Trinidad & Tobago Mortgage Finance Company Limited

Annual Report 2008

Balancing the Scales

Balancing the scales

In offering affordable financing for prospective home owners, we play a strategic role in ensuring that everyone has a fair chance to "make home ownership an easy and rewarding experience".

We balance the scale – giving the opportunity for home ownership to all citizens of Trinidad and Tobago.

Our Vision

We are the lender of first choice for residential mortgages in Trinidad and 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 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.

Customer focused.

Integrity.

Teamwork.

Empowerment.

Corporate Information

BOARD OF DIRECTORS

Chairman
Calder Hart

Managing Director/Chief Executive Officer
Ingrid L-A. Lashley

Directors
Michael Annisette
Ruben Mc Sween
Esther Rajpaul
E. Henry Sealy
Eunice Walton

Corporate Secretary
Geneva Sampson

CORPORATE OFFICE

Head Office and Main Customer Service Centre
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

BANKERS

Republic Bank Limited
9-17 Park Street
Port of Spain
Trinidad W.I.

CORPORATE ATTORNEYS

M.G. Daly & Partners
115a Abercromby Street
Port of Spain
Trinidad W.I.

Ashmead Ali & Company
#36 Edward Street
Port of Spain
Trinidad W.I.

AUDITORS

Ernst & Young
5-7 Sweet Briar Road
St. Clair
Port of Spain
Trinidad W.I.

Contents

Calder Hart

Chairman's Report

"We are passionate and proud about what we do". This extract from the Vision Statement of Trinidad and Tobago Mortgage Company Limited (TTMF) underlies the approach of the Company and its staff to meeting the housing needs and fulfilling the home ownership dreams of families throughout Trinidad and Tobago. I am pleased to report that we have had another successful year of making home ownership a reality for many families. Against the background of economic adjustment, inflationary fluctuations and fluctuating interest rates, we have been successful in providing affordable financing, while achieving acceptable financial results.

The Economy

In keeping with the global trend, the Trinidad and Tobago economy slowed from a growth rate of 5.5% in 2007 to 3.5% in 2008. A 2% decline by comparison with other developed countries can be considered a creditable performance. Consistent with declining regional and international demand, both the energy and non-energy sectors showed declining activity. The manufacturing sector moved from growth of 14.9% in 2007 to 4.2% in 2008. Exploration and production in the energy sector slowed from growth of 1.5% in 2007 to a deficit of 2.0% in 2008. Indications of economic recovery in larger economies in recent months should see a gradual increase in demand resulting in the restoration of previous production levels. Inflation increased from 4.0% in 2007 to a high of 15.4% in October 2008, declining by the end of the calendar year to 14.3%, a reversal that is expected to be sustained in 2009. Unemployment fell to 4.6% in the second calendar quarter of 2008 compared to 6% in the previous period. The Government has signaled its intention to contain the increase in unemployment by maintaining its I development programmes in 2009.

The Central Bank introduced a restrictive monetary policy in 2008 to fight inflation. The 'repo' rate – the rate defining the Central Bank's lending rate to the commercial banking system, was increased from 8.0% in January to 8.75% in August 2008, remaining at that level to the end of the calendar year. The Central Bank also increased the reserve requirement from 11% in February to 17% in November 2008. These measures resulted in the increase in the prime lending rate of commercial banks from 11.75% in February to 13.00% in October 2008. Despite these trends in 2008, there has been a dramatic reduction in 2009 with T-bill interest rates recently reaching below 2%. I am confident that coinciding with the reduction in the rate of inflation and consistent with interest rates trends in developed economies, we will see further reduction in interest rates locally in 2009. Foreign exchange reserves stood at US$10,884M (nine months' imports), with the Central Bank's commitment to defend the value of the Trinidad and Tobago dollar at TT$6.29 to US$1.00.

The Housing Market

As reported in 2007, property prices at the high end of the market continued to soften in 2008, as a result of unoccupied inventory. Prices remained sticky in the middle and lower end of the market due to continued high demand at those levels. Construction activity remained high for most of the calendar year, slowing somewhat at the end of the year in response to the onset of the global economic slowdown and its impact on confidence in Trinidad and Tobago. Notwithstanding this, the construction industry experienced positive input pricing with a decline in the cost of materials and labour.

To date, Trinidad and Tobago Housing Development Corporation (HDC) has constructed 26,000 new homes. While a large proportion has been distributed to families in previous years, in 2008 the focus shifted to the regularisation of title and the conversion of properties occupied on the basis of a 'licence to occupy', to full ownership via mortgage financing. This process is expected to intensify in 2009, and will require that we balance these efforts with increasing market demand, as we seek to fulfill our role in the Government's Housing Policy.

In like fashion, partnering with the Division of Settlements, Labour and Co-operatives of the Tobago House of Assembly (THA), we have commenced the financing requirements for the purchase of homes in the Roxborough Housing Development – the first of four developments that are likely to be available for occupancy in Tobago over the next fiscal year. This exercise is pivotal to increasing our market share in the sister isle.

Key to the success of these housing programmes is the availability of affordable financing. As a consequence of the Central Bank's restrictive measures, market interest rates increased by an average of 1-2% during the calendar year 2008. In executing our role in the provision of affordable housing, , we have been able to retain, with the Government's substantial support, our financing package with special emphasis on the Government's 2% mortgage programme offered to beneficiaries under the HDC and THA housing programmes whose family income do not exceed TT$8,000.

Outlook for 2009

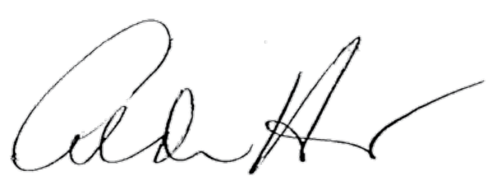
Growth has been forecast at approximately 2.0%. While oil prices dipped to a low of US$40 in March of 2009, they have since rebounded to US$70+ per barrel. The decline in manufacturing levels, due to weaker demand locally and regionally resultant movement in unemployment levels due to contraction in the energy, manufacturing and construction sectors are additional factors, which must be closely monitored, as they directly impact consumer spending. Although inflation remains high, Government has signaled its intention to lower domestic inflation and have been relatively successful to date.

Notwithstanding, we are assured of the continued progress of the housing programmes to which we remain committed. The Government has confirmed plans to deliver at least 8,000 more houses by 2010, and to commence construction of approximately 2,000 housing units in the same period. Accordingly, we anticipate measurable growth in our HDC mortgage portfolio, which includes low and middle income customers, qualifying for our 2% mortgage facility, as well as our 6-8% offerings. Having confidence that there is room for growth in good business, as we strive to be the lender of choice for prospective homeowners in Trinidad and Tobago, we are mindful of our increased responsibility to borrowers in light of the current, economic environment, and the critical role of credit adjudication in ensuring that they make prudential, financial decisions related to homeownership.

