Trinidad & Tobago
Mortgage Finance
Company Limited

Changing Gears

Annual Report
2007

our Vision

"We are the lender of first choice for residential mortgages in Trinidad & Tobago.

We are passionate and proud about what we do, with a reputation for exceptional, friendly and professional service.

We focus on fulfilling our potential (effectively and efficiently) with the most skilled and knowledgeable team in the industry."

our Mission

"In partnering we make home ownership an easy and rewarding experience."

our Core Values

REsults oriented
The results you achieve will be in direct proportion to the effort you apply.

Customer focused
Serve so that you earn a relationship not a sale.

Integrity
If you believe in unlimited quality and act in all your business dealings with total integrity, the rest will take care of itself.

Teamwork
Individual commitment to a group effort – that is what makes a team work, a company work, a society work, a civilization work.

Empowerment
An empowered organization is one in which individuals have the knowledge, skill, desire and opportunity to personally succeed in a way that leads to collective organizational success.

Trinidad & Tobago Mortgage Finance Company Limited

Corporate Offices

HEAD OFFICE

PORT OF SPAIN
Albion Court,
61 Dundonald Street,
P.O. Box 1096,
Port of Spain, Trinidad W.I.
Tel: (868) 623-TTMF or 625-TTMF (8863)
Fax: (868) 624-3263
E-mail: info@ttmf-mortgages.com
Website: www.ttmf-mortgages.com

BRANCHES

ARIMA
#32 Sanchez Street
Arima, Trinidad W.I.
Tel: (868) 667-2TMF (2863)
Fax: (868) 667-0732

CHAGUANAS
Level 2, Mid Centre Mall,
Chaguanas, Trinidad W.I.
Tel: (868) 672-5246
Fax: (868) 671-6648

SAN FERNANDO
Cor. Mucurapo and Coffee Streets,
San Fernando, Trinidad W.I.
Tel: (868) 652-1151
Fax: (868) 652-6543

TOBAGO
Shell 6, Level 2, Block B, NIB Mall,
Scarborough, Tobago, W.I.
Tel: (868) 639-1540
Fax: (868) 639-2366

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CHAIRMAN'S Report


Calder Hart, Chairman

"While TTMF maintained its mortgage rate at 8%, the commercial banking sector reported increase in mortgage rates to an average of 9% in 2007."

In changing conditions, stepping up a gear demands a steady grip, and a positive outlook. I am extremely pleased to report that not only has Trinidad and Tobago Mortgage Finance Company Limited (TTMF) stayed its course for 2007, but it has also been successful in achieving its business targets in a market that has grown in competitive options for the customer, and operating constraints for the mortgagee .

The Economy of 2007

Trinidad and Tobago's economic growth rate slowed to 5.5% in 2007 from 12.2% in 2006. The non-energy sector however grew by 6.7%, 0.2% higher than 2006. The inflation rate of 7.6% compared favourably with 9.1% of 2006, with the price of food being the main contributor.

While maintaining its 'repo' rate at 8%, the Central Bank of Trinidad and Tobago introduced open market operations, foreign exchange sales and government bond auctions to reduce liquidity as a means of controlling inflation. In response, the commercial banking sector maintained its prime lending rate at 11.75%. Economic growth, particularly in the non-energy sector contributed to an unemployment rate of 5.6% the lowest it has been in the history of this country. Foreign exchange reserves stood at US8.1 Billion, and the exchange rate remained steady averaging TT$6.28 to US$1.00.

These statistics speak to the economic strength of our twin-island state. The economic background provides good foundation for ongoing improvement and growth in the real estate sector.

The Housing Market

Residential property prices continued its upward movement in 2007. An increase in the availability of properties in the high end of the market, both for sale and for rent, resulted in a softening of prices in that segment of the market. In the middle and lower end of the market however, property prices continued to increase due to the heavy demand, but also because of the increasing cost of construction and land development. The Government and major private developers continue to play a major role in alleviating the inventory shortfall in this sector.

The Central Bank of Trinidad and Tobago reported that the real estate loans outstanding at December 31, 2007 stood at $7 billion, an increase of 16.9% over the previous twelve month period. While TTMF maintained its mortgage rate at 8%, the commercial banking sector reported increase in mortgage rates to an average of 9% in 2007. The Central Bank has indicated that it will continue to control inflation by restricting liquidity. It is anticipated that there will be continued upward pressure on mortgage rates for 2008.

Against this background, TTMF will be challenged to control its funding costs in order to sustain its existing interest rate regime and actively participate in the Government's Housing Programme.

The Government Housing Programme

Intense competition in the mortgage market, and increasing interest rates, were key influencers in the industry this past year. Led by the mission to make home ownership an easy and rewarding experience for all customers, TTMF went into overdrive to ensure greater service in providing financing to families at affordable interest rates.

TTMF participates in three (3) lending programmes

Under the approved mortgage company status (AMC), loans for properties valued $450,000.00 and less, attract interest rates of 6-8% based on the value of the property with tax exempt income to the mortgagee. The open market operations cover properties exceeding $450,000.00 in value and attract an interest rate of 8%.

In 2007, the Company commenced delivery of the Government's 2% mortgage programme for beneficiaries of Government housing. Under this programme, families earning $8,000.00 and less per month who are beneficiaries under the Government's housing programmes, and meet the standard credit criteria, may qualify for 100% financing at 2% for up to 25 years, plus an additional amount of $15,000.00 for the purchase of appliances. The facility is subject to five-year review at which time, AMC rates may apply.

