income is recognised in the 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

2. Significant accounting policies (continued)

n) Revenue recognition (continued)

Investment income **(continued)**

Rental income under operating leases is recognised in the 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 recognised 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 recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised 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 accrual basis.

o) Mortgage agency business

The Company manages the disbursement and collection of mortgage loans on behalf of other mortgage companies. The loan portfolios managed under these agreements totalled $339.5 million (2015: $387.7 million) and is not reflected in these financial statements.

p) 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.

q) Capitalized transaction costs

The costs incurred in the issue of bonds for investment in housing is amortised over the duration of the respective bond issue (see Note 15).

r) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved.

3. Critical accounting judgments and key sources of estimation uncertainty

Key sources of estimation uncertainty

The preparation of the 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 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)

(continued)

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 on-going basis. Revisions to accounting estimates are recognised 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 Company's accounting policies that have the most significant effect on the amounts recognised 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 at the statement of financial position date. These are detailed in Note 9.

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. These are detailed in Note 7.

c) Net pension liability

In conducting valuation exercises to measure the effect of employees benefit plans throughout the Company, 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 18.

4. Cash and cash equivalents

	2016	**2015**
Cash in hand	237	1,196
Cash at bank	46,324	33,328
	46,561	34,524

The average effective interest rate on cash and cash equivalents for the current year is 0.00% (2015: 0.00%).

The Company has a credit line of $25 million with Citibank T&T Limited secured by a lien of $22.64 million of the government guaranteed Trinidad and Tobago Housing Development Corporation Fixed Rate Bond $228 million. An unsecured overdraft facility for $25 million with Republic Bank Limited is also maintained.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)

(continued)

5. Debtors and prepayments

	2016	2015
Interest receivable on investments	4,567	4,578
Interest subsidy and other receivable	837	1,788
IDB service fee	189	111
Staff debtors	379	324
Other	781	1,566
	6,753	8,367

6. Investment securities

Securities held-to-maturity		
HDC Fixed Rate 8.5% Bond	226,238	225,881
NIPDEC 6.55% Bond	26,063	26,094
First Caribbean International Bank Investment	–	163
	252,301	252,138

The average effective interest rate on held-to-maturity securities for the current year is 8.30% (2015: 8.51%).

As at the year end the fair value of investment securities classified as held to maturity amounted to $302.37 million (2015: $316.66 million).

7. Mortgage loans

		2016	2015
a)	Gross mortgages	3,372,853	3,129,563
	Add: Recoveries cost	7,236	5,765
	Less: Net interest prepaid	(5,184)	(5,536)
	Less: Impairment provision (7 b)	(18,852)	(15,289)
	Net balance	3,356,053	3,114,503
b)	Impairment provision:		
	Balance at beginning	15,289	10,553
	Amounts written off	(1,261)	(1,051)
	Impairment expense for the year	4,824	5,787
	Balance at end	18,852	15,289
	Individual impairment	8,868	7,162
	Inherent risk impairment	9,984	8,127
		18,852	15,289

The average effective interest rate on the mortgage loan portfolio for the current year is 6.05% (2015: 6.41%).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)

(continued)

8. Property and equipment	**Land & buildings**	**Motor vehicle**	**Furniture & equipment**	**Computer equipment**	**Artwork**	**Clearing Account**	**2016**	**2015**
Cost								
At beginning of the period	49,863	2,089	5,040	9,806	413	2,618	69,829	67,499
Reclassification	-	-	-	-	-	(971)	(971)	(806)
Additions	2,671	1,242	1,041	926	-	1,070	6,950	4,483
Disposals	(126)	(1,620	(642)	(876)	-	-	(3,264)	(1,347)
At end of period	52,408	1,711	5,439	9,856	413	2,717	72,544	69,829
Accumulated depreciation								
At beginning of the period	15,668	1,248	2,044	4,670	-	-	23,630	20,955
Reclassification	-	-	-	-	-	-	-	(277)
Current depreciation (Note 23)	1,615	500	657	2,076	-	-	4,848	4,280
Depreciation on disposals	(126)	(1,320)	(629)	(877)	-	-	(2,952)	(1,328)
At end of period	17,157	428	2,072	5,869	-	-	25,526	23,630
Net book value	35,251	1,283	3,367	3,987	413	2,717	47,018	46,199

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.