Conclusion

TTMF will continue to fulfill its role in the Government's Strategic Home Ownership Policy as documented in "Showing a New Way Home" – the housing strategy that will lead to Vision 2020. We will continue to offer affordable financing to middle and lower income families, as we explore avenues for competitively priced financing that will enable the granting of mortgages at affordable rates.

I would like to thank my fellow Directors (past and present), the Managing Director/CEO, our management and staff for their unstinting support and look forward to another successful year in 2009.



Calder Hart
Chairman

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Chairman

Ingrid L-A. Lashley
Managing Director/Chief Executive Officer

Geneva Sampson
Corporate Secretary

E. Henry Sealy
Director

Board Of Directors

Esther Rajpaul
Director

Michael Annisette
Director

Ruben Mc Sween
Director

Eunice Walton
Director

Ingrid L-A. Lashley

Managing Director/ Chief Executive Officer's Report

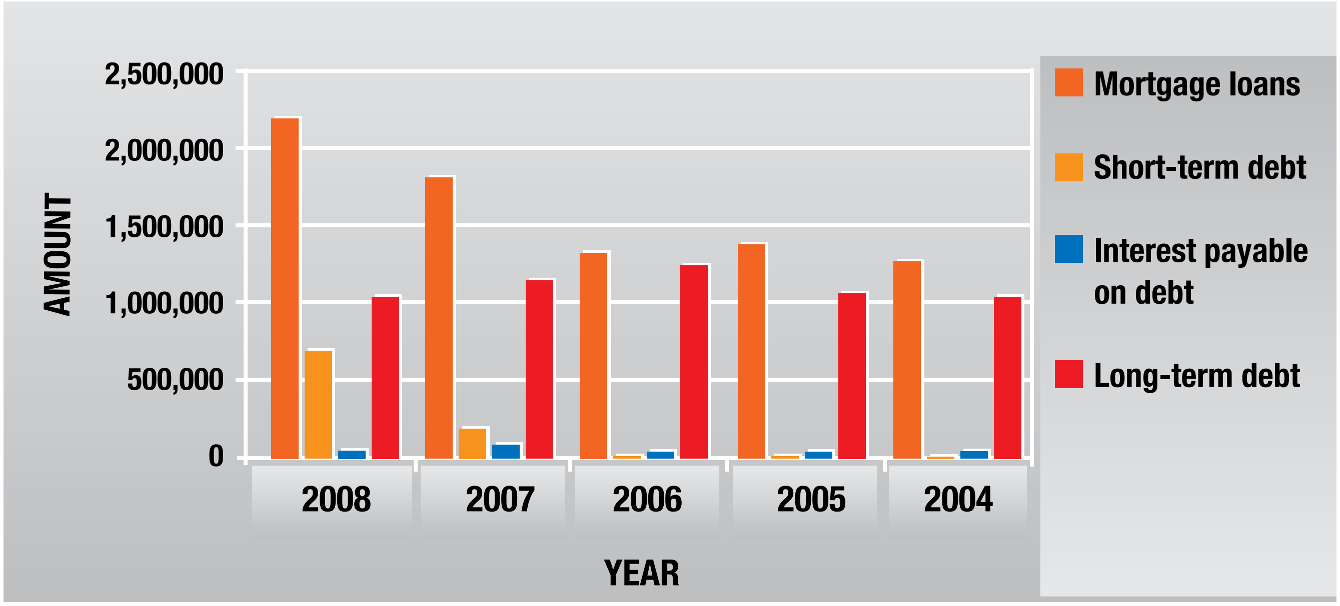
Marked by the domino effect of a global economic slowdown, fiscal 2008 presented challenges competitive funding, business growth and arrears management. Notwithstanding this, Trinidad and Tobago Mortgage Finance Company Limited (TTMF) has provided strong results for the year ended December 31, 2008.

Financial Review

Consolidated profit before tax for the year ended December 31, 2008 was $37.2M compared with $42.0M the previous year, a decrease of $4.8 million or 11.4%. After tax, profit for the year was $48M or 13.5 % below that of the previous fiscal year. This was due largely to:

- The acceleration in the cost of funding which was outstripped by the rate of growth of interest income. The marginal cost of funds was based on market rates.
- Increase in salary and related expenses as a result of the implementation of the requirements

MORTGAGE LOANS INCREASE vs LIABILITIES



of the Collective Agreement for the period ending June 30, 2009. The impact of the agreement was weighted to the final year of its term.

- Increased loan loss provisions to ensure compliance with International Financial Reporting Standards

Despite the decline in profitability, total assets grew by 18.6% from $2.254 billion in 2007 to $2.673 billion in 2008 and increase of $419 million. This growth was funded by an increase in liabilities of $387.2M or 22.3%. TTMF's formula for the financing of growth is unsustainable without the support of its shareholders who work to ensure that the role of the company as the Government's mortgage partner in its strategic housing policy is preserved.

The softening of the real estate market and its resultant impact on the demand for residential mortgages, coupled with increasing inflation rates, made for emphasis on our business in the area of affordable housing and the financing of purchases in the Government's Housing Programme. Despite the increasing cost of funding, we retain our maximum interest rate of 8%. In holding strong to our mandate of providing affordable mortgage financing, we maintained our competitive position in the market for new business.

Mortgage Underwriting

In 2008, a total of 1,389 mortgages were granted, amounting to $546.7 million. Under our 'approved mortgage company' and open market properties portfolio, 982 mortgages with rates of 6% to 8% were originated, totaling $471.8 million. Loans granted for Trinidad and Tobago Housing Development Corporation (HDC) properties amounted to $74.9 million. This occurred against a background of prudential credit criteria for new business and the monitoring of arrears where it occurs.

We continue to pursue new avenues for expansion of our portfolio in our role as lender of choice in the Government's national housing thrust. Increased lending through the 2% mortgage programme – catering to persons purchasing homes through the HDC, the Tobago House of Assembly (THA) and land through Caroni Lands – remains a priority for 2009.

