# FINANCIAL STATEMENTS • 2011

# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

TO THE SHAREHOLDERS OF TRINIDAD AND TOBAGO MORTGAGE FINANCE COMPANY LIMITED

We have audited the accompanying consolidated financial statements of Trinidad and Tobago Mortgage Finance Company Limited and its subsidiary (the "Group") which comprise the consolidated statement of financial position as at 31 December 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

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

## Auditors' Responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

Port of Spain
TRINIDAD:
27 March 2012

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
# AS AT 31 DECEMBER, 2011

(Expressed in Thousands of Trinidad and Tobago dollars)

| | Notes | 2011 | Restated 2010 | Restated 2009 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 4 | 5,120 | 128,052 | 262,649 |
| Debtors and prepayments | 5 | 15,912 | 15,562 | 14,536 |
| Investment securities - held to maturity | 6 | 251,094 | 251,257 | 250,464 |
| Mortgage loans | 7 | 2,924,942 | 2,803,638 | 2,624,004 |
| Property and equipment | 8 | 29,244 | 30,474 | 32,270 |
| Pension asset | 9 | 2,334 | 2,845 | 2,151 |
| Deferred tax asset | 10 | 161,031 | 147,233 | 135,466 |
| **TOTAL ASSETS** | | 3,389,677 | 3,379,061 | 3,321,540 |
| **LIABILITIES AND EQUITY** | | | | |
| **LIABILITIES** | | | | |
| Bank overdraft | | 36,737 | – | 162 |
| Prepayments by mortgagors | | 26,889 | 28,442 | 23,955 |
| Amount due under IDB loan programme | 11 | 1,576 | 1,513 | 15,587 |
| Amount due to HDC | 12 | 178,262 | 165,725 | 45,649 |
| Taxation payable | | 989 | 438 | 3,913 |
| Sundry creditors and accruals | 13 | 41,131 | 34,825 | 45,241 |
| Short-term debt | 14 | 883,763 | 883,763 | 883,763 |
| Interest payable on debt | | 12,965 | 15,537 | 15,528 |
| Long-term debt | 15 | 1,382,490 | 1,457,917 | 1,521,770 |
| Subsidy 2% mortgage programme | 16 | 147,306 | 165,878 | 183,460 |
| Deferred tax liability | 10 | 583 | 711 | 931 |
| **TOTAL LIABILITIES** | | 2,712,691 | 2,754,749 | 2,739,959 |
| **EQUITY** | | | | |
| Share Capital | 18 | 12,408 | 12,408 | 12,408 |
| Retained earnings | | 664,578 | 611,904 | 569,173 |
| **TOTAL EQUITY** | | 676,986 | 624,312 | 581,581 |
| **TOTAL EQUITY AND LIABILITIES** | | 3,389,677 | 3,379,061 | 3,321,540 |

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

On 27 March 2012, the Board of Directors of Trinidad and Tobago Mortgage Finance Company Limited authorised these financial statements for issue.

: Director

: Director

Feroze Khan : Director

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER, 2011

(Expressed in Thousands of Trinidad and Tobago dollars)

| | Notes | 2011 | Restated 2010 |
|---|---|---|---|
| **Income** | | | |
| Mortgage interest | | 208,622 | 199,478 |
| Interest expense (net) | 19 | (137,249) | (143,314) |
| **Net interest income** | | 71,373 | 56,164 |
| Investment income | 20 | 20,765 | 21,020 |
| Rental income | | 661 | 532 |
| Other income | 21 | 9,248 | 9,038 |
| | | 102,047 | 86,754 |
| **Expenses** | | | |
| Administration | 22 | (37,639) | (34,649) |
| Building | | (4,432) | (3,670) |
| Loan impairment expense | 7 b | (3,803) | – |
| | | (45,874) | (38,319) |
| Profit before tax | | 56,173 | 48,435 |
| Taxation | 24 | 11,939 | 11,281 |
| **Profit after tax and comprehensive income for the year** | | 68,112 | 59,716 |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER, 2011

(Expressed in Thousands of Trinidad and Tobago dollars)

| | Share capital | Retained earnings | Total |
|---|---|---|---|
| **Balance at 1 January 2009 as previously reported** | 12,408 | 535,747 | 548,155 |
| Dividend 2008 | – | (14,928) | (14,928) |
| Comprehensive income for the year (restated) | – | 48,354 | 48,354 |
| **Restated balance at 31 December 2009** | 12,408 | 569,173 | 581,581 |
| Dividend 2009 | – | (16,985) | (16,985) |
| Comprehensive income for the year (restated) | – | 59,716 | 59,716 |
| **Restated balance as at 31 December 2010** | 12,408 | 611,904 | 624,312 |
| Dividend 2010 | – | (15,438) | (15,438) |
| Comprehensive income for the year | – | 68,112 | 68,112 |
| **Balance at 31 December 2011** | 12,408 | 664,578 | 676,986 |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS
# FOR THE YEAR ENDED 31 DECEMBER, 2011