9. Deferred tax assets and liabilities	**2016**	**2015**
Components of deferred tax asset		
Taxation losses	178,307	157,950
Loan fees	5,455	4,437
Pension liability	4,675	1,762
Property and equipment	(885)	(1,246)
	187,552	162,903

	2015	**(Charge)/credit to income statement**	**OCI**	**2016**
Taxation losses	157,950	20,357	–	178,307
Loan fees	4,437	1,018	–	5,455
Pension liability	1,762	(135)	3,048	4,675
Property and equipment	(1,246)	361	–	(885)
	162,903	21,601	3,048	187,552

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized. Management's retention of this asset is largely based on the tax planning associated with likely corporate restructuring associated with the planned formation of Trinidad and Tobago Mortgage Bank (TTMB). Such restructuring will allow for the use of accumulated income tax losses against future taxable profits in the short to medium term.

For the year ended December 31, 2016 the Deferred tax asset was remeasured at the current enacted tax rate of 30% in accordance with IAS 12 Income taxes.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

10. Prepayments by mortgagors

Prepayments by mortgagors reflect payments received by customers primarily for remittance to third parties. During 2013 the company entered into a License to Occupy (LTO) and Rent to Own (RTO) agreement with The Housing Development Corporation which accounts for the increase in the Prepayments by Mortgagors to December 2016.

	2016	2015
Escrows	149,165	119,515
Insurance	18,340	15,516
Other	5,338	5,758
	172,843	140,789

11. Amount due under IDB loan programme

The 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. Amount due to HDC

This balance relates to the liability due to HDC from the GOTT's decision to rescind the administered portfolio arrangement with TTMF.

13. Sundry creditors and accruals

	2016	2015
Unearned loan fees	18,184	17,473
Home Mortgage Bank	(193)	5,466
Provision for staff costs	4,715	3,321
Advance - Beneficiary Owned Land Subsidy	2,826	2,826
Mortgage clearing accounts	20,243	13,073
Other	6,798	7,501
	52,573	49,660

14. Short-term debt

As at December 31 2016, the outstanding amount represents a Commercial Paper facility arranged through ANSA Merchant Bank Limited maturing September 1, 2017 and a Revolving credit facility with Citibank maturing February 3, 2017 to assist in the granting of mortgages and operational expenses. The average effective interest rate on short-term debt for the current year is 3.18% (2015: 2.12%).

Short term debt	**2016**	**2015**
Secured:		
ANSA Merchant Bank Limited	300,000	–
ANSA Merchant Bank Limited (Bridge loan)	–	331,047
Citibank Trinidad & Tobago Limited (Maturing Feb 3, 2017)	25,000	–
	325,000	331,047

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016
(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

15. Long term debt	**2016**	**2015**
Government of Trinidad and Tobago Loans		
- 7.00% debentures 1999/2018	5,590	8,110
- 7.50% debentures 1999/2018	2,693	3,898
- 5.00% debentures 1999/2018	13,732	20,105
- 5.00% debentures 2018	127,490	127,490
	149,505	159,603
National Insurance Board Loans		
- 5.00% debentures 1999/2018	2,486	3,640
- 5.00% debentures 1999/2018	17,110	25,052
	19,596	28,692
Mortgage backed Loans		
- 3.75% debentures 2012/2017	108,000	108,000
- 4.00% debentures 2012/2019	51,750	51,750
- 4.95% debentures 2012/2022	90,250	90,250
	250,000	250,000
Bonds		
2.375% 1994 Bond Issue 2019	7,500	10,000
2.25% 1995 Bond Issue 2020	16,516	20,645
10.0% 2000 Bond Issue 2020	40,000	50,000
20 Series Bond Issue	442,000	495,000
20 Series Bond Issue	382,400	440,000
20 Series Bond Issue (AMBL)	187,500	212,500
3 Series Bond Issue (AMBL)	901,496	498,988
	1,977,412	1,727,133
	2,396,513	2,165,428
Less: unamortised transaction cost	(44,606)	(25,268)
Total long term debt	2,351,907	2,140,160