Against this background, particularly as it affects interest rates and raising new funds, TTMF is challenged to control its operating costs in the interest of continued profitability.

Outlook for 2008

The economic fundamentals are very positive for the economy of Trinidad and Tobago for 2008. Growth in gross domestic product (GDP) is expected at 5.5%, and unemployment levels are expected to, in the worst case, be retained at a historic low of 5.6%. While property prices have been escalating over the last 15 years, it is anticipated that the Government's housing programme will assist in dampening house prices by increasing the housing stock in the middle and low income markets. These factors indicate that the demand for housing will remain high in the near future.

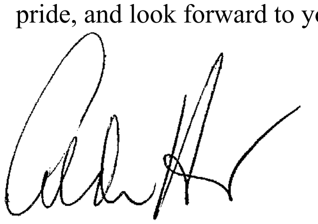
It is estimated that over $2 billion will be required to fund mortgages associated with Government housing over the next three years. TTMF is well poised to undertake this significant task with the support of its stakeholders and its upgraded operating and technological systems.

As we look forward to another year of positive performance and increased profitability, I thank my fellow Directors for their support and guidance over the past year

In particular, I would like to express the our gratitude to Mr. L. Andre Monteil and Ms. Inez Sinanan who resigned from the Board during the year past.

I also thank the Managing Director/CEO, our management and staff for their tremendous service to TTMF. Our customers and shareholders have shown continuous confidence in us, and I would like to especially thank them.

Property ownership is a proven generator of wealth. In our business, we have the distinct pleasure of helping customers to transform their dreams into reality. With a steady grip, and a positive outlook, we will continue to operate with passion and pride, and look forward to your continued support.



Calder Hart, Chairman

"Led by the mission to make home ownership an easy and rewarding experience for all customers, TTMF went into overdrive to ensure greater service in providing financing to families at affordable interest rates."

“Pursuant to the provisions of Government’s Housing Policy, ‘A New Way Home’, initiatives have been undertaken to attract competitive and sustainable financing through the National Insurance Board and The Corporation Sole.”

MANAGING DIRECTOR/ Chief Executive Officer’s Report

Ingrid L-A. Lashley, Managing Director / CEO

In the face of higher interest rates and increased competition in the mortgage market, I am pleased to report that Trinidad and Tobago Mortgage Finance Company Limited (TTMF) has had another successful year of profitable operation. While maintaining our interest rates and holding steadfastly to the Government's mandate of making housing affordable to the middle and lower income families in Trinidad and Tobago, we have also reached out to the open market competing with other market players for good business.

Despite the increased cost of borrowing and the resulting reduction in interest rate spreads, in 2007, the consolidated profit of the Company was $42.0M compared with $37.3M for the previous year, a growth of 12.6%. Total assets grew by 22.2% from $1,820M in 2006 to $2,224M in 2007. These figures are a testimony to the operational efficiencies implemented within the recent past.

Mortgage Underwriting

A total of 1,414 new mortgages amounting to $569.1 million were granted during the year, increasing the portfolio under administration to $1.8 billion. The Company continued to make inroads into the middle income market with 79% of the loans granted for properties exceeding $450,000.00 in value. Loans under the Approved Mortgage Company initiative with rates of 6% to 8% accounted for 8.6% of total loans granted. As the sole administrator of the Government's 2% mortgage programme, commencing September 2007, TTMF also provided additional funding for government developments. As at December 31, 2007, 288 applicants for Government-subsidised housing became homeowners. Total loans disbursed under the Government Housing Programme, totalled $51 million. TTMF ended 2007 with some 1,900 loans in various stages of completion for disbursement in 2008.

A dedicated unit has been established to expedite the disbursement of loans under the Government's Housing Programme. Given the Government's undertaking to provide 100,000 housing solutions over a ten-year period, and the income profile of applicants, it is anticipated that approximately 74,000 loans will be granted under the 2% mortgage programme while the remainder will access their loans under the Approved Mortgage Company initiative.

TTMF remains committed to providing affordable financing for all sectors of the community. Pursuant to the provisions of Government's Housing Policy, 'A New Way Home', initiatives have been undertaken to attract competitive and sustainable financing through the National Insurance Board and The Corporation Sole. We continue to work with other stakeholders in the housing industry, including the relevant Government agencies, to bring about efficiencies that will redound to the benefit of the homeowners.

One such step is the introduction of standardised mortgage documentation, which will streamline the conveyance process while minimizing the cost of borrowing to homeowners.

Product variation

TTMF expanded its product offering to include equity loans for investment, debt consolidation, medical expenses and education. In order to deal with potential delinquency arising out of the demise of the major bread winner we introduced Creditor Life Insurance. This product enhances our product offering, provides a relatively inexpensive solution for delinquency management and ensures that the mortgagors' family continue to enjoy the home after the demise of the main borrower.

Operational Efficiency

In keeping with of our commitment to finance the government's housing programme and the resulting increase in the volume of loans to be originated, a number of steps were taken towards institutional strengthening. Having completed our first year of operation in the PHOENIX environment, we now have a better appreciation for the work flows required to ensure the completeness and accuracy of the mortgage origination and administration processes. The mortgage services department has been restructured accordingly. The integration of the customer application (CRS) systems and the general ledger has afforded the benefits of real-time processing of transactions and has significantly enhanced our procedures.