In 2008, we established closer relations with the Division of Settlements, Labour and Co-operatives of the THA as their housing developments came to market. We have already commenced our financing programme in Roxborough and the Castara, Blenheim and Adventure developments are to follow

"In holding strong to our mandate of providing affordable mortgage financing, we maintained our competitive position in the market for new business."

in 2009. Partnering with the THA in the interest of customer education, we have participated in workshops, which prepare prospective homeowners for the mortgage process and responsibility. This programme is set to bear greater results in 2009, and increased activity for our Tobago Branch, as we continue to service the sister isle.

Funding

Our challenge in 2009 will be the sourcing of competitively priced funding that will afford us positive interest spreads. Long-term strategies include attracting sustainable funding through our shareholders (the National Insurance Board and The Corporation Sole), and the development of long term investment instruments for sale locally. It is estimated that $1.2 billion is required to fund our operations over the next three years. The availability of this funding is therefore critical to our continued success. We are confident that the initiatives undertaken thus far with the cooperation of our shareholders will be successful and will ensure that TTMF's role and position in the market will be sustained.

Operational efficiency

In our continued improvement of efficiency and effectiveness in our operating systems, we have continued to streamline our operations and document our procedures. Enhanced information technology platforms such as PHOENIX continue to improve efficiency in database administration and business operations. We have also undertaken an aggressive approach to risk management and controls with cross-functional business risk management. Internal Audit is active and participative at all avenues of the operation. Steps have been taken towards the digitization of our records to significantly improve archiving and retrieval to allow for superior customer service. Our Business Continuity and Disaster Recovery Plan is in place and has informed further initiatives that are to be pursued to ensure improved and continuous operational efficiency.

Human Resources

As we continue to build "the most skilled and knowledgeable team in the industry", training and succession planning play a key role in not only expanding staff's skills set, but also empowering them, as they advance their careers in mortgage banking. Our training and development programmes focus both on service delivery and the improvement of specific skills relative to our business. The programmes target a wide cross-section of our staff and when required they are encouraged and supported in the pursuit of individual study. We are also pleased to report of the improved relationship with our representative union and look forward to working with them in our mutual interest.

In an additional focus on our people, our Safety and Health Committee continues to develop safety and health programmes to bring us to world standards for our employees, contractors and our publics, while complying with Occupational Safety and Health legislation and other related requirements.

Conclusion

In the face of ongoing global economic challenges, it is anticipated that 2009 will bring further hurdles, as the local economy fees the impact of economic slowdown accompanied by declining consumer confidence, increased inflation and growing unemployment. Best practice in mortgage management thus remains our focus, as we monitor delinquency, identify high-risk affiliations in industry, employment or business management, helping customers to avoid delinquency and where necessary, navigate a path to recovery.

I would like to express my gratitude to the Board, our employees and all stakeholders for their continued support, as we seek to "make home ownership an easy and rewarding experience". It is for these partnerships that we remain poised to achieve our targets for 2009, and increase our market share, as "the lender of choice for residential mortgages in Trinidad and Tobago".

Ingrid L-A. Lashley
Managing Director/Chief Executive Officer

Ingrid L-A. Lashley
Managing Director/Chief Executive Officer

Robert C. Green
Chief Operating Officer

Executive Team

Geneva Sampson
Chief Financial Officer

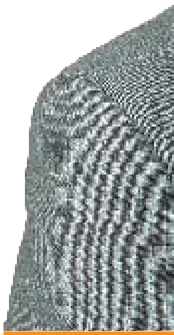
Gillian C. Caesar
General Manager, Mortgage Services

Karel Mc Intosh
Manager, Marketing and Public Relations

Myrtle Harris
Manager, Branch Operations

Brent Mc Fee
Manager, Finance

Cherrie Caracciolo
Manager, Human Resources



Management Team

Sharon Cools-Lartigue
Manager, Administration

Philip G. Joseph
Manager, Information Technology

Miguel Awai
Manager, Mortgage Administration

Waheeda Ali
Manager, Internal Audit

Wendy Huggins
Manager, Mortgage Origination

Social Investment Report

In 2008, we continued to support programmes that facilitate development, empowerment, and a better quality of life through social outreach. Education, youth, and culture are key areas of our sponsorship and charitable thrust. Our approach is founded on the philosophy that we can effect change through contributing to social development programmes that benefit stakeholders, and the less fortunate segments of our society. In facilitating homeownership, it is important that we do our part to enhance the communities in which we operate in order to bring greater value to our mortgagors.

Education and young people

Rainbow Rescue, Kids in Need of Direction (KIND), and the National Centre for Persons with Disabilities (NCPD) were some of the non-governmental organisations, which we supported in their fundraising efforts.

Rainbow Rescue – a home for socially displaced boys – has been a haven for children and teenagers between the ages of eight to eighteen years old for the past ten years. The home caters to their physical, medical and educational needs, and provides outlets for social activities. In addition to contributing to their fundraising efforts, we also make it possible for some of the children to take part in cultural activities.

Our contribution to KIND assisted with the funding of its Integrated Literacy Development Programme. KIND offers creative education for disadvantaged children, and the holistic development of families. The Integrated Literacy Development Programme, which is conducted in collaboration with SERVOL and MOMS for Literacy, equips children with literacy skills, life skills, counselling, computer literacy, remedial learning, and meals.

Continuing to focus on education and social development, we awarded a bursary for the 2008 to 2009 period of the National Centre for Persons with Disabilities' (NCPD) Bursary Programme. NCPD assists disabled youths living on public assistance/welfare, and offers vocational programmes and counselling services for trainees and their families. Our bursary will provide funding for training, remedial education, computer literacy, life skills and counselling services. NCPD has provided opportunities for many youths with disabilities.
We have also contributed to several other community-based, non-governmental, and educational organisations, including the Faculty of Humanities and Education of The University of the West Indies (St. Augustine).

Financial literacy

As a provider of financial services, we pride ourselves in providing customers with sound advice, especially as it relates to one of their most significant investments – their home. Becoming a contributor to the Central Bank of Trinidad Tobago's National Financial Literacy Programme further supported our position.

Targeting primary school students, young adults, employed persons, new and prospective homeowners and community groups, the National Financial Literacy Programme aims to sensitise the population about the significance of personal financial planning, budgeting, and management, as a mechanism for the improvement in the quality of life. Additionally, it seeks to equip the population with the skills required to deal with basic financial issues, and to develop the public's awareness of the products and services being offered in the marketplace, and the potential opportunities and risks associated with their acquisition. We played an integral part in the creation of the Central Bank's publication on home financing, which further supported our philosophy of educating current and prospective homeowners.

Culture

Trinidad and Tobago is defined by the diversity of its people and culture. In celebration of our "melting pot" workforce, we celebrated festivals such as Divali, Eid, and Emancipation by wearing cultural dress, and sharing delicacies with staff and customers. We also assisted with funding for smaller events such as Hosay, and supported Starlift Steel Orchestra in a fundraising venture, which was geared towards preparations for Panorama 2009.