(Expressed in Thousands of Trinidad and Tobago dollars)

| | 2011 | Restated 2010 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before tax | 56,173 | 48,435 |
| Adjustments for | | |
| Depreciation | 3,796 | 3,922 |
| Loss/(gain) on sale of fixed assets | 972 | (39) |
| Interest capitalized | (272) | (478) |
| Premium/(discount) amortised | 311 | (315) |
| Amortized subsidy 2% mortgage programme | (18,572) | (17,582) |
| Decrease/(increase) in pension asset | 511 | (694) |
| Surplus before working capital changes | 42,919 | 33,249 |
| Increase in debtors and prepayments | (350) | (1,026) |
| Increase in mortgages | (121,304) | (179,634) |
| (Decrease)/increase in prepayment by mortgagors | (1,553) | 4,487 |
| Increase/(decrease) in amount due under IDB loan programme | 63 | (14,074) |
| Increase in amount due to HDC | 12,537 | 120,076 |
| Increase/(decrease) in sundry creditors and accruals | 6,306 | (10,416) |
| (Decrease)/increase in interest payable on debt | (2,572) | 9 |
| Taxes paid | (1,309) | (4,181) |
| Net cash used in operating activities | (65,263) | (51,510) |
| **Cash flows from investing activities** | | |
| Purchase of fixed assets | (4,241) | (2,409) |
| Proceeds from sale of fixed assets | 700 | 322 |
| Net cash used in investing activities | (3,541) | (2,087) |
| **Cash flows from financing activities** | | |
| Proceeds from debt | – | – |
| Repayments on debt | (75,427) | (63,853) |
| Dividends paid | (15,438) | (16,985) |
| Net cash used in financing activities | (90,865) | (80,838) |
| Net decrease in cash and cash equivalents | (159,669) | (134,435) |
| Cash and cash equivalents at the beginning of year | 128,052 | 262,487 |
| **Cash and cash equivalents at the end of year** | (31,617) | 128,052 |
| **Represented by:** | | |
| Cash at bank and in hand | 5,120 | 128,052 |
| Bank overdraft | (36,737) | – |
| | (31,617) | 128,052 |
| **Supplemental information** | | |
| Interest received | 216,295 | 223,578 |
| Interest paid | 147,309 | 148,416 |

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

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

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

### b) Changes in accounting policy

#### *i) New accounting policies adopted*

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

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

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

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

The adoption of this standard had no effect on the financial position or performance of the Group.

#### *ii) New accounting policies not adopted*

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

(Expressed in Thousands of Trinidad and Tobago dollars)

(Continued)

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

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

***iii) Standards issued but not yet effective***

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

IFRS 1 - First-time Adoption of International Financial Reporting Standards (Amendment) Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Effective 1 July 2011)
IFRS 7 - Financial Instruments: Disclosures (Amendment) (Effective 1 July 2011)
IAS 12 - Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets (Effective 1 January 2012)
IFRS 9 - Financial Instruments - Classification and Measurement (Effective 1 January 2013)
IFRS 10 - Consolidated Financial Statements, IAS 27 Separate Financial Statements (Effective 1 January 2013)
IFRS 11 - Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures (Effective 1 January 2013)
IFRS 12 - Disclosure of Interests in Other Entities (Effective 1 January 2013)
IFRS 13 - Fair Value Measurement (Effective 1 January 2013)
IAS 1 - Presentation of Items of Other Comprehensive Income - Amendments to IAS 1 (Effective 1 July 2012)
IAS 19 - Employee Benefits (Revised) (Effective 1 January 2013)

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

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

| IFRS | Subject of Amendment |
|---|---|
| IFRS 1 First-time Adoption of International Financial Reporting Standards | Accounting policy changes in the year of Adoption |
| IFRS 1 First-time Adoption of International Financial Reporting Standards | Revaluation basis as deemed cost |
| IFRS 1 First-time Adoption of International Financial Reporting Standards | Use of deemed cost for operations subject to rate regulation |
| IFRS 3 Business Combinations | Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS |
| IFRS 3 Business Combinations | Measurement of non-controlling interests (NCI) |
| IFRS 3 Business Combinations | Un-replaced and voluntarily replaced share-based payment awards |
| IFRS 7 Financial Instruments Disclosures | Clarification of disclosures |
| IAS 1 Presentation of Financial Statements | Clarification of statement of changes in equity |
| IAS 27 Consolidated and Separate Financial Statements | Transition requirements for amendments made as a result of IAS 27 Consolidated and Separate Financial Statements |
| IAS 34 Interim Financial Reporting | Significant events and transactions |
| IFRIC 13 Customer Loyalty Programmes | Fair value of award credit |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

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

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

***iii) Standards issued but not yet effective (continued)***

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

**c) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December each year. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

*Subsidiary companies*

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

**d) Financial instruments**

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

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

**e) Investment securities**

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

**f) Repurchase and reverse repurchase agreements**

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

**g) Mortgage loans**

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

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

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

***iii) Standards issued but not yet effective (continued)***

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

**h) Impairment of financial assets**

Financial assets are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

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

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

**i) Property and equipment**

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

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

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

| | | |
|---|---|---|
| Office buildings | - | 2 to 33⅓% |
| Motor vehicles | - | 25% |
| Furniture and equipment | - | 12½% |
| Computer equipment | - | 20 to 25% |

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

Gains and losses on disposals of property and equipment are determined by reference to their carrying amounts and are taken into the consolidated statement of comprehensive income.