A Manager, Branch Operations was appointed to strengthen our branch operations in anticipation of higher volumes. The Administration Department of our Mortgage Services Area has been expanded to ensure that the Company's internal services are provided in a timely, effective and seamless manner. Management and supervisory training is ongoing targeting those showing potential for promotion and, in an increasingly competitive job environment, particular attention has been paid to succession planning.

With our new technology platform PHOENIX, we will continue to utilise its capabilities to its fullest extent in the pursuit of efficiency and excellence. Having also introduced an on-line application form to facilitate applications via our website, customer traffic will improve and application flow should be enhanced.

The increased lending associated with the Government's Housing Programme will remain the focus of the Company for 2008. Our human and operational resources will be challenged to continue to satisfy the demands of the other sectors. We are confident that the recent upgrades in our technology platform, increased operational efficiencies and the wider branch network will serve us well in meeting these challenges.

On behalf of the management and staff, I take this opportunity to thank the Board of Directors and all stakeholders for their guidance and feedback in our efforts to make "homeownership an easy and rewarding experience". More particularly, I also acknowledge the dedication and commitment of our people who, with their passion and pride, have brought us some steps closer to being "the lender of choice for residential mortgages in Trinidad and Tobago".

ILashley

Ingrid L-A. Lashley, Managing Director/CEO

From left to right:

Geneva Sampson – Corporate Secretary.

E. Henry Sealy – Director.

Esther Rajpaul – Director.

Ingrid L-A. Lashley – Managing Director/CEO.

Calder Hart – Chairman.

Ruben Mc Sween – Director.

Michael Annisette – Director.

Jaggernath Soom – Director.

BOARD OF Directors

Executive Team

From left to right:

Ingrid L-A. Lashley – Managing Director/CEO.

Geneva Sampson – Chief Financial Officer.

Gillian C. Caesar – General Manager, Mortgage Services.

Robert C. Green – Chief Operating Officer.








Management Team

First row:

Karel Mc Intosh – Manager, Marketing and Public Relations.

Brent Mc Fee – Manager, Finance.

Myrtle Harris – Manager, Branch Operations.

Cherrie Caracciolo – Manager, Human Resources (Ag.).

Second row:

Waheeda Ali – Manager, Internal Audit.

Hazrath Ali – Senior Manager, Mortgage Administration.

Philip G. Joseph – Manager, Information Technology.

Wendy Huggins – Manager, Mortgage Origination.

AUDITORS' Report

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
TRINIDAD AND TOBAGO MORTGAGE FINANCE COMPANY LIMITED

We have audited the accompanying financial statements of Trinidad and Tobago Mortgage Finance Company Limited which comprise the balance sheet as at 31st December 2007 and the income statement, statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate 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 financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31st December, 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

Port of Spain,
TRINIDAD:
12th June, 2008

CONSOLIDATED BALANCE SHEET AT 31ST DECEMBER, 2007
(Expressed in Thousands of Trinidad and Tobago dollars)

	Notes	2007	2006
ASSETS			
Cash and cash equivalents	4	4,020	55,885
Debtors and prepayments	5	21,124	15,736
Investment securities	6	245,773	243,767
Mortgage loans	7	1,846,874	1,371,523
Property and equipment	8	35,263	35,647
Pension asset	9	99	–
Deferred tax asset	10	111,500	97,673
TOTAL ASSETS		2,264,653	1,820,231
LIABILITIES AND EQUITY			
LIABILITIES			
Bank overdraft	11	4,800	15,367
Dividend payable	12	14,864	–
Prepayments by mortgagors		16,270	21,342
Subsidy 2% mortgage programme	13	199,144	–
Amount due under IDB loan program	14	11,830	11,172
Sundry creditors and accruals	15	69,322	11,908
Short-term debt	16	189,332	–
Interest payable on debt		55,928	13,118
Long-term debt	17	1,186,308	1,271,109
Pension liability	9	–	177
Deferred tax liability	10	25	–
TOTAL LIABILITIES		1,747,823	1,344,193

The notes on pages 19 to 56 form part of these financial statements.

CONSOLIDATED BALANCE SHEET AT 31ST DECEMBER, 2007
(Expressed in Thousands of Trinidad and Tobago dollars)
(Continued)

	Note	2007	2006
EQUITY			
Share capital	18	12,408	12,408
Retained earnings		504,422	463,630
TOTAL EQUITY		516,830	476,038
TOTAL EQUITY AND LIABILITIES		2,264,653	1,820,231

The notes on pages 19 to 56 form part of these financial statements.

On 12th June, 2008, the Board of Directors of Trinidad and Tobago Mortgage Finance Company Limited authorised these financial statements for issue.