At Carnival, we do our part to help the children of Rainbow Rescue to 'play mas' with the Carnival Players Children's Band. The boys are selected by the home's programme coordinator, based on their exemplary behaviour and discipline. Research has shown that culturally grounded interventions allow children to express themselves and to articulate their feelings.

Staff involvement

We believe that good corporate citizenship is further engendered through staff involvement. Our staff-led Charity Committee has been instrumental in contributing to causes within communities, and providing assistance to persons in need. Through this Committee, our staff raises funds by making a donation to the Charity Committee Fund on "Dress Down Day". The Committee has assisted persons in need of healthcare, and contributed to the Just Because Foundation – a non-profit Paediatric Cancer Support Organisation that aims to generate greater awareness of childhood cancers. In 2008, we also made a donation to the Trinidad and Tobago Sailing Association's Annual Cancer Benefit Regatta.

Our Charity Committee has also assisted sporting groups such as 1st FC Santa Rosa, a club committed to youth development in the East. Some of the projects with which this club is associated are local and international football clinics for young people in the area, as well as social education programmes. Loveuntil Foundation – which aims to enhance communities' quality of life and empower people – is another NGO that has benefited from employees' commitment to making meaningful contributions to society. Loveuntil Foundation projects include the AIDS/HIV Education Awareness Dissemination (AHEAD) Programme.

Social development programmes facilitate growth and an improved sense of self for individuals and communities alike. TTMF continues to support programmes that positively impact its target audiences and communities, as we believe that we can meaningfully contribute to society through these channels for positive change.

Financial Statements

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 consolidated balance sheet as at 31st December 2008 and the consolidated income statement, consolidated 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, 2008 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:
7th May, 2009

Trinidad & Tobago Mortgage Finance Company Limited

CONSOLIDATED BALANCE SHEET AT 31ST DECEMBER, 2008

(Expressed in Thousands of Trinidad and Tobago dollars)

	Notes	2008	2007
ASSETS			
Cash and cash equivalents	4	4,202	4,020
Debtors and prepayments	5	15,556	21,024
Investment securities – held to maturity	6	248,692	245,773
Mortgage loans	7	2,242,919	1,836,715
Property and equipment	8	33,918	35,263
Pension asset	9	1,057	99
Deferred tax asset	10	126,582	111,500
TOTAL ASSETS		2,672,926	2,254,394
LIABILITIES AND EQUITY			
LIABILITIES			
Bank overdraft		684	4,800
Dividend payable		–	14,864
Prepayments by mortgagors		17,612	16,270
Amount due under IDB loan program	11	3,998	1,571
Sundry creditors and accruals	12	91,422	69,322
Short-term debt	13	732,167	189,332
Interest payable on debt		41,176	55,928
Long-term debt	14	1,042,723	1,186,308
Subsidy 2% mortgage programme	16	194,725	199,144
Deferred tax liability		264	25
TOTAL LIABILITIES		2,124,771	1,737,564

The notes on pages 25 to 67 form part of these financial statements.

Trinidad & Tobago
Mortgage Finance
Company Limited

CONSOLIDATED BALANCE SHEET AT 31ST DECEMBER, 2008

(Expressed in Thousands of Trinidad and Tobago dollars)

Continued

	Notes	2008	2007
EQUITY			
Share capital	18	**12,408**	12,408
Retained earnings		**535,747**	504,422
TOTAL EQUITY		**548,155**	516,830
TOTAL EQUITY AND LIABILITIES		**2,672,926**	2,254,394

The notes on pages 25 to 67 form part of these financial statements.

On 7th May, 2009, the Board of Directors of Trinidad and Tobago Mortgage Finance Company Limited authorised these financial statements for issue.

: Director

: Director

Trinidad & Tobago Mortgage Finance Company Limited

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2008
(Expressed in Thousands of Trinidad and Tobago dollars)

	Notes	2008	2007
Income			
Mortgage interest		149,302	118,997
Interest expense (net)	15	(100,797)	(78,904)
Net interest income		48,505	40,093
Investment income	19	23,986	26,015
Rental income		812	1,317
Other income	20	7,164	7,849
		80,467	75,274
Expenses			
Administration	21	(36,189)	(29,656)
Building		(3,675)	(3,364)
Loan loss expenses	7 b	(3,398)	(273)
		(43,262)	(33,293)
Profit before tax		37,205	41,981
Taxation	23	10,912	13,675
Profit after tax		48,117	55,656

The notes on pages 25 to 67 form part of these financial statements.

Trinidad & Tobago Mortgage Finance Company Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER, 2008

(Expressed in Thousands of Trinidad and Tobago dollars)

	Share capital	Retained earnings	Total
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
Balance as at December 31, 2007	12,408	504,422	516,830
Dividend 2007		(16,792)	(16,792)
Net income for the year	–	48,117	48,117
Balance at December 31, 2008	12,408	535,747	548,155

The notes on pages 25 to 67 form part of these financial statements.

Trinidad & Tobago Mortgage Finance Company Limited

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER, 2008

(Expressed in Thousands of Trinidad and Tobago dollars)

	2008	2007
Cash flows from operating activities		
Profit before tax	37,205	41,981
Adjustments for		
Depreciation	3,736	3,464
Loss/(gain) on sale of fixed assets	1	(48)
Interest capitalised	(2,919)	(2,006)
Amortised subsidy 2% mortgage programme	(4,419)	(856)
Increase in pension asset	(958)	(276)
Surplus before working capital changes	32,646	42,259
Decrease/(increase) in debtors and prepayments	5,468	(5,288)
Increase in mortgages	(406,204)	(465,192)
Increase/(decrease) in prepayment by mortgagors	1,342	(5,073)
Increase/(decrease) in amount due under IDB loan program	2,427	(9,601)
Increase in sundry creditors and accruals	18,516	57,414
(Decrease)/increase in interest payable on debt	(14,752)	42,810
Taxes paid	(347)	(126)
Net cash outflow from operating activities	(360,904)	(342,797)
Cash flows from financing activities		
Proceeds from short-term debt	542,835	189,332
Subsidy 2% mortgage programme	–	200,000
Repayments on debt	(143,585)	(84,801)
Dividends paid	(31,656)	–
Net cash inflow from financing activities	367,594	304,531
Cash flows from investing activities		
Purchase of fixed assets	(2,439)	(3,320)
Proceeds from sale of fixed assets	47	288
Net cash outflow from investing activities	(2,392)	(3,032)
Net cash inflow/(outflow) for the year	4,298	(41,298)
Cash and cash equivalents at the beginning of year	(780)	40,518
Cash and cash equivalents at the end of year	3,518	(780)

The notes on pages 25 to 67 form part of these financial statements.