**j) Cash and cash equivalents**

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

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

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

***iii) Standards issued but not yet effective*** *(continued)*

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

**k) Provisions**

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

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

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

**l) Employee benefits**

**Pension obligations**

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

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

**m) Financial liabilities**

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

**n) Taxation**

*Current tax*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

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

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

**n) Taxation** (continued)

*Deferred tax*

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

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

**o) Foreign currency**

Monetary assets and liabilities denominated in foreign currencies are expressed in Trinidad and Tobago dollars at rates of exchange ruling on 31 December 2011. All revenue and expenditure transactions denominated in foreign currencies are translated at mid-exchange rates and the resulting profits and losses on exchange from these trading activities are dealt with in the consolidated statement of comprehensive income.

**p) Revenue recognition**

*Mortgage loans*

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

*Investment income*

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

Rental income under operating leases is recognized in the consolidated statement of comprehensive income on a straight line basis over the term of the lease.

*Fees and commissions*

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

*Other income and expenditure*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

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

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

**q) Mortgage agency business**

The Group manages the disbursement and collection of mortgage loans on behalf of other mortgage companies. The loan portfolios managed under these agreements totalled $358.0 million (2010: $421.3 million) and is not reflected in these financial statements.

**r) Share capital**

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

**s) Capitalized transaction costs**

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

**t) Comparative information**

Where necessary, comparative data has been adjusted to conform with changes in presentation in the current year. Adjustments to previously reported results were made in accordance with IAS 8 – Accounting policies, changes in accounting estimates and errors. The financial statements have been restated for the years ended 31 December 2009 and 31 December 2010 and the impact of these adjustments and reclassifications are summarized in Note 12 - Amount due to HDC and related restatement.

**3. Critical accounting judgments and key sources of estimation uncertainty**

*Key sources of estimation uncertainty*

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

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

*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 at the statement of financial position date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

(Expressed in Thousands of Trinidad and Tobago dollars)

(Continued)

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

*b) Impairment of financial assets*

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

*c) Net pension asset/liability*

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

| **4. Cash and cash equivalents** | **2011** | **2010** |
|---|---|---|
| Cash in hand | 7 | 7 |
| Cash at bank | 5,113 | 128,045 |
| | 5,120 | 128,052 |

The average effective interest rate on cash and cash equivalents for the current year is 0.01% (2010: 0.57%).

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

| **5. Debtors and prepayments** | **2011** | **2010** | **2009** |
|---|---|---|---|
| Interest receivable on investments | 4,567 | 4,422 | 4,894 |
| Interest subsidy receivable | 3,007 | 1,550 | 2,776 |
| Mortgage interest receivable | 5,661 | 6,935 | 5,978 |
| IDB service fee | 456 | 594 | 323 |
| Staff debtors | 588 | 613 | 360 |
| Sundry debtors | 311 | 333 | 98 |
| Other | 1,322 | 1,115 | 107 |
| | 15,912 | 15,562 | 14,536 |

| **6. Investment securities** | **2011** | **2010** |
|---|---|---|
| **Securities held-to-maturity** | | |
| HDC Fixed Rate 8.5% Bond | 224,721 | 225,018 |
| NIPDEC 6.55% Bond | 26,209 | – |
| First Caribbean International Bank Investment | 164 | 26,239 |
| | 251,094 | 251,257 |

The average effective interest rate on held-to-maturity securities for the current year is 8.26% (2010: 7.96%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

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

## 7. Mortgage loans

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| a) Gross mortgages | 2,934,155 | 2,809,048 | 2,629,414 |
| Less: Impairment provision (7b) | (9,213) | (5,410) | (5,410) |
| Net balance | 2,924,942 | 2,803,638 | 2,624,004 |
| b) Impairment provision: | | | |
| Balance at beginning | 5,410 | 5,410 | 8,429 |
| Loan loss recovered | – | – | (22) |
| Impairment expense/(write back) for the year | 3,803 | – | (2,997) |
| Balance at end | 9,213 | 5,410 | 5,410 |
| Individual impairment | 4,617 | 3,346 | 3,346 |
| Collective impairment | 4,596 | 2,064 | 2,064 |
| | 9,213 | 5,410 | 5,410 |

The average effective interest rate on the mortgage loan portfolio for the current year is 7.28% (2010: 7.46%; 2009: 7.39%).