: Director

: Director Jaggernauth Soom

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2007
(Expressed in Thousands of Trinidad and Tobago dollars)

	Notes	2007	2006
Income			
Mortgage interest		118,997	113,315
Interest expense	19	(78,790)	(70,640)
Net interest income		40,207	42,675
Investment income	20	26,015	10,761
Rental income		1,317	1,194
Other income	21	7,735	9,184
		75,274	63,814
Expenses			
Administration	22	(29,929)	(23,414)
Building		(3,364)	(3,069)
		(33,293)	(26,483)
Profit before tax		41,981	37,331
Taxation	23	13,675	16,513
Profit after tax		55,656	53,844

The notes on pages 19 to 56 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER, 2007
(Expressed in Thousands of Trinidad and Tobago dollars)

	Share capital	Retained earnings	Total
Balance as at December 31, 2005(restated)	12,408	425,713	438,121
Dividend 2005	–	(15,927)	(15,927)
Net income for the year	–	53,844	53,844
Balance at December 31, 2006	12,408	463,630	476,038
Balance as at December 31, 2006	12,408	463,630	476,038
Dividend 2006	–	(14,864)	(14,864)
Net income for the year	–	55,656	55,656
Balance at December 31, 2007	12,408	504,422	516,830

The notes on pages 19 to 56 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER, 2007
(Expressed in Thousands of Trinidad and Tobago dollars)

	2007	2006
Cash flows from operating activities		
Profit before tax	41,981	37,331
Adjustments for		
Depreciation	3,464	2,117
(Gain)/loss on sale of fixed assets	(48)	5
Interest capitalised	(2,006)	(1,844)
Amortised subsidy 2% mortgage programme	(856)	–
(Increase)/decrease in pension asset	(276)	185
Surplus before working capital changes	42,259	37,794
Increase in debtors and prepayments	(10,363)	(9,388)
(Increase)/decrease in mortgages	(470,376)	54,380
(Decrease)/increase in prepayment by mortgagors	(5,073)	7,114
Increase in amount due under IDB loan program	658	1,630
Increase/(decrease) in sundry creditors and accruals	57,414	(309)
Increase in interest payable on debt	42,810	3,647
Taxes paid	(126)	(346)
Net cash (outflow)/inflow from operating activities	(342,797)	94,522
Cash flows from financing activities		
Proceeds from short-term debt	189,332	242,699
Subsidy 2% mortgage programme	200,000	–
Repayments on debt	(84,801)	(55,561)
Dividends paid	–	(15,927)
Net cash inflow from financing activities	304,531	171,211
Cash flows from investing activities		
Purchase of fixed assets	(3,320)	(9,724)
Proceeds from sale of fixed assets	288	9
Purchase of investments	–	(223,687)
Net cash outflow from investing activities	(3,032)	(233,402)
Net cash (outflow)/inflow for the year	(41,298)	32,331
Cash and cash equivalents at the beginning of year	40,518	8,187
Cash and cash equivalents at the end of year	(780)	40,518

The notes on pages 19 to 56 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER, 2007
(Expressed in Thousands of Trinidad and Tobago dollars)
(Continued)

	2007	2006
Represented by:		
Cash at bank	4,020	55,885
Bank overdraft	(4,800)	(15,367)
	(780)	40,518
Supplemental information		
Interest received	136,510	117,405
Interest paid	33,848	66,993

The notes on pages 19 to 56 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2007
(Expressed in Thousands of Trinidad and Tobago dollars)

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.

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 following is a summary of the significant accounting and reporting policies used in preparing the financial statements.

b) Adoption of IFRS during the year

The accounting policies used are consistent with those of the previous financial years. The Group has applied the IFRS 7: Financial Instruments: Disclosures and IAS 1 – Amendment – Capital Disclosures, which became effective on or after January 1, 2007. (Refer to Notes 27 and 28).

2. Significant accounting policies (continued)

b) Adoption of IFRS during the year (continued)

The Group has not applied the following IFRS's and IFRIC Interpretations that have been issued but are not yet effective.

IFRS 8	-	Operating Segments
IAS 23	-	Borrowing Costs - Revised
IFRIC 11	-	IFRS 2 - Group and Treasury Share Transactions
IFRIC 12	-	Service Concession Arrangements
IFRIC 13	-	Customer Loyalty Programmes
IFRIC 14	-	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The quantitative impact of the adoption of these standards is currently being evaluated.

c) Basis of consolidation

Subsidiary undertakings, which are those companies in which the Parent directly or indirectly has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operation, have 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 balance sheet 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2007
(Expressed in Thousands of Trinidad and Tobago dollars)
(Continued)

2. Significant accounting policies (continued)

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 Income.

f) 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.

g) 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 Income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2007
(Expressed in Thousands of Trinidad and Tobago dollars)
(Continued)

2. Significant accounting policies (continued)

h) Property and equipment

All property, plant and equipment is 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.

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 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 Consolidated Statement of Income.

i) 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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2007
(Expressed in Thousands of Trinidad and Tobago dollars)
(Continued)

2. Significant accounting policies (continued)

j) 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.

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 balance sheet 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.

k) 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 Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the Balance Sheet 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 Income so as to spread the regular cost over the service lives of the employees.

2. Significant accounting policies (continued)

k) 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.

l) 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.

m) 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 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 balance sheet date.

2. Significant accounting policies (continued)

m) 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 balance sheet 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.

n) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are expressed in Trinidad and Tobago dollars at rates of exchange ruling on 31st December, 2007. 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 Income.

o) 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 where 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)

o) Revenue recognition (continued)

Investment income

Interest income is recognized in the Consolidated Statement of 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 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, are brought into account on the accruals basis.

p) 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 totaled $637.2 million (2006: $711.8 million) and are not reflected in these financial statements.