Trinidad & Tobago
Mortgage Finance
Company Limited

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER, 2008
(Expressed in Thousands of Trinidad and Tobago dollars)
(Continued)

	2008	2007
Represented by:		
Cash at bank	4,202	4,020
Bank overdraft	(684)	(4,800)
	3,518	(780)
Supplemental information		
Interest received	177,747	136,510
Interest paid	127,363	44,465

The notes on pages 25 to 67 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008
(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 adopted in the preparation of the consolidated financial statements are consistent with those of the previous annual financial statements for the year ended 31st December 2007 except for the adoption of new Standards and interpretations noted below:

IFRIC 14/ IAS 19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 addresses how to assess the limit, under IAS 19 Employee Benefits, on the amount of the surplus that can be recognised as an asset particularly when a minimum funding requirement exists.

2. Significant accounting policies (continued)

b) Adoption of IFRS during the year (continued)

The adoption of this new and/or revised accounting standard/interpretation has had no effect on the financial position of the Group however this may have resulted in additional disclosures.

Standards in issue not yet effective

The Group has not applied the following IFRS and IFRIC Interpretations that have been issued but are not yet effective. These standards/interpretations may not apply to the activities of the Group or have no material impact on its financial statements.

IFRS 8 Operating Segments (effective from January 1, 2009) requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group.

IAS 23 Borrowing Costs was amended (effective from January 1, 2009) and requires capitalization of borrowing costs that relate to a qualifying asset. The transitional provisions of the standard require prospective application from the effective date.

IAS 32 Financial Instruments: Presentation was amended (effective from January 1, 2009) regarding Puttable Financial Instruments and Obligations Arising on Liquidation, and requires entities to classify certain types of financial instruments as equity provided they have particular features and meet specific conditions.

IAS 39 Financial Instruments: Recognition and Measurement was amended (effective from July 1, 2009) regarding Hedging portions of risk, and clarifies the principles associated with designating a portion of cash flows or fair values of a financial instrument as a hedged item.

2. Significant accounting policies (continued)

b) Adoption of IFRS during the year (continued)

IFRS 2 Share-based Payment was amended (effective from January 1, 2009) regarding Vesting Conditions and Cancellations, and clarifies that vesting conditions are service conditions and performance conditions only, while other features of a share-based payment are not vesting conditions.

IFRS 3 Business Combinations was amended (effective from July 1, 2009). The amendments were the result of a joint project with the US FASB, and certain fundamental changes and improvements were made to reinforce the existing standard and remedy problems that have emerged with its application.

IFRS 1 First-time Adoption and IAS 27 Consolidated and Separate Financial Statements was amended (effective from January 1, 2009) and provides guidance on determining the cost of investments in subsidiaries, jointly controlled entities and associates in the financial statements of a parent entity that prepares separate financial statements.

IAS 1 Presentation of Financial Statements was revised (effective January 1, 2009) and separates owner and non-owner changes in equity, through the introduction of a statement of comprehensive income.

IFRIC 13 Customer Loyalty Programmes (effective from July 1, 2008) requires that award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. Banks often grant customers award credits (or points) as part of their credit card programme, which may be redeemed for free or discounted goods. Such banks would need to consider whether their customer loyalty programme falls under the scope of the IFRIC.

IFRIC 15 Agreements for the Construction of Real Estate (effective from January 1, 2009) regarding when and how revenue and related expenses from the sale of real estate as construction progresses should be recognized, and addresses the divergence in accounting treatment arising from such arrangements.

2. Significant accounting policies (continued)

b) Adoption of IFRS during the year (continued)

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective from October 1, 2008) provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment. It also provides guidance on where within the group the hedging instrument can be held in the hedge of a net investment, and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective from July 1, 2009) provides guidance on how to account for such transactions. It also provides guidance on when to recognize a liability and how to measure it and the associated assets, and when to derecognize the asset and liability and the consequences of doing so.

IFRIC 18 Transfers of Assets from Customers (effective from July 1, 2009) provides guidance on when and how an entity should recognize items of property, plant and equipment received from their customers.

In May 2008, the International Accounting Standards Board issued "Improvements to IFRS", which is part of its annual improvements project, and a vehicle for making non-urgent but necessary amendments to various IFRS. These amendments primarily become effective for annual periods beginning on or after January 1, 2009. The following table shows the IFRS and topics addressed by these amendments:

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2. Significant accounting policies (continued)

b) Adoption of IFRS during the year (continued)

IFRS	**Subject of Amendment**
Part I	**Amendments that result in accounting changes for presentation, recognition and measurement purposes**
IFRS 5	Plan to sell the controlling interest in a subsidiary.
IAS 1	Current/non-current classification of derivatives.
IAS 16	Recoverable amount.
IAS 19	Curtailments and negative past service cost. Plan administration costs. Replacement of term “fall due”. Guidance on contingent liabilities.
IAS 20	Government loans with a below-market interest rate.
IAS 23	Components of borrowing costs.
IAS 27	Measurement of subsidiary held for sale in separate financial statements.
IAS 28	Required disclosures when investments in associates are accounted for at fair value through profit or loss.
IAS 31	Required disclosures when investments in jointly controlled entities are accounted for at fair value through profit or loss.
IAS 29	Description of measurement basis in financial statements.
IAS 36	Disclosure of estimates used to determine recoverable amount.
IAS 38	Advertising and promotional activities. Unit of production method of amortization.
IAS 39	Reclassification of derivatives into or out of the classification at fair value through profit or loss. Designating and documenting hedges at the segment level. Applicable effective interest rate on cessation of fair value hedge accounting.
IAS 40	Property under construction or development for future use as investment property.
IAS 41	Discount rate for fair value calculations.

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2. Significant accounting policies (continued)

b) Adoption of IFRS during the year (continued)

IFRS	**Subject of Amendment (continued)**
Part II	**Amendments that are terminology or editorial changes only**
IFRS 7	Presentation of finance costs.
IAS 8	Status of implementation guidance.
IAS 10	Dividends declared after the end of the reporting period.
IAS 18	Costs of originating a loan.
IAS 20	Consistency of terminology with other IFRSs.
IAS 29	Consistency of terminology with other IFRSs.
IAS 34	Earnings per share disclosures in interim financial statements.
IAS 40	Consistency of terminology with IAS 8. Investment property held under lease.
IAS 41	Examples of agricultural produce and products. Point-of-sale costs.