## 8. Property and equipment

| | Land & buildings | Motor vehicle | Furniture & equipment | Computer equipment | 2011 | 2010 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At beginning of the period | 33,874 | 1,359 | 4,835 | 12,729 | 52,797 | 51,659 |
| Additions | 95 | 298 | 355 | 3,493 | 4,241 | 2,410 |
| Disposals | – | (274) | (23) | (1,631) | (1,928) | (1,272) |
| At end of period | 33,969 | 1,383 | 5,167 | 14,591 | 55,110 | 52,797 |
| **Accumulated depreciation** | | | | | | |
| At beginning of the period | 11,244 | 376 | 2,348 | 8,355 | 22,323 | 19,389 |
| Current depreciation | 784 | 345 | 604 | 2,063 | 3,796 | 3,923 |
| Depreciation on disposals | – | (232) | (19) | (2) | (253) | (989) |
| At end of period | 12,028 | 489 | 2,933 | 10,416 | 25,866 | 22,323 |
| **Net book value** | 21,941 | 894 | 2,234 | 4,175 | 29,244 | 30,474 |

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

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

**9. Pension and other post employment benefits**

| | 2011 | 2010 |
|---|---|---|
| **a)** Amounts recognized in the consolidated statement of financial position: | | |
| Defined benefit obligations | 32,963 | 32,532 |
| Fair value of plan assets | (32,297) | (29,245) |
| Unrecognised actuarial losses | (3,000) | (6,132) |
| Net defined benefit asset | (2,334) | (2,845) |
| **b)** Amounts recognized in the Consolidated statement of comprehensive income: | | |
| Current service cost | 2,005 | 1,346 |
| Interest costs | 2,002 | 1,847 |
| Expected return on plan assets: | (1,596) | (1,955) |
| Net actuarial loss recognized in the year | 174 | – |
| Net benefit cost | 2,585 | 1,238 |
| **c)** Actual return on plan assets: | | |
| Expected return on plan assets | 1,596 | 1,955 |
| Experience adjustments on plan assets – gain/(loss) | (295) | 446 |
| Actual return on plan assets | 1,301 | 2,401 |
| **d)** Changes in the present value of the defined benefit obligation are as follows: | | |
| Opening defined benefit obligation | 32,533 | 24,140 |
| Current service cost | 2,005 | 1,346 |
| Interest costs | 2,002 | 1,847 |
| Members' contributions | 696 | 662 |
| Actuarial losses | (3,254) | 5,567 |
| Benefits paid | (1,019) | (1,029) |
| Closing defined benefit obligation | 32,963 | 32,533 |

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

| | 2011 | 2010 |
|---|---|---|
| Opening fair value of plan assets | 29,245 | 25,279 |
| Expected return | 1,596 | 1,955 |
| Employer contributions | 2,074 | 1,932 |
| Members' contributions | 696 | 662 |
| Actuarial gain/(loss) on plan assets | (295) | 446 |
| Benefits paid | (1,019) | (1,029) |
| Closing fair value of plan assets | 32,297 | 29,245 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

(Expressed in Thousands of Trinidad and Tobago dollars)

(Continued)

**9. Pension and other post employment benefits** (continued)

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

| | 2011 | 2010 |
|---|---|---|
| Deposit administration contracts | 75% | 70% |
| Individual annuity contracts | 25% | 30% |
| | 100% | 100% |

Summary of principal actuarial assumptions

| | 2011 | 2010 |
|---|---|---|
| Discount rate | 6.5% | 6.0% |
| Salary increases | 5.0% | 5.0% |
| Expected return on plan assets | 5.3% | 5.3% |

**g)** The Group is expected to contribute $2,145 (2010: $2,066) to its defined benefit plan in 2012.

**10. Deferred tax assets and liabilities**

Components of deferred tax asset and liabilities

| | 2011 | 2010 |
|---|---|---|
| **(a) Deferred tax assets** | | |
| Taxation losses | 155,555 | 146,126 |
| Loan fees | 3,684 | – |
| Other | 1,792 | 1,107 |
| | 161,031 | 147,233 |
| **(b) Deferred tax liability - Pension asset** | 583 | 711 |

**11. Amount due under IDB loan programme**

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

**12. Amount due to HDC and related restatement**

In October 2009, on the advice of the Government of Trinidad and Tobago (GOTT), the Company was asked to manage properties purchased from the Trinidad and Tobago Housing Development Corporation (HDC) as an administered mortgage portfolio, with the HDC bearing the associated risks and rewards. The Company therefore ceased recognizing any new mortgages as assets and provided only administrative services for which a fee was earned.