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2. Significant accounting policies (continued)

q) 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.

r) 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 17).

s) Subsidy 2% mortgage programme

The subsidy received from the Government of Trinidad and Tobago is released to the Consolidated Statement of Income over the life of the subsidized mortgages.

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.

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.

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

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 balance sheet date.

b) Impairment of financial assets

Management makes judgments at each balance sheet date 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.

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	2007	2006
4. Cash and cash equivalents		
Cash in hand	74	5
Cash at bank	3,946	734
Call deposits	–	55,146
	4,020	55,885

The average effective interest rate on cash and cash equivalents for the current year is 1% (2006: 7.24%).

5. Debtors and prepayments

	2007	2006
Interest receivable on investments	4,894	4,814
Interest subsidy receivable	1,879	4,011
Mortgage interest receivable	13,397	4,975
IDB service fee	409	1,230
Staff debtors	221	250
Sundry debtors	173	357
Other	151	99
	21,124	15,736

6. Investment securities

	2007	2006
Securities held-to-maturity		
HDC Fixed Rate 8.5% Bond	223,687	223,687
Sinking fund	22,086	20,080
	245,773	243,767

The average effective interest rate on held-to-maturity securities for the current year is 8.59% (2006: 8.75%).

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7. Mortgage loans

	2007	**2006**
a) A geographical analysis of the mortgage loans is as follows:		
Port of Spain City Council	114,023	96,330
San Fernando City Council	158,914	129,649
Arima Borough Council	233,321	170,563
Point Fortin Borough Council	23,760	18,645
Chaguanas Borough Council	287,957	221,591
Diego Martin Regional Corporation	158,048	88,501
San Juan/Laventille Regional Corporation	146,635	94,943
Tunapuna/Piarco Regional Corporation	339,239	257,495
Sangre Grande Regional Corporation	50,073	37,816
Couva/Tabaquite/Talparo Regional Corporation	185,286	141,500
Debe/Penal Regional Corporation	33,546	24,107
Princess Town Regional Corporation	34,263	26,751
Siparia Regional Corporation	41,057	34,455
Mayaro/Rio Claro Regional Corporation	10,408	7,940
Tobago East	6,518	5,246
Tobago West	18,350	13,618
Scarborough	10,507	7,131
1,851,905	1,376,281	
Less: Impairment provision (7b)	(5,031)	(4,758)
Net balance	1,846,874	1,371,523
b) Impairment provision:		
Balance at beginning	4,758	5,758
Recoveries/write backs	–	(1,000)
Provision for year	273	–
Balance at end	5,031	4,758

The average effective interest rate on the mortgage loan portfolio for the current year is 7.75% (2006: 7.85%).

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8. Property and equipment

	Land & buildings	Motor vehicle	Furniture & equipment	Computer equipment	Total 2007	Total 2006
Cost						
At beginning of the period	32,563	1,485	4,326	13,684	52,058	42,521
Additions	105	1,222	412	1,581	3,320	9,724
Disposals	–	(929)	(10)	(185)	(1,124)	(187)
At end of period	32,668	1,778	4,728	15,080	54,254	52,058
Accumulated depreciation						
At beginning of the period	9,602	843	2,125	3,841	16,411	14,467
Current depreciation	609	407	439	2,009	3,464	2,117
Depreciation on disposals	–	(690)	(9)	(185)	(884)	(173)
At end of period	10,211	560	2,555	5,665	18,991	16,411
Net book value	22,457	1,218	2,173	9,415	35,263	35,647

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.

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9. Pension and other post employment benefits

	2007	2006
a) Amounts recognized in the Consolidated Balance Sheet		
Defined benefit obligations	16,538	10,942
Fair value of plan assets	(19,643)	(11,755)
Unrecognised actuarial loss	3,006	990
Net defined benefits (asset)/liability	(99)	177
b) Amounts recognized in the Consolidated Statement of Income		
Current service cost	1,031	1,299
Interest costs	1,501	1,042
Expected return on plan assets	(1,518)	(1,005)
Net amortised loss	–	22
Net benefit cost	1,014	1,358
c) Actual return on plan assets		
Expected return on plan assets	1,518	1,005
Experience adjustments on plan assets - Loss	(205)	(314)
Actual return on plan assets	1,313	691

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

	2007	2006
Opening defined benefit obligation	10,942	13,100
Current service cost	1,031	1,299
Interest costs	1,501	1,042
Members' contributions	440	393
Actuarial gains	(2,248)	(3,105)
Benefits paid	(751)	(1,787)
Adjustment for pensioner contracts	5,596	–
Data adjustments	27	–
Closing defined benefit obligation	16,538	10,942

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9. Pension and other post employment benefits (continued)

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

	2007	**2006**
Opening fair value of plan assets	11,755	11,285
Expected return	1,518	1,005
Employer contributions	1,290	1,174
Members' contributions	440	393
Actuarial losses	(205)	(315)
Benefits paid	(751)	(1,787)
Adjustment for pensioner contracts	5,596	–
Closing fair value of plan assets	19,643	11,755

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

	2007	**2006**
Deposit administration contracts	100%	100%

g) Summary of principal actuarial assumptions

	2007	**2006**
Discount rate	8.5%	8.5%
Salary increases	6.5%	7.5%
Expected return on plan assets	8.5%	8.5%

h) The Group is expected to contribute $1,173 to its defined benefit plan in 2008.