Loans amounting to $40 million (2015: $50 million) are fully secured by Government guarantee, whilst debt amounting to $2,163 million (2015: $1,896 million) is fully secured by the Company's mortgage assets.

The average effective interest rate on long-term debt for the current year is 4.36% (2015: 4.30%).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

16. Subsidy 2% and 5% mortgage programmes

The 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 $200 million was received from the GOTT 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 amortised 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 recognised in other income.

	2016	2015
Grant balance brought forward	68,927	94,834
Less amounts released:		
Interest expense (Note 20)	(42,396)	(19,300)
Other	(9,815)	(6,607)
Total	(52,211)	(25,907)
Balance deferred	16,716	68,927

17. Subsidy – Government $200 million

The subsidy received from the GOTT 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 Company's mortgage loans, over the term of the bonds. This enabled the Company to lend at specified mortgage interest rates under the approved mortgage company programme. This is recognised on the accrual basis and is net off against interest expense in the statement of comprehensive income.

The total subsidy net off against interest expense during the current year is $1.72 million (2015: $2.08 million). Refer to Note 20.

18. Pension and other post-employment benefits

	2016	2015
a) Amounts recognised in the statement of financial position:		
Defined benefit obligations	(59,912)	(44,739)
Fair value of plan assets	44,327	37,690
Net defined benefit liability	(15,585)	(7,049
b) Amounts recognised in profit or loss		
Current service cost	3,117	2,425
Interest costs	466	322
Admin expenses	93	146
Net benefit cost	3,676	2,893

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

18. Pension and other post-employment benefits (continued)

		2016	2015
c)	Amounts recognised in other comprehensive income		
	Experienced loss – demographic	9,353	653
	Experience loss – financial	229	190
		9,582	843
d)	Actual return on plan assets	1,735	1,529
e)	Changes in the present value of the defined benefit obligation are as follows:		
	Opening defined benefit obligation	44,739	39,982
	Current service cost	3,118	2,425
	Interest costs	2,430	2,050
	Members' contributions	1,204	1,050
	Actuarial losses	9,353	653
	Benefits paid	(932)	(1,421)
	Closing defined benefit obligation	59,912	44,739
f)	Changes in the fair value of plan assets are as follows:		
	Opening fair value of plan assets	37,690	32,568
	Expected return	1,964	1,718
	Employer contributions	4,723	4,110
	Members' contributions	1,204	1,051
	Actuarial loss on plan assets	(229)	(190)
	Administrative expenses	(93)	(146)
	Benefits paid	(932)	(1,567)
	Closing fair value of plan assets	44,327	37,690
g)	The major categories of plan assets as a percentage of total plan assets are as follows:		
	Deposit administration contracts	100%	100%
	Summary of principal actuarial assumptions		
	Discount rate	5.0%	5.0%
	Salary increases	4.0%	3.0%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

18. Pension and other post-employment benefits (continued)

h) The Company is expected to contribute $4.85 million (2016: $3.90 million) to its defined benefit plan in 2017.

i) Sensitivity of Present value of Defined Benefit Obligation

	1% Increase	1% Decrease
Discount rate	(11,133)	14,794
Salary growth	6,192	(5,328)

The weighted average duration of the obligations is 25 years.

19. Share capital

	2016	2015
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

Dividend per share is $12.85 (2015: $10.38).