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.

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.

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 33 ⅓%
Motor vehicles	-	25%
Furniture and equipment	-	12 ½%
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.

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, 2008. 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 and the interest is suspended and then accounted for on a cash basis until the loan is brought up to date.

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 and related government subsidies 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 $572.3 million (2007: $637.2 million) and are not reflected in these financial statements.

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 14).

s) Comparative information

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

3. Critical accounting judgments and key sources of estimation uncertainty

Key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty (continued)

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

Critical accounting judgments

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

a) *Deferred tax asset*

In calculating the provision for deferred taxation, management uses judgment to determine the possibility that future taxable profits will be available to facilitate utilization of taxable losses which have arisen to the 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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	2008	2007
4. Cash and cash equivalents		
Cash in hand	**7**	74
Cash at bank	**4,195**	3,946
	4,202	4,020

The average effective interest rate on cash and cash equivalents for the current year is 1% (2007: 1%).

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.

	2008	2007
5. Debtors and prepayments		
Interest receivable on investments	**5,121**	4,794
Interest subsidy receivable	**1,741**	1,879
Mortgage interest receivable	**7,909**	13,397
IDB service fee	**348**	409
Staff debtors	**389**	221
Sundry debtors	**17**	173
Other	**31**	151
	15,556	21,024
6. Investment securities		
Securities held-to-maturity		
HDC Fixed Rate 8.5% Bond	**224,389**	223,687
Sinking fund	**24,303**	22,086
	248,692	245,773

The average effective interest rate on held-to-maturity securities for the current year is 9.25% (2007: 8.59%).

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7. Mortgage loans

		2008	2007
a)	Gross mortgages	2,251,348	1,841,746
	Less: Impairment provision (7b)	(8,429)	(5,031)
	Net balance	2,242,919	1,836,715
b)	Impairment provision:		
	Balance at beginning	5,031	4,758
	Provision for year	3,398	273
	Balance at end	8,429	5,031

The average effective interest rate on the mortgage loan portfolio for the current year is 7.88% (2007: 7.75%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Continued)

8. Property and equipment

	Land & buildings	Motor vehicle	Furniture & equipment	Computer equipment	Total 2008	Total 2007
Cost						
At beginning of the period	32,668	1,778	4,728	15,080	**54,254**	52,058
Additions	1,135	274	617	413	**2,439**	3,320
Disposals	–	(259)	(3)	(27)	**(289)**	(1,124)
At end of period	33,803	1,793	5,342	15,466	**56,404**	54,254
Accumulated depreciation						
At beginning of the period	10,211	560	2,555	5,665	**18,991**	16,411
Current depreciation	655	439	469	2,173	**3,736**	3,464
Depreciation on disposals	–	(213)	(3)	(25)	**(241)**	(884)
At end of period	10,866	786	3,021	7,813	**22,486**	18,991
Net book value	22,937	1,007	2,321	7,653	**33,918**	35,263

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

	2008	2007
a) Amounts recognized in the Consolidated Balance Sheet:		
Defined benefit obligations	19,114	16,538
Fair value of plan assets	(22,081)	(19,643)
Unrecognised actuarial gains	1,910	3,006
Net defined benefits asset	(1,057)	(99)
b) Amounts recognized in the Consolidated Statement of Income:		
Current service cost	861	1,031
Interest costs	1,421	1,501
Expected return on plan assets:	(1,706)	(1,518)
Net actuarial gain	(60)	–
Net benefit cost	516	1,014
c) Actual return on plan assets:		
Expected return on plan assets	1,706	1,518
Experience adjustments on plan assets - Loss	(142)	(205)
Actual return on plan assets	1,564	1,313

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

	2008	2007
Opening defined benefit obligation	16,538	10,942
Current service cost	861	1,031
Interest costs	1,421	1,501
Members' contributions	502	440
Actuarial losses/(gains)	841	(2,248)
Benefits paid	(1,101)	(751)
Adjustment for pensioner contracts	–	5,596
Data adjustments	52	27
Closing defined benefit obligation	19,114	16,538

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(Continued)

9. Pension and other post employment benefits (continued)

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

	2008	2007
Opening fair value of plan assets	19,643	11,755
Expected return	1,706	1,518
Employer contributions	1,474	1,290
Members' contributions	502	440
Actuarial losses	(142)	(205)
Benefits paid	(1,102)	(751)
Adjustment for pensioner contracts	–	5,596
Closing fair value of plan assets	22,081	19,643

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

	2008	2007
Deposit administration contracts	70%	70%
Individual annuity contracts	30%	30%
	100%	100%

g) Summary of principal actuarial assumptions

Discount rate	8.75%	8.5%
Salary increases	6.75%	6.5%
Expected return on plan assets	8.58%	8.5%

h) The Group is expected to contribute $1,596 (2007: $1,173) to its defined benefit plan in 2009.

NOTES TO CONSOLIDATED THE FINANCIAL STATEMENTS

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10. Deferred tax assets and liabilities

Components of deferred tax asset and liabilities

	2008	2007
(a) Deferred tax assets		
Taxation losses	123,225	111,164
Other	3,357	336
	126,582	111,500
(b) Deferred tax liability – Pension asset	264	25

11. 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.

12. Sundry creditors and accruals

	2008	2007
Unearned loan fees	10,917	6,480
Home Mortgage Bank	51,707	28,725
Surplus on sales of properties in possession	627	628
NHA loan retentions	763	763
Provision for staff bonus and unpaid leave	2,242	3,542
Advance – Beneficiary Owned Land Subsidy	2,826	3,300
Mortgage clearing accounts	17,001	19,083
Corporation tax payable	3,584	–
Other	1,755	6,801
	91,422	69,322

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13. Short term debt

This represents short term advances by the major shareholder to assist in the granting of mortgages and operational expenses. The average effective interest rate on short-term debt for the current year is 8.33% (2007:8.25%).

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

In the interim, the National Insurance Board, the provider of the short-term debt, has granted a moratorium on the principal and interest to 31st December, 2008.