In January 2011, the GOTT reversed the original arrangement and advised the Company that the risks and rewards of this mortgage portfolio were to reside with TTMF with retroactive effect. To account for this change retroactively and recognize the HDC mortgages and related impact on the statement of income, the Company's financial statements have been restated as follows:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

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

**12. Amount due to HDC and related restatement** (continued)

| | Restated | As previously reported | Restated | As previously reported |
|---|---|---|---|---|
| | **2010** | **2010** | **2009** | **2009** |
| Mortgage loans | 2,803,638 | 2,633,865 | 2,624,004 | 2,577,626 |
| Debtors and prepayments | 15,562 | 15,616 | 14,536 | 15,146 |
| Amount due to HDC | 165,725 | – | 45,649 | – |
| Subsidy 2% mortgage programme | 165,878 | 172,104 | 183,460 | 183,721 |
| Retained earnings | 611,904 | 601,684 | 569,173 | 568,793 |
| Mortgage interest | 199,478 | 194,399 | 178,187 | 178,003 |
| Interest expense | 143,314 | 148,426 | 130,183 | 130,408 |
| Other income | 9,038 | 9,389 | 8,310 | 8,339 |

**13. Sundry creditors and accruals**

| | **2011** | **2010** |
|---|---|---|
| Unearned loan fees | 14,735 | 13,346 |
| Home Mortgage Bank | 5,114 | 4,755 |
| Provision for staff bonus and unpaid leave | 3,217 | 2,999 |
| Advance - Beneficiary Owned Land Subsidy | 3,454 | 3,341 |
| Mortgage clearing accounts | 10,336 | 5,206 |
| Other | 4,275 | 5,178 |
| | 41,131 | 34,825 |

**14. Short-term debt**

This represents short-term advances by the major shareholder to assist in the granting of mortgages and operational expenses. The average effective interest rate on short-term debt for the current year is 7.50% (2010:7.50%).

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 to 31 December 2011.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

(Expressed in Thousands of Trinidad and Tobago dollars)

(Continued)

## 15. Long term debt

| | 2011 | 2010 |
|---|---|---|
| Government of Trinidad and Tobago loans | | |
| - 7.00% debentures 1999/2018 | 16,620 | 18,406 |
| - 7.50% debentures 1999/2018 | 7,921 | 8,755 |
| - 5.00% debentures 1999/2018 | 42,673 | 47,652 |
| - 5.00% debentures 2018 | 127,490 | 127,490 |
| | 194,704 | 202,303 |
| National Insurance Board loans | | |
| - 5.00% debentures 1999/2018 | 7,726 | 9,062 |
| - 5.00% debentures 1999/2018 | 53,173 | 62,366 |
| | 60,899 | 71,428 |
| **Bonds** | | |
| 5.5%/6.5%/7% 2004 Bond Issue | 225,000 | 225,000 |
| 6.0% 2005 Bond Issue | 134,000 | 167,500 |
| 2.375% 1994 Bond Issue 2019 | 20,000 | 22,500 |
| 2.25% 1995 Bond Issue 2020 | 37,161 | 41,290 |
| 9.475/10.45% 1998 Bond 2023 (Note19) | 100,000 | 100,000 |
| 10.0% 2000 Bond Issue 2020 (Note 19) | 90,000 | 100,000 |
| 7%/6% 2009 Bond Issue | 500,000 | 500,000 |
| 8.5% 2009 HMB Loan | 21,485 | 28,883 |
| | 1,127,646 | 1,185,173 |
| | 1,383,249 | 1,458,904 |
| Less: unamortized transaction cost | (759) | (987) |
| | 1,382,490 | 1,457,917 |

Loans amounting to $60.9 million (2010: $71.4 million) are fully secured by Government guarantee, whilst loans amounting to $869 million (2010: $892.5 million) are fully secured by the Group's mortgage assets.

The average effective interest rate on long-term debt for the current year is 6.51% (2010: 6.56%).

## 16. Subsidy 2% mortgage programme

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

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Grant balance brought forward | 165,878 | 183,460 | 194,725 |
| Less amounts released: | | | |
| Interest expense (Note 19) | (15,712) | (15,006) | (9,746) |
| Other income (Note 21) | (2,860) | (2,576) | (1,519) |
| Balance deferred | 147,306 | 165,878 | 183,460 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

(Expressed in Thousands of Trinidad and Tobago dollars)
(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 Comprehensive Income.

The total subsidy net off against interest expenses during the current year was $5.939 million (2010: $6.269 million). Refer to Note 19.