20. Interest expense

	2016	2015
Gross interest expense	116,344	96,003
Less Government subsidy:		
Bonds (Note 17)	(1,722)	(2,084)
2% and 5% Mortgage Programmes (Note 16)	(42,396)	(19,300)
Net interest expense	72,226	74,619

21. Investment income

	2016	2015
Amortization of discount and premium on held-to-maturity investments	327	299
Interest on call deposits and bank account	1	74
Interest on investments	21,135	21,078
	21,463	21,451

22. Other income

	2016	2015
Loan fees	1,880	2,622
IDB income	394	473
Home Mortgage Bank service and origination fee	3,961	4,484
Government assisted programme-Administration fees	15,084	14,197
Other	1,344	1,410
	22,663	23,186

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

23. Administration expenses

	2016	2015
Staff costs (Note 24)	41,344	37,956
Depreciation (Note 8)	4,848	4,280
Legal and professional fees	2,473	7,527
Advertising and public relations	2,933	6,197
Bank interest and charges	539	195
Bond issue costs	3,034	4,021
Other	5,669	6,938
	60,840	67,114

24. Staff costs

Wages, salaries and other benefits	35,751	30,529
National insurance	1,764	1,545
Pension costs and other benefits	3,829	5,882
	41,344	37,956

25. Taxation

a) Components of tax (charge)/income

Deferred tax	21,601	(5,857)
Current tax - current year	(1,020)	(964)
Other	(783)	210
	19,798	(6,611)

b) Reconciliation of accounting to tax profit:

Accounting profit	100,727	89,679
Tax at applicable statutory rate (25%)	25,182	22,420
Tax effect of items that are adjustable in determining taxable profit:		
Tax exempt income	(15,749)	(14,102)
Change in tax rate	31,259	-
Other	(20,894)	(14,929)
Tax income	19,798	(6,611)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

26. Mortgage commitments

At December 31 2016, the Company had outstanding commitments totalling $137.6 million (2015: $62.0 million), to intending mortgagors.

27. 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 Company.

	2016	2015
Mortgage loans		
Key management personnel (including Directors)	3,841	4,590
Borrowings and other liabilities		
National Insurance Board		
Interest payable on debt	1,019	1,260
Borrowings	59,596	78,692
Home Mortgage Bank		
Other liabilities	(193)	5,466
Interest and other income		
Key management personnel	127	201
Borrowings interest and other expense		
National Insurance Board	6,095	9,267

Key management compensation

Short-term benefits	2,923	2,981
Post-employment benefits	398	371
Directors' remuneration	402	445

In the normal course of the Company's business, Government and Government-related entities invest in the Company's funding instruments offered to the public. The Government also provides financing for specifically designated arrangements. The Company 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

28. Contingent liabilities - litigation

As at December 31 2016, there were certain legal proceedings outstanding for the Company. 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.

29. Capital management

The Company's objectives when managing capital, which is a broader concept than equity on the face of the statement of financial position, are:

- To safeguard the Company'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 Company defines capital as an appropriate mix of debt and equity. Capital increased by $286 million to $3.6 billion during the year under review.

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

30. Risk management

The Company's activities are primarily related to the provision of mortgage loans for the purchase of residential properties. The Company'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 Company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Company's financial performance.

The Company's risk management policies are designed to identify and analyse 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 Company 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 Company 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

30. Risk management (continued)

Internal audit

Risk management processes throughout the Company are audited periodically by the Internal Audit department, which examines both the adequacy of the procedures and the Company'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.

Credit risk

The Company takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss for the Company either by its unwillingness to perform on an obligation or its ability to perform such an obligation is impaired. The Company 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 Company 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 Company's asset portfolio. There is also credit risk in financial instruments, such as loan commitments which is not included in the statement of financial position. These commitments are due within one year of the financial year end.