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		2007	2006
10.	**Deferred tax assets and liabilities**		
	Components of deferred tax asset and liabilities		
	(a) Deferred tax assets		
	Property, plant and equipment	336	249
	Defined benefit liability	–	44
	Taxation losses	111,164	97,380
		111,500	97,673
	(b) Deferred tax liability	25	–

11. Bank overdraft

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.

12. Dividends

The Board of Directors declared a final dividend of $5.75 per share for the year ended 31st December, 2006. This dividend amounting to $14,864 was paid on the 10th June, 2008.

13. Subsidy 2% mortgage programme

The Government of Trinidad and Tobago developed a Strategic Plan with a view to achieving developed country status by the year 2020 coined 'Vision 2020'. One of its primary objectives is the provision of affordable housing for the citizens of this country under an approved national Housing Policy document entitled **"Showing Trinidad and Tobago a New Way Home"**. The parent company was chosen to partner with the Government in this initiative as the principal mortgage provider to qualifying citizens at subsidized rates of interest through a Government subsidy.

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13. Subsidy 2% mortgage programme (continued)

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 is being released to income over the duration of the subsidized mortgages.

	2007	**2006**
Grant received	200,000	–
Less: Amounts released to income for 2007	(856)	–
Balance deferred	199,144	–

14. Amount due under IDB loan program

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.

15. Sundry creditors and accruals	**2007**	**2006**
Unearned loan fees	6,480	1,913
Home Mortgage Bank	28,725	595
Surplus on sales of properties in possession	628	628
NHA loan retentions	763	763
Provision for staff bonus and unpaid leave	3,542	993
Advance – Beneficiary Owned Land Subsidy	3,300	3,300
Mortgage clearing accounts	19,083	1,243
Other	6,801	2,473
	69,322	11,908

16. Short term debt

This represents short term advances by the major shareholder to assist in the granting of mortgages and operational expenses.

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17. Long term debt

	2007	**2006**
Government of Trinidad and Tobago loans		
- 7.00% debentures 1999/2018	23,772	24,439
- 7.50% debentures 1999/2018	11,235	11,540
- 5.00% debentures 1999/2018	63,263	65,281
- 5.00% debentures 2018	127,490	127,490
	225,760	228,750
National Insurance Board loans		
-5.00% debentures 1999/2018	11,080	11,820
-5.00% debentures 1999/2018	76,252	81,344
	87,332	93,164
Private loans		
-Citibank 8.0/8.5% debentures 1997/2007	–	31,954
Bonds		
5.5%/6.5%/7% 2004 Bond Issue	300,000	300,000
6.0% 2005 Bond Issue	268,000	301,500
2.375% 1994 Bond Issue 2019	25,000	25,000
2.25% 1995 Bond Issue 2020	51,012	51,790
9.475/10.45% 1998 Bond 2023	100,000	100,000
10.0% 2000 Bond Issue 2020	130,000	140,000
	874,012	918,290
	1,187,104	1,272,158
Less: unamortized transaction cost	(796)	(1,049)
	1,186,308	1,271,109

Loans amounting to $87.3 million (2006: $93.2 million) are fully secured by government guarantee, whilst loans amounting to $568 million (2006: $601.5 million) are fully secured by the Group's mortgage assets.

The average effective interest rate on long-term debt for the current year is 6.49% (2006: 6.18%).

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18. Share capital	**2007**	**2006**
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. Interest expense

Interest expense is stated net of a government subsidy of $7,515 (2006: $7,960) on the $100 million and $200 million Government Bonds received in 1998 and 2000 respectively, which enabled the Group to lend at subsidised mortgage rates at that time, in support of low income housing projects.

Interest expense is also stated net of a government subsidy of $856 granted to assist in the financing and provision of mortgages under the Government's 2% mortgage programme. (Refer to Note 13).

	2007	**2006**
20. Investment income		
Interest on call deposits and bank account	4,583	4,484
Interest on investments	21,432	6,277
	26,015	10,761

21. Other income		
Loan fees	480	999
IDB income	1,305	1,395
Bad debts recovered & provision written back	11	1,000
Home Mortgage Bank service and origination fee	5,648	3,566
Gain/(loss) on disposal of fixed assets	56	(5)
Write-off of Diamond Vale liability account	–	1,879
Other	235	350
	7,735	9,184

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22. Administration expenses

	2007	2006
Included therein are the following items:		
Depreciation	3,464	2,117
Bank interest and charges	978	86
Staff costs (Note 25)	16,835	13,469

23. Taxation

a) Components of tax income

	2007	2006
Deferred tax	(13,801)	(16,685)
Current tax - current year	126	172
	(13,675)	(16,513)

b) Reconciliation of accounting to tax profit:

	2007	2006
Accounting profit	41,981	37,331
Tax at applicable statutory rate (25%)	10,495	9,333
Tax effect of items that are adjustable in determining taxable profit:		
Green fund levy/business levy	126	174
Tax exempt income	(24,296)	(26,870)
Other	–	850
Tax income	(13,675)	(16,513)

24. Mortgage commitments

At 31 December 2007 the Group had outstanding commitments totaling $115 million (2006: $116.7 million), to intending mortgagors.