## 18. Share capital

| | 2011 | 2010 |
|---|---|---|
| Authorised | | |
| Unlimited number of ordinary shares of no par value | | |
| Issued and fully paid | | |
| 2,585,000 shares of no par value | 12,408 | 12,408 |

## 19. Interest expense

| | 2011 | 2010 |
|---|---|---|
| Gross interest expense | 158,900 | 164,589 |
| Less Government subsidy: | | |
| Bonds (Note 15) | (5,939) | (6,269) |
| 2% Mortgage Program (Note 16) | (15,712) | (15,006) |
| Net interest expense | 137,249 | 143,314 |

## 20. Investment income

| | 2011 | 2010 |
|---|---|---|
| Amortization of (premium)/discount on held-to-maturity investment | (311) | 315 |
| Interest on call deposits and bank account | – | 747 |
| Interest on investments | 21,076 | 19,958 |
| | 20,765 | 21,020 |

## 21. Other income

| | 2011 | 2010 |
|---|---|---|
| Loan fees | 1,550 | 1,688 |
| IDB income | 838 | 1,057 |
| Home Mortgage Bank service and origination fee | 3,165 | 3,510 |
| Subsidy 2% mortgage programme | | |
| - Administration fees | 2,979 | 2,641 |
| Other | 716 | 142 |
| | 9,248 | 9,038 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

(Expressed in Thousands of Trinidad and Tobago dollars)

(Continued)

## 22. Administration expenses

| | 2011 | 2010 |
|---|---|---|
| Included therein are the following items: | | |
| Staff costs (Note 23) | 24,387 | 24,218 |
| Depreciation | 3,796 | 3,922 |
| Legal and professional fees | 3,046 | 1,636 |
| Advertising and public relations | 2,190 | 1,647 |
| Bank interest and charges | 167 | 48 |
| Other | 4,053 | 3,178 |
| | 37,639 | 34,649 |

## 23. Staff costs

| | 2011 | 2010 |
|---|---|---|
| Wages, salaries and other benefits | 20,874 | 22,023 |
| National insurance | 927 | 926 |
| Pension costs – defined benefit plan | 2,586 | 1,269 |
| | 24,387 | 24,218 |

## 24. Taxation

**a) Components of tax income**

| | 2011 | 2010 |
|---|---|---|
| Deferred tax | (13,925) | (11,987) |
| Current tax - current year | 1,986 | 706 |
| | (11,939) | (11,281) |

**b) Reconciliation of accounting to tax profit:**

| | 2011 | 2010 |
|---|---|---|
| Accounting profit | 56,173 | 48,435 |
| Tax at applicable statutory rate (25%) | 14,043 | 12,109 |
| Tax effect of items that are adjustable in determining taxable profit: | | |
| Provision for Green Fund Levy and other taxes | 492 | 367 |
| Tax exempt income | (21,088) | (20,293) |
| Other | (5,386) | (3,464) |
| Tax income | (11,939) | (11,281) |

## 25. Mortgage commitments

At 31 December 2011 the Group had outstanding commitments totalling $341 million (2010: $336 million), to intending mortgagors.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

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

## 26. Related party transactions

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

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

| | 2011 | 2010 |
|---|---|---|
| **Mortgage loans** | | |
| Key management personnel (including Directors) | 5,768 | 9,626 |
| **Borrowings and other liabilities** | | |
| **National Insurance Board** | | |
| Short-term debt | 883,763 | 883,763 |
| Interest payable on debt | 4,589 | 6,881 |
| Borrowings | 419,899 | 463,928 |
| **Interest and other income** | | |
| Key management personnel | 326 | 540 |
| **Borrowings interest and other expense** | | |
| National Insurance Board | 94,009 | 96,326 |
| **Key management compensation** | | |
| Short-term benefits | 1,928 | 2,384 |
| Post employment benefits | 248 | 247 |
| Directors' remuneration | 464 | 355 |

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

## 27. Contingent liabilities - litigation

As at 31 December 2011, 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.

## 28. Capital management

The Group's objectives when managing capital, which is a broader concept than equity on the face of the Consolidated Statement of Financial Position, are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group defines capital as an appropriate mix of debt and equity. Capital increased by $53 million to $677 million during the year under review.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

(Expressed in Thousands of Trinidad and Tobago dollars)

(Continued)

## 29. 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.

**Credit risk**

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

Credit risk is the most important risk that the Group faces; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to mortgage loans, and investment activities that bring debt securities and other bills into the Group's asset portfolio. There is also credit risk in financial instruments, such as loan commitments which is not included in the Statement of Financial Position. These commitments are due within one year of the financial year end.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

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

**29. Risk management** (continued)

**Credit risk** (continued)

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

| Details | Maximum exposure 2011 | 2010 |
|---|---|---|
| **Financial assets** | | |
| Mortgage loans | 2,934,155 | 2,809,048 |
| Investment securities (held-to-maturity) | 251,094 | 251,257 |
| Other receivables | 10,222 | 11,098 |
| Cash at bank and cash equivalents | 5,120 | 128,052 |
| **Total gross financial assets** | 3,200,591 | 3,199,455 |
| Mortgage commitments | 341,000 | 336,000 |
| **Total credit risk exposure** | 3,541,591 | 3,535,455 |

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

**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.

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.

**29. Risk management** (continued)

**Credit risk** (continued)

**Risk limit control and mitigation policies** (continued)

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.