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

The table below show the Company's maximum exposure to credit risk:

	Maximum exposure	
Details	**2016**	**2015**
Financial assets		
Mortgage loans	3,372,853	3,129,563
Investment securities	252,301	252,138
Other receivables	4,567	4,578
Cash at bank and cash equivalents	46,561	34,524
Total gross financial assets	3,676,282	3,420,803
Mortgage commitments	137,600	61,967
Total credit risk exposure	3,813,882	3,482,770

Of the Investment securities which the Company holds, $22.64 million was pledged as security for a revolving loan facility at Citibank.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016
(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

30. Risk management (continued)

Credit Risk (continued)

Risk limit control and mitigation policies

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

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or Company 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 Company 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 Company'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.

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 Company's performance to developments affecting a particular geographic location.

In order to avoid excessive concentrations of risk, the Company'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 Company 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 Company 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 Company'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 Company does not occupy repossessed properties for business use.

(2) Lending

The Company 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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

30. Risk management (continued)

Credit Risk (continued)

Risk limit control and mitigation policies (continued)

(2) Lending (continued)

The Company 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 Company monitors the financial assets credit risk by geographical concentration to prevent over exposure in any area or any residential housing development. The Company 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 Company's principal financial asset, by region, based upon where the land and building taxes are paid.

Concentration of risks of financial assets with credit risk exposure

DETAILS

	2016		2015	
MORTGAGE LOANS	$	%	$	%
ARIMA BOROUGH COUNCIL	448,111	12.19	400,915	11.72
CHAGUANAS BOROUGH COUNCIL	592,079	16.11	459,443	13.43
COUVA/TABAQUITE/TALPARO REG.	324,427	8.82	331,743	9.70
D/MARTIN REGIONAL CORPORATION	238,749	6.49	252,916	7.39
LAVENTILLE/SAN JUAN REGIONAL CORPORATION	221,990	6.04	221,926	6.49
MAYARO/RIO CLARO REGIONAL CORPORATION	14,954	0.41	14,658	0.43
POS CITY COUNCIL	115,733	3.15	112,697	3.29
PENAL/DEBE REGIONAL CORPORATION	64,920	1.77	55,951	1.64
POINT FORTIN BOROUGH COUNCIL	41,963	1.14	40,559	1.19
PRINCESS TOWN REGIONAL CORPORATION	85,212	2.32	70,067	2.05
SAN FERNANDO CITY COUNCIL	339,336	9.23	304,725	8.91
SANGRE GRANDE REGIONAL CORPORATION	98,145	2.67	93,415	2.73
SCARBOROUGH	32,689	0.89	28,260	0.83
SIPARIA REGIONAL CORPORATION	61,892	1.68	59,159	1.73
TOBAGO EAST	43,763	1.19	42,899	1.25
TOBAGO WEST	90,228	2.45	69,445	2.03
TUNAPUNA/PIARCO REGIONAL CORPORATION	558,662	15.20	570,785	16.69
TOTAL MORTGAGE LOANS	3,372,853	91.75	3,129,563	91.49
OTHER FINANCIAL ASSETS	303,429	8.25	291,240	8.51
TOTAL	3,676,282	100.00	3,420,803	100.00

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

30. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

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

- Mortgage loans
- Investment securities
- Cash and cash equivalents

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.

The tables below show the credit quality of mortgage loans as at December 31:

Mortgage loans	High grade	Standard grade	Sub-standard grade	Individually impaired	Total
2016	2,969,302	304,980	56,786	41,785	3,372,853
Balance	88%	9%	2%	1%	100%
2015	2,756,612	269,610	70,237	33,104	3,129,563
Balance	88%	9%	2%	1%	100%

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.

The table below shows the credit quality of investments securities as at December 31:

Investment securities	High grade	Standard grade	Sub-standard grade	Individually impaired	Total
2016	252,301	–	–	–	252,301
Held-to-maturity	100.00%	–	–	–	100%
2015	251,976	162	–	–	252,138
Held-to-maturity	99.94%	0.06%	–	–	100%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016
(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

30. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

The credit quality of cash and cash equivalents as at December 31 2016 and December 31 2015 has been assessed as standard grade.