14. Long term debt

	2008	2007
Government of Trinidad and Tobago loans		
- 7.00% debentures 1999/2018	21,630	23,772
- 7.50% debentures 1999/2018	10,250	11,235
- 5.00% debentures 1999/2018	56,900	63,263
- 5.00% debentures 2018	127,490	127,490
	216,270	225,760
National Insurance Board loans		
- 5.00% debentures 1999/2018	10,303	11,080
- 5.00% debentures 1999/2018	70,903	76,252
	81,206	87,332
Bonds		
5.5%/6.5%/7% 2004 Bond Issue	225,000	300,000
6.0% 2005 Bond Issue	234,500	268,000
2.375% 1994 Bond Issue 2019	25,000	25,000
2.25% 1995 Bond Issue 2020	41,290	51,012
9.475/10.45% 1998 Bond 2023	100,000	100,000
10.0% 2000 Bond Issue 2020	120,000	130,000
	745,790	874,012
	1,043,266	1,187,104
Less: unamortized transaction cost	(543)	(796)
	1,042,723	1,186,308

(Expressed in Thousands of Trinidad and Tobago dollars)

14. Long term debt (continued)

Loans amounting to $81.2 million (2007: $87.3 million) are fully secured by government guarantee, whilst loans amounting to $459.5 million (2007: $568 million) are fully secured by the Group's mortgage assets.

The average effective interest rate on long-term debt for the current year is 6.51% (2007: 6.49%).

15. Interest expense

	2008	2007
Gross interest expense	111,916	87,161
Less Government subsidy:		
Bonds (Note 17)	(7,395)	(7,515)
2% Mortgage Programme (Note 16)	(3,724)	(742)
Net interest expense	100,797	78,904

16. 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.

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

	2008	2007
Grant balance b/f	199,144	200,000
Less amounts released:		
Interest expense (Note 15)	(3,724)	(742)
Other income (Note 20)	(695)	(114)
Balance deferred	194,725	199,144

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(Continued)

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

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

The total subsidy net off against interest expenses during the current year was $7,395 (2007: $7,515). Refer to Note 15.

18. Share capital

	2008	2007
Authorised		
Unlimited number of ordinary shares of no par value		
Issued and fully paid		
2,585,000 shares of no par value	12,408	12,408

19. Investment income

	2008	2007
Amortization of discount on held to maturity investment	702	–
Interest on call deposits and bank account	1,355	4,583
Interest on investments	21,929	21,432
	23,986	26,015

20. Other income

	2008	2007
Loan fees	509	480
IDB income	1,191	1,305
Bad debts recovered & provision written back	15	11
Home Mortgage Bank service and origination fee	4,543	5,648
(Loss)/gain on disposal of fixed assets	(1)	56
Subsidy 2% mortgage programme – Administration fees	695	114
Other	212	235
	7,164	7,849

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	2008	2007
21. Administration expenses		
Included therein are the following items:		
Staff costs (Note 22)	**20,288**	17,625
Depreciation	**3,736**	3,464
Legal and professional fees	**3,894**	1,901
Advertising and public relations	**1,890**	1,462
Bank interest and charges	**1,148**	978
Other	**5,233**	4,226
	36,189	29,656
22. Staff costs		
Wages, salaries and other benefits	**18,928**	16,211
National insurance	**843**	400
Pension costs – defined benefit plan	**516**	1,014
	20,288	17,625
23. Taxation		
a) Components of tax income		
Deferred tax	**(14,843)**	(13,801)
Current tax - current year	**3,931**	126
	(10,912)	(13,675)
b) Reconciliation of accounting to tax profit:		
Accounting profit	**37,205**	41,981
Tax at applicable statutory rate (25%)	**9,301**	10,495
Tax effect of items that are adjustable in determining taxable profit:		
Green fund levy/business levy	**347**	126
Tax exempt income	**(22,819)**	(22,827)
Other	**(2,259)**	(1,469)
Tax income	**(10,912)**	(13,675)

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24. Mortgage commitments

At 31 December 2008 the Group had outstanding commitments totaling $341 million (2007: $115 million), to intending mortgagors.

25. Related party transactions

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

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

	2008	2007
Mortgage loans		
Key management personnel (Including Directors)	8,521	5,898
Provisions for amounts due from related parties	–	–
Borrowings and other liabilities		
National Insurance Board		
Short term debt	732,167	189,332
Interest payable on debt	36,282	36,047
Borrowings	540,705	655,332
Interest and other income		
Key management personnel	371	229
Borrowings interest and other expense		
National Insurance Board	74,608	31,156

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	2008	2007
25. Related party transactions (continued)		
Key management compensation		
Short term benefits	2,487	2,209
Post employment benefits	262	151
Directors' remuneration	284	216

26. Contingent Liabilities - Litigation

As at 31st December, 2008, there were certain legal proceedings outstanding for the Group. This is expected in the normal course of business, with the re-possession of the underlying collateral supporting mortgage loans in arrears. This is taken into consideration in the establishment of individual and collective provisions in the assessment of the impairment of mortgages.

27. Capital management

The Group's objectives when managing capital, which is a broader concept than equity on the face of the consolidated 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. Capital increased by $437 million to $2.3 billion during the year under review.

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

28. Risk management

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

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

Risk management structure

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

Board of Directors

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

Internal audit

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

(Expressed in Thousands of Trinidad and Tobago dollars)

28. Risk management (continued)

Credit risk

The Group takes on exposure to credit risk, which is the risk that a 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.

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	
	2008	**2007**
Financial assets		
Mortgage loans	**2,251,348**	1,841,746
Investment securities (held-to-maturity)	**248,692**	245,773
Other receivables	**13,030**	18,191
Cash at bank and cash equivalents	**4,202**	4,020
Total gross financial assets	**2,517,272**	2,109,730
Mortgage commitments	**341,000**	115,000
Total credit risk exposure	**2,858,272**	2,224,730

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.

28. Risk management (continued)

Credit risk (continued)

Of the Investment securities which the Group holds, $50M was pledged in 2008 as security for overdraft facilities at Republic Bank Limited (See Note 4).

Off-balance sheet items – Mortgage commitments

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

Risk limit control and mitigation policies

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

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

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

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

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

28. Risk management (continued)

Credit risk (continued)

Risk limit control and mitigation policies (continued)

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

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

Some specific risk control and mitigation measures are outlined below:

(1) Collateral

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

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

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

28. Risk management (continued)

Credit risk (continued)

Risk limit control and mitigation policies (continued)

(2) Lending

The Group lends up to a maximum of 90% of the property value and 100% under a special programme for projects of The Trinidad and Tobago Housing Development Corporation.