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	2007	2006
25. Staff costs		
Wages, salaries and other benefits	15,421	11,738
National insurance	400	373
Pension costs – defined benefit plan	1,014	1,358
	16,835	13,469

26. 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.

	2007	2006
Mortgage loans		
Key management personnel	5,898	3,367
Provisions for amounts due from related parties	–	–
Borrowings and other liabilities		
National Insurance Board		
Short term debt	189,332	–
Interest payable on debt	36,047	7,833
Borrowings	655,332	694,664
Interest and other income		
Key management personnel	229	134
Borrowings interest and other expense		
National Insurance Board	31,156	27,077

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	2007	**2006**
26. Related party transactions (continued)		
Key management compensation		
Short term benefits	2,209	2,311
Post employment benefits	151	164
Directors' remuneration	216	230

27. Capital management

The Group's objectives when managing capital, which is a broader concept than equity on the face of the consolidated balance sheet, 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.

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.

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28. Risk management (continued)

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.

Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty 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-balance sheet financial instruments, such as loan commitments.

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28. Risk management (continued)

Credit risk (continued)

Maximum Exposure to Credit Risk before collateral held or other credit enhancements

Credit risk exposures relating to balance sheet assets are as follows:

DETAILS	Maximum exposure	
	2007	**2006**
Financial assets		
Mortgage loans	1,851,905	1,376,281
Investment securities (held-to-maturity)	245,773	243,767
Other receivables	18,291	9,789
Cash at bank and cash equivalents	4,020	55,885
Total gross financial assets	2,119,989	1,685,722
Mortgage commitments	115,000	116,700
Total credit risk exposure	2,234,989	1,802,422

Of the Investment securities which the Group holds, $50M was pledged in 2007 as security for overdraft facilities at Republic Bank Limited (See Note 11).

Off-balance sheet items – Mortgage commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below.

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28. Risk management (continued)

Credit risk (continued)

Off-balance sheet items – Mortgage commitments

DETAILS	Up to 1 year '000	1 –5 years '000	Over 5 years '000	Total '000
As at 31 December 2007				
Loan commitments	115,000			115,000
Total	115,000			115,000
As at 31 December 2006				
Loan commitments	116,700			116,700
Total	116,700			116,700

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

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.

28. Risk management (continued)

Credit risk (continued)

Risk limit control and mitigation policies (continued)

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.

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.

28. Risk management (continued)

Credit risk (continued)

Risk limit control and mitigation policies (continued)

(1) Collateral (continued)

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.

(2) Lending

The Group lends up to a maximum of 95% of the property value and 100% under a special programme for projects of The Trinidad and Tobago Housing Development Corporation.

(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.

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28. Risk management (continued)

Concentration of risks of financial assets with credit risk exposure

DETAILS	2007 Mortgage loans	2007 Other financial assets	2007 TOTALS		2006 Mortgage loans	2006 Other financial assets	2006 TOTALS	
	$	$	$	%	$	$	$	%
ARIMA BOROUGH COUNCIL	233,321		233,321	11.0	170,563		170,563	10.1
CHAGUANAS BOROUGH COUNCIL	287,957		287,957	13.6	221,591		221,591	13.1
COUVA/TABAQUITE/TALPARO REG.	185,286		185,286	8.8	141,500		141,500	8.4
D/MARTIN REGIONAL CORPORATION	158,048		158,048	7.5	88,501		88,501	5.3
LAVENTILLE/SAN JUAN REGIONAL CORPORATION	146,635		146,635	6.9	94,943		94,943	5.6
MAYARO/RIO CLARO REGIONAL CORPORATION	10,408		10,408	0.5	7,940		7,940	0.5
POS CITY COUNCIL	114,023		114,023	5.4	96,330		96,330	5.7
PENAL/DEBE REGIONAL CORPORATION	33,546		33,546	1.6	24,107		24,107	1.4
POINT FORTIN BOROUGH COUNCIL	23,760		23,760	1.1	18,645		18,645	1.1
PRINCESS TOWN REGIONAL CORPORATION	34,263		34,263	1.6	26,751		26,751	1.6
SAN FERNANDO CITY COUNCIL	158,914		158,914	7.5	129,649		129,649	7.7
SANGRE GRANDE REGIONAL CORPORATION	50,073		50,073	2.4	37,816		37,816	2.2
SCARBOROUGH	10,507		10,507	0.5	7,131		7,131	0.4
SIPARIA REGIONAL CORPORATION	41,057		41,057	1.9	34,455		34,455	2.1
TOBAGO EAST	6,518		6,518	0.3	5,246		5,246	0.3
TOBAGO WEST	18,350		18,350	0.9	13,618		13,618	0.8
TUNAPUNA/PIARCO REGIONAL CORPORATION	339,239		339,239	16.0	257,495		257,495	15.3
		264,964	264,964	12.5		309,441	309,441	18.4
TOTALS	**1,851,905**	**264,964**	**2,116,869**	**100.0**	**1,376,281**	**309,441**	**1,685,722**	**100.0**

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(Continued)

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	**Notes**	**High grade**	**Standard grade**	**Sub-standard grade**	**Individually impaired**	**Total ‘000**
As at 31 December 2007						
Balance		452,896	1,204,612	175,949	18,448	1,851,905
		24%	65%	10%	1%	100%
As at 31 December 2006						
Balance		519,150	749,825	86,069	21,237	1,376,281
		38%	54%	6%	2%	100%

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 not being serviced and specific provisions are made for the impaired portion.