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

- As at December 31 2016, mortgage loans which represent the largest portion of the Company's financial assets (92%) are backed by collateral. The comparative figure is 91%.
- 1% of the mortgage loans portfolio is impaired (2015: 1%). The fair value of collateral supporting these impaired mortgage loans generally exceeds the outstanding balances. Where shortfalls in security values are noted, adequate provisions have been established.

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 Company addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Company 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 Company 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 and
- 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 balance. If monies are recovered, these are offset against bad debt expense.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

30. 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 $27.4 million (2015: $31.6 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 Company as security, are as follows:

Mortgage loans - individually impaired	2016	2015
Total	41,785	33,104
Fair value of collateral (before factoring in time to sell)	42,411	31,573

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 assessments are estimated by taking into consideration the 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.

The following is a reconciliation of the movement in the impairment provision:

Impairment Provision		2016			2015	
Details	Individual	Collective	Total	Individual	Collective	Total
Beginning balance	7,162	8,127	15,289	4,260	6,293	10,553
Amounts written off	(1,261)	-	(1,261)	(1,051)	–	(1,051)
Provision for the year	2,967	1,857	4,824	3,953	1,834	5,787
Balance at year end	8,868	9,984	18,852	7,162	8,127	15,289

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 as at December 31 2016 is $47.13 million (2015: $41.63 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016
(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

30. 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 Company has no significant exposure to currency risk and other price risk.

Interest rate risk

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

i. Financial assets

a) Mortgage loans

Mortgage loans account for 86% (2015: 86%) of the Company's total assets. A Ministerial decree is required by the Company for any changes in mortgage interest rates. There were no changes to interest rates since 2012.

b) Investment securities

Investments securities account is 6% (2015: 7.0%) of the Company's total assets. These are held-to-maturity financial assets comprising of fixed rate bonds.

ii. Financial liabilities

Long-term and short-term debt accounts for 83% (2015: 97%) of the Company's financial liabilities. This is made up of fixed and floating bonds and debentures as follows:

	2016	%	2015	%
Short-term debt				
Fixed	325,000	100	331,047	100
Long-term debt				
Fixed	2,287,891	97	2,059,515	96
Floating	64,016	3	80,645	4
	2,351,907	100	2,140,160	100
Total debt	2,676,907		2,471,207	

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

30. Risk management (continued)

***Interest rate risk* (continued)**

ii. Financial liabilities (continued)

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 Company'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	**Decrease**
December 31 2016		
Profit before tax	1,007	(1,007)
Tax impact 25%	(252)	252
Profit after tax	755	(755)
December 31 2015		
Profit before tax	897	(897)
Tax impact 25%	(224)	224
Profit after tax	480	(480)

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 Company 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 Company might lose liquidity if it experiences sudden unexpected cash outflows, or some other event causes counterparties to avoid trading with the Company. The consequence may be the failure to meet obligations to repay debts and fulfil commitments to lend.

Liquidity risk management process

The Company'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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

30. Risk management (continued)

Liquidity risk management process **(continued)**

The Company 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 Company's financial liabilities at December 31 based on contractual undiscounted cash flow repayment obligations.

Liquidity risk management process

2016	Up to 1 year $'000	One to five years $'000	Over 5 years $'000	Total $'000
Liabilities				
Amounts due under IDB loan programme	507	–	–	507
Short-term debt	325,000	–	–	325,000
Interest payable on debt	30,382	–	–	30,382
Sundry creditors and accruals	52,573	–	–	52,573
Long-term debt	317,755	1,593,426	440,726	2,351,907
Total undiscounted financial liabilities	726,217	1,593,426	440,726	2,760,369