(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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(Continued)

28. Risk management (continued)

Concentration of risks of financial assets with credit risk exposure

DETAILS	2008 Mortgage loans	2008 Other financial assets	2008 TOTALS		2007 Mortgage loans	2007 Other financial assets	2007 TOTALS	
	$	$	$	%	$	$	$	%
ARIMA BOROUGH COUNCIL	285,225		285,225	11.3	231,500		231,500	11.0
CHAGUANAS BOROUGH COUNCIL	342,975		342,975	13.6	287,895		287,895	13.7
COUVA/TABAQUITE/TALPARO REG.	225,439		225,439	8.9	184,133		184,133	8.7
D/MARTIN REGIONAL CORPORATION	198,770		198,770	7.9	158,048		158,048	7.5
LAVENTILLE/SAN JUAN REGIONAL CORPORATION	170,237		170,237	6.8	146,635		146,635	7.0
MAYARO/RIO CLARO REGIONAL CORPORATION	13,785		13,785	0.5	10,408		10,408	0.5
POS CITY COUNCIL	129,924		129,924	5.2	114,023		114,023	5.4
PENAL/DEBE REGIONAL CORPORATION	40,492		40,492	1.6	32,385		32,385	1.5
POINT FORTIN BOROUGH COUNCIL	29,918		29,918	1.2	23,760		23,760	1.1
PRINCESS TOWN REGIONAL CORPORATION	45,146		45,146	1.8	34,263		34,263	1.6
SAN FERNANDO CITY COUNCIL	191,266		191,266	7.6	156,726		156,726	7.4
SANGRE GRANDE REGIONAL CORPORATION	60,991		60,991	2.4	50,073		50,073	2.4
SCARBOROUGH	11,480		11,480	0.5	10,116		10,116	0.5
SIPARIA REGIONAL CORPORATION	53,575		53,575	2.1	40,535		40,535	1.9
TOBAGO EAST	10,081		10,081	0.4	6,518		6,518	0.3
TOBAGO WEST	27,245		27,245	1.1	18,350		18,350	0.9
TUNAPUNA/PIARCO REGIONAL CORPORATION	414,799		414,799	16.5	336,378		336,378	16.0
		265,924	265,924	10.6		267,984	267,984	12.6
TOTALS	**2,251,348**	**265,924**	**2,517,272**	**100.0**	**1,841,746**	**267,984**	**2,109,730**	**100.0**

(Expressed in Thousands of Trinidad and Tobago dollars)

28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The tables below show the credit quality of financial assets.

MORTGAGE LOANS	Notes	High grade	Standard grade	Sub-Standard grade	Individually impaired	Total '000
As at 31 December 2008						
Balance		637,990	1,076,775	516,267	20,316	2,251,348
		28%	48%	23%	1%	100%
As at 31 December 2007						
Balance		452,896	1,204,612	165,790	18,448	1,841,746
		25%	65%	9%	1%	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 are not being serviced, legal action is being taken against the mortgages 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 2008						
Held to maturity		224,389	24,303			248,692
		91%	9%			100%
As at 31 December 2007						
Held to maturity		223,687	22,086	–	–	245,773
		91%	9%			100%

(Expressed in Thousands of Trinidad and Tobago dollars)

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 2008						
Balance			4,202			4,202
			100%			100%
As at 31 December 2007						
Balance		–	4,020	–	–	4,020
			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, 2008 mortgage loans which represent the largest portion of the Group's financial assets (89%), are backed by collateral. The comparative figure for 2007 was 87%.
- 1% of the mortgage loans portfolio is impaired (2007: 1%). The fair value of collateral supporting these impaired mortgage loans, exceeds the outstanding balances.

28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

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.

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.

28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

Mortgage loans (continued)

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)

Credit risk (continued)

Credit quality per class of financial assets (continued)

Mortgage loans (continued)

Mortgage loans - Individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $20,316 (2007: $18,448). 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:

	2008	2007
Mortgage loans – Individually impaired		
Total	20,316	18,448
Fair value of collateral (before factoring in time to sell)	51,515	51,809

Collectively assessed allowances

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

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

(Expressed in Thousands of Trinidad and Tobago dollars)

28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

Mortgage loans (continued)

Collectively assessed allowances (continued)

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

Impairment provision		**2008**			**2007**	
DETAILS	**Individual**	**Collective**	**Total**	**Individual**	**Collective**	**Total**
Beginning balance	980	4,051	5,031	1,223	3,535	4,758
Recoveries/write-backs					–	–
Provision for the year	3,796	(398)	3,398	(243)	516	273
Balance at year end	4,776	3,653	8,429	980	4,051	5,031

Repossessed collateral

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. The fair value (after factoring in time to sell) of repossessed properties at 31st December, 2008 is $74,444 (2007: 47,359).

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.

28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

Mortgage loans (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk comprises of interest rate risk, currency risk and other price risk. The Group has no significant 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 84% (2007: 82%) 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 9% (2007: 11%) 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.

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(Continued)

28. Risk management (continued)

Interest rate risk (continued)

ii. Financial liabilities

Long-term and short-term debt accounts for 84% (2007: 79%) of the Group's financial liabilities. This is made up of fixed and floating bonds and debentures as follows:

	2008	%	2007	%
Short-term debt				
Fixed	732,167	100	189,332	100
Long-term debt				
Fixed	845,783	81	969,646	82
Floating	196,940	19	216,662	18
	1,042,723	100	1,186,308	100
Total debt	1,774,890		1,375,640	

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

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

Effect on profit after tax of a 100 basis points change in interest rates	100 Basis Points Increase	100 Basis Points Decrease
31st December, 2008		
Profit before tax	(1,969)	1,969
Tax impact 25%	492	(492)
Profit after tax	(1,477)	1,477
31st December, 2007		
Profit before tax	(2,167)	2,167
Tax impact 25%	758	(758)
Profit after tax	(1,409)	1,409

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.

(Expressed in Thousands of Trinidad and Tobago dollars)

28. Risk management (continued)

Liquidity risk (continued)

Liquidity risk management process (continued)

As at 31 December 2008	Up to 1 year $'000	One to five years $'000	Over 5 years $'000	Total $'000
Liabilities				
Bank overdraft	684	–	–	684
Dividend payable	–	–	–	–
Amounts due under IDB loan program	3,998	–	–	3,998
Short term debt	732,167	–	–	732,167
Interest payable on debt	41,176	–	–	41,176
Sundry creditors and accruals	87,838	–	–	87,838
Long term debt	200,107	470,351	899,372	1,569,830
Total undiscounted financial liabilities	1,065,970	470,351	899,372	2,435,693

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	1,571	–	–	1,571
Short term debt	189,332	–	–	189,332
Interest payable on debt	55,928	–	–	55,928
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	551,148	475,582	1,119,224	2,145,954

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.

Trinidad & Tobago Mortgage Finance Company Limited

NOTES

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