***(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.

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

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

***(3) Geographical concentrations***

The Group monitors the financial assets credit risk by geographical concentration to prevent over exposure in any area or any residential housing development. The Group manages its investment portfolio by focusing on maintaining a diversified portfolio and concentration percentages. Identified concentrations of credit risks are controlled and managed accordingly.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

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

**29. Risk management** (continued)

**Credit risk** (continued)

**Concentration of risks of financial assets with credit risk exposure**

**DETAILS**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| **MORTGAGE LOANS** | **$** | **%** | **$** | **%** |
| ARIMA BOROUGH COUNCIL | 391,388 | 12.20% | 373,431 | 11.70% |
| CHAGUANAS BOROUGH COUNCIL | 431,248 | 13.50% | 432,902 | 13.50% |
| COUVA/TABAQUITE/TALPARO REG. | 317,211 | 10.00% | 284,626 | 9.00% |
| D/MARTIN REGIONAL CORPORATION | 244,968 | 7.70% | 233,654 | 7.30% |
| LAVENTILLE/SAN JUAN REGIONAL CORPORATION | 201,563 | 6.30% | 191,480 | 6.00% |
| MAYARO/RIO CLARO REGIONAL CORPORATION | 17,541 | 0.50% | 17,034 | 0.50% |
| POS CITY COUNCIL | 152,789 | 4.80% | 162,482 | 5.00% |
| PENAL/DEBE REGIONAL CORPORATION | 58,325 | 1.90% | 53,318 | 1.70% |
| POINT FORTIN BOROUGH COUNCIL | 32,690 | 1.00% | 32,762 | 1.00% |
| PRINCES TOWN REGIONAL CORPORATION | 63,703 | 2.00% | 62,111 | 2.00% |
| SAN FERNANDO CITY COUNCIL | 268,583 | 8.40% | 270,321 | 8.40% |
| SANGRE GRANDE REGIONAL CORPORATION | 78,307 | 2.00% | 73,023 | 2.20% |
| SCARBOROUGH | 13,243 | 0.50% | 12,864 | 0.40% |
| SIPARIA REGIONAL CORPORATION | 64,582 | 2.00% | 63,054 | 2.00% |
| TOBAGO EAST | 28,688 | 1.00% | 27,187 | 0.90% |
| TOBAGO WEST | 29,618 | 1.00% | 28,051 | 0.90% |
| TUNAPUNA/PIARCO REGIONAL CORPORATION | 539,708 | 16.90% | 490,748 | 15.30% |
| **TOTAL MORTGAGE LOANS** | 2,934,155 | 91.70% | 2,809,048 | 87.80% |
| **OTHER FINANCIAL ASSETS** | 266,436 | 8.30% | 390,407 | 12.20% |
| **TOTAL** | 3,200,591 | 100.00% | 3,199,455 | 100.00% |

**Credit quality per class of financial assets**

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

- Mortgage loans
- Investment securities
- Cash and cash equivalents

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

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

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

| **Mortgage loans** | **High grade** | **Standard grade** | **Sub-standard grade** | **Individually impaired** | **Total** |
|---|---|---|---|---|---|
| **2011** | | | | | |
| **Balance** | 2,282,990 | 506,287 | 104,962 | 39,916 | 2,934,155 |
| | 78% | 17% | 4% | 1% | 100% |
| **2010** | | | | | |
| **Balance** | 2,102,078 | 560,419 | 106,362 | 40,189 | 2,809,048 |
| | 75% | 20% | 4% | 1% | 100% |

(Expressed in Thousands of Trinidad and Tobago dollars)

**29. Risk management** (continued)

**Credit risk** (continued)

**Credit quality per class of financial assets** (continued)

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

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

| Investment Securities | High grade | Standard grade | Sub-standard grade | Individually impaired | Total |
|---|---|---|---|---|---|
| **2011** | | | | | |
| Held-to-maturity | 250,930 | 164 | – | – | 251,094 |
| | 99.94% | 0.06% | – | – | 100% |
| **2010** | | | | | |
| Held-to-maturity | 225,018 | 26,239 | – | – | 251,257 |
| | 90% | 10% | – | – | 100% |

The credit quality of cash and cash equivalents as at 31 December 2011 and 31 December 2010 has been assessed as standard grade.

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

- At 31 December 2011 mortgage loans which represent the largest portion of the Group's financial assets (86%), are backed by collateral. The comparative figure is 83%.
- 1% of the mortgage loans portfolio is impaired (2010: 1%). The fair value of collateral supporting these impaired mortgage loans, exceeds the outstanding balances.