2015	Up to 1 year $'000	One to five years $'000	Over 5 years $'000	Total $'000
Liabilities				
Amounts due under IDB loan programme	1,419	–	–	1,419
Short-term debt	331,047	–	–	331,047
Interest payable on debt	28,471	–	–	28,471
Sundry creditors and accruals	49,660	–	–	49,660
Long-term debt	183,123	1,168,767	788,270	2,140,160
Total undiscounted financial liabilities	593,720	1,168,767	788,270	2,550,757

Funding approach

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

30. Risk management (continued)

Fair value of financial assets and liabilities

The Company computes the estimated fair value of all financial instruments held at the statement of financial position date and separately discloses information where the fair values are different from the carrying values. As at December 31 2016, 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 amortised cost are estimated by comparing market interest rates when they were first recognised 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 Company'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.

The Company's assets are all classified as Level 2. Included in the Level 2 category are financial assets that are measured using 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 Company's own models whereby the majority of assumptions is market observable.

For the year ended December 31, 2016 there was no transfer of assets among any level (2015: no transfers).

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 Company cannot expect to eliminate all operational risks, but through a controlled framework and by monitoring and responding to potential risks, the Company 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

31. Maturity analysis of assets and liabilities

The table below analyses the assets and liabilities on the remaining period at December 31 2016 to the contractual maturity date. See Note 30 – 'Risk management: Liquidity risk management process' for an analysis of the financial liabilities based on contractual undiscounted repayment obligations.

2016	Up to 1 year $'000	Over 1 year $'000	Total $'000
Assets			
Cash and cash equivalents	46,561	–	46,561
Debtors and pre-payments	6,753	–	6,753
Investment securities	–	252,301	252,301
Mortgage loans	2,726	3,353,327	3,356,053
Property and equipment	–	47,018	47,018
Deferred tax asset	–	187,552	187,552
Total assets	**56,040**	**3,840,198**	**3,896,238**
Liabilities			
Prepayments by mortgagors	172,843	–	172,843
Amounts due under IDB loan programme	507	–	507
Amount due to HDC	858	–	858
Sundry creditors and accruals	52,573	–	52,573
Short-term debt	325,000	–	325,000
Interest payable on debt	30,382	–	30,382
Long-term debt	317,755	2,034,152	2,351,907
Subsidy 2% and 5% mortgage programmes	16,716	–	16,716
Pension plan liability	–	15,585	15,585
Total liabilities	**916,429**	**2,049,737**	**2,966,371**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31 2016

(Expressed in Thousands of Trinidad and Tobago dollars)
(continued)

31. Maturity analysis of assets and liabilities (continued)

2015	Up to 1 year $'000	Over 1 year $'000	Total $'000
Assets			
Cash and cash equivalents	34,524	–	34,524
Debtors and pre-payments	8,367	–	8,367
Investment securities	163	251,975	252,138
Mortgage loans	384,862	2,729,641	3,114,503
Property and equipment	–	46,199	46,199
Deferred tax asset	–	162,903	162,903
Total assets	**427,916**	**3,190,718**	**3,618,634**
Liabilities			
Prepayments by mortgagors	140,789	–	140,789
Amounts due under IDB loan programme	1,419	–	1,419
Amount due to HDC	2,009	–	2,009
Sundry creditors and accruals	49,660	–	49,660
Short-term debt	331,047	–	331,047
Interest payable on debt	28,471	–	28,471
Long-term debt	183,123	1,957,037	2,140,160
Subsidy 2% and 5% mortgage programmes	29,957	38,970	68,927
Pension plan liability	–	7,049	7,049
Total liabilities	**766,475**	**2,003,056**	**2,769,531**

32. Dividends paid

Dividends paid are analysed as follows:	2016	2015
Final dividend– $12.85 per share (2015: $10.38 per share)	(33,227)	(26,844)

33. Events after the reporting period

There were no material events after the statement of financial position date which requires adjustment or disclosure in the financial statements as at March 21, 2017.

Trinidad & Tobago
Mortgage Finance
Company Limited

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