INVESTMENT SECURITIES	**Notes**	**High grade**	**Standard grade**	**Sub-Standard grade**	**Individually Impaired**	**Total ‘000**
As at 31 December 2007						
Held to maturity		223,687	22,086	–	–	245,773
		91%	9%			100%
As at 31 December 2006						
Held to maturity		223,687	22,080	–	–	243,767
		92%	8%			100%

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28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

CASH AND CASH EQUIVALENTS	**Notes**	**High grade**	**Standard grade**	**Sub-Standard grade**	**Individually impaired**	**Total ‘000**
As at 31 December 2007						
Balance		–	4,020	–	–	4,020
			100%			100%
As at 31 December 2006						
Balance		–	55,885	–	–	55,885
			100%			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.

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 31st December, 2007 mortgage loans which represent the largest portion of the Group’s financial assets (87%), are backed by collateral. The comparative figure for 2006 was 82%.
- 89% of mortgage loans are categorized in the top two grades (2006: 92%).
- 1% of the mortgage loans portfolio is impaired (2006: 2%).

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(Continued)

28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

Mortgage loans

In measuring credit risk of mortgage loans, the Group assesses the probability of default by a counterparty 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.

Fair Value of collateral

Upon initial recognition of mortgage loans and advances, the fair value of collateral is based on external valuations commonly used for residential properties. In subsequent periods, the fair value is up dated periodically to ensure the quality of the portfolio is maintained.

Mortgage loans - Individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $18,448 (2006: $21,237). 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:

	2007	2006
Mortgage loans – Individually impaired		
Total	18,448	21,237
Fair value of collateral	51,809	50,826

28. Risk management (continued)

Mortgage loans (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. 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.

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28. Risk management (continued)

Mortgage loans (continued)

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.

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

Impairment provision		**2007**			**2006**	
DETAILS	**Individual**	**Collective**	**Total**	**Individual**	**Collective**	**Total**
Beginning balance	1,223	3,535	4,758	1,223	4,535	5,758
Recoveries/ write-backs		–	–		(1,000)	(1,000)
Provision for the year	1,243	(970)	273	–	–	–
Balance at year end	2,466	2,565	5,031	1,223	3,535	4,758

Repossessed collateral

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. The fair value of repossessed properties at 31st December, 2007 is $47,359 (2006: 50,826).

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(Continued)

28. Risk management (continued)

Mortgage loans (continued)

Renegotiated mortgage loans

When the terms of mortgage loans which are impaired have been renegotiated, interest income is once more recognized on such loans on an accrual basis, rather than as paid.

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 concentration of 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% (2006: 75%) 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 11% (2006: 13%) 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 debt accounts for 68% (2006: 95%) of the Group's financial liabilities. This is made up of fixed and floating bonds and debentures as follows:

	2007	%	2006	%
Long-term debt				
Fixed	969,646	82	1,043,669	82
Floating	216,662	18	227,440	18
	1,186,308	100	1,271,109	100

Long-term debt is mainly fixed. However, we have assessed the impact of a 100 basis points change in interest rates on the 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	**Decrease**
31st December, 2007		
Profit before tax	(2,167)	2,167
Tax impact 25%	758	(758)
Profit after tax	(1,409)	1,409
31st December, 2006		
Profit before tax	(2,274)	2,274
Tax impact 25%	569	(569)
Post-tax impact	(1,705)	1,705

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 31st December based on contractual undiscounted repayment obligations.

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FOR THE YEAR ENDED 31ST DECEMBER, 2007
(Expressed in Thousands of Trinidad and Tobago dollars)
(Continued)

28. Risk management (continued)

Liquidity risk (continued)

Liquidity risk management process (continued)

As at 31 December 2007	**Up to 1 year $'000**	**One to five years $'000**	**Over 5 years $'000**	**Total $'000**
Liabilities				
Bank overdraft	4,800	–	–	4,800
Dividend payable	14,864	–	–	14,864
Amounts due under IDB loan program	11,830	–	–	11,830
Short term debt	189,332	–	–	189,332
Sundry creditors and accruals	69,322	–	–	69,322
Long term debt	215,331	475,582	1,119,224	1,810,137
Total undiscounted financial liabilities	505,479	475,582	1,119,224	2,100,285

As at 31 December 2006	**Up to 1 year $'000**	**One to five years $'000**	**Over 5 years $'000**	**Total $'000**
Liabilities				
Bank overdraft	15,367	–	–	15,367
Amounts due under IDB loan program	11,172	–	–	11,172
Sundry creditors and accruals	11,908	–	–	11,908
Long term debt	170,405	579,634	1,259,716	2,009,755
Total undiscounted financial liabilities	208,852	579,634	1,259,716	2,048,202

Renegotiated borrowings
During 2007, principal in the amount of $89,338 and interest totaling $27,490 on loans to the National Insurance Board were not paid when due. The carrying amount of these loans as at 31st December, 2007 was $87,332.

A moratorium of principal and interest was granted to 31st December, 2007.

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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 31st 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 is assumed to 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 is assumed to be equal to 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.

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.

NOTES

Trinidad & Tobago
Mortgage Finance
Company Limited