***Impairment assessment***

The main considerations for the mortgage loans impairment assessment include whether any payments of principal or interest are overdue by more than 180 days or whether there are any known difficulties in the cash flows of mortgagors or infringement of the original term of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

***Individually assessed allowances***

The Group determines the allowances appropriate for each significant mortgage loan on an individual basis. Items considered when determining allowance amounts include the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

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

**29. Risk management** (continued)

**Credit risk** (continued)

**Credit quality per class of financial assets** (continued)

***Impairment assessment*** *(continued)*

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

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

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

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

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

***Mortgage loans - individually impaired***

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $39.916 million (2010: $40.189 million). The breakdown of the gross amount of individually impaired loans and advances, along with the fair value of the related collateral held by the Group as security, are as follows:

| **Mortgage loans – individually impaired** | **2011** | **2010** |
|---|---|---|
| Total | 39,916 | 40,189 |
| Fair value of collateral (before factoring in time to sell) | 43,442 | 43,637 |

***Collectively assessed allowances***

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

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

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

| **Impairment Provision Details** | **Individual** | **Collective** | **2011 Total** | **Individual** | **Collective** | **2010 Total** |
|---|---|---|---|---|---|---|
| Beginning balance | 3,346 | 2,064 | 5,410 | 3,346 | 2,064 | 5,410 |
| Recoveries/write-backs | – | – | – | – | – | – |
| Provision for the year | 1,271 | 2,532 | 3,803 | – | – | – |
| Balance at year end | 4,617 | 4,596 | 9,213 | 3,346 | 2,064 | 5,410 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

(Expressed in Thousands of Trinidad and Tobago dollars)

(Continued)

**29. Risk management** (continued)

**Credit risk** (continued)

**Credit quality per class of financial assets** (continued)

***Repossessed collateral***

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. The fair value (after factoring in time to sell) of repossessed properties at 31 December 2011 is $37.829 million (2010: $12.015 million).

**Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk comprises of interest rate risk, currency risk and other price risk. The Group has no significant exposure to currency risk and other price risk.

**Interest rate risk**

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

**i. Financial assets**

**a) Mortgage loans**

Mortgage loans account for 86% (2010: 83%) 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 7.4% (2010: 7.4%) of the Group's total assets. These are held-to-maturity financial assets comprising of fixed rate bonds.

**ii. Financial liabilities**

Long-term and short-term debt accounts for 84% (2010: 85%) of the Group's financial liabilities. This is made up of fixed and floating bonds and debentures as follows:

| | **2011** | **%** | **2010** | **%** |
|---|---|---|---|---|
| Short-term debt | | | | |
| Fixed | 883,763 | 100 | 883,763 | 100 |
| Long-term debt | | | | |
| Fixed | 1,224,679 | 89 | 1,283,477 | 88 |
| Floating | 157,811 | 11 | 174,440 | 12 |
| | 1,382,490 | 100 | 1,457,917 | 100 |
| Total debt | 2,266,253 | | 2,341,680 | |

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.

(Expressed in Thousands of Trinidad and Tobago dollars)

**29. Risk management** (continued)

**Interest rate risk** (continued)

**ii. Financial liabilities** (continued)

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

| **Effect on profit after tax of a 100 basis points change in interest rates** | **100 Basis Points** | |
|---|---|---|
| | **Increase** | **Decrease** |
| **31 December 2011** | | |
| Profit before tax | (1,578) | 1,578 |
| Tax impact 25% | 394 | (394) |
| Profit after tax | (1,184) | 1,184 |
| **31 December 2010** | | |
| Profit before tax | (1,744) | 1,744 |
| Tax impact 25% | 436 | (436) |
| Profit after tax | (1,308) | 1,308 |

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 fulfil 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

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

## 29. Risk management (continued)

### Liquidity risk management process (continued)

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

| 2011 | Up to 1 year $'000 | One to five years $'000 | Over 5 years $'000 | Total $'000 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Bank overdraft | 36,737 | – | – | 36,737 |
| Amounts due under IDB loan programme | 1,576 | – | – | 1,576 |
| Short-term debt | 883,763 | – | – | 883,763 |
| Interest payable on debt | 12,965 | – | – | 12,965 |
| Sundry creditors and accruals | 41,131 | – | – | 41,131 |
| Long-term debt | 138,968 | 1,008,753 | 912,963 | 2,060,684 |
| **Total undiscounted financial liabilities** | 1,115,140 | 1,008,753 | 912,963 | 3,036,856 |

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

### 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 statement of financial position date and separately discloses information where the fair values are different from the carrying values. At 31 December, carrying values approximated their fair values for all classes of financial instruments as follows:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011

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

**29. Risk management** (continued)

**Fair value of financial assets and liabilities** (continued)

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

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

The Group's assets are all classified as Level 2. Included in the Level 2 category are financial assets that are measured using a valuation techniques based on assumptions that are supported by prices from observable current market transactions and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets valued using the Group's own models whereby the majority of assumptions are market observable.

For the year ended 31 December 2011 there was no transfer of assets among any level.

**Operational risk**

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

**30. Subsequent events**

The Board of Directors of the both companies (TTMF and TRINMAC) approved the amalgamation of TRINMAC and TTMF in November 2011. The documents were filed with the Registrar of Companies to effect the amalgamation. We are currently awaiting the issuance of the Certificate of Amalgamation. The amalgamation of TRINMAC and TTMF will be effected in the 2012 financial statements.

# NOTES

# NOTES

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