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Financial Statements of

HOME MORTGAGE BANK
MORTGAGE PARTICIPATION FUND

December 31, 2016

HOME MORTGAGE BANK MORTGAGE PARTICIPATION FUND

December 31, 2016

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Independent Auditors' Report to the Members of Home Mortgage Bank Mortgage Participation Fund

Opinion

We have audited the financial statements of Home Mortgage Bank Mortgage Participation Fund ("the Fund"), which comprise the statement of financial position as at December 31, 2016, the statements of comprehensive income, changes in net assets attributable to unit holders and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Trinidad and Tobago and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those Charged with Governance for the Financial Statements

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

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Responsibilities of Management and those Charged with Governance for the Financial Statements (continued)

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

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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Chartered Accountants

Port of Spain
Trinidad and Tobago
March 29, 2017

HOME MORTGAGE BANK
MORTGAGE PARTICIPATION FUND

Statement of Financial Position

December 31, 2016

	Notes	2016	2015
		$	$
ASSETS			
Mortgage assets (acquired under trust)	4	641,681,540	489,488,153
Cash at bank	5	2,337,793	3,142,294
Total assets		644,019,333	492,630,447
LIABILITIES			
Other payables		49,373	57,038
Net assets attributable to unit holders	7	643,969,960	492,573,409
Total liabilities		644,019,333	492,630,447

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

Director **Trustee**

HOME MORTGAGE BANK
MORTGAGE PARTICIPATION FUND

Statement of Comprehensive Income

Year ended December 31, 2016

	Notes	2016	2015
		$	$
Income			
Interest income		30,647,932	33,398,878
Operating expenses			
Audit fees		59,063	60,375
Management fees	6	6,893,377	6,983,613
Legal and professional fees		282,245	172,500
Mortgage Risk Guarantee fee	6	15,769,603	18,736,968
Other operating expenses		15,357	9,293
Total operating expenses		23,019,645	25,962,749
Operating profit before finance costs		7,628,287	7,436,129
Finance costs - interest expense		(7,628,287)	(7,436,129)
Increase/decrease in net assets attributable to unit holders		-	-

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

Statement of Changes in Net Assets Attributable to Unit Holders

Year ended December 31, 2016

	Notes	2016	2015
		$	$
Balance as at December 31	7	492,573,409	494,991,202
Increase/decrease in net assets attributable to unit holders		-	-
Interest reinvested		6,963,002	6,709,912
Contributions and redemptions by unit holders			
Subscriptions		469,370,463	242,815,809
Redemptions		(324,936,914)	(251,943,514)
Balance as at December 31	7	643,969,960	492,573,409

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

HOME MORTGAGE BANK
MORTGAGE PARTICIPATION FUND

Statement of Cash Flows

Year ended December 31, 2016

	2016	2015
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit for the year	-	-
Adjustments for:		
Change other payables	(7,665)	(7,277)
Net cash used in operating activities	(7,665)	(7,277)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of mortgage assets	(293,522,658)	(171,634,423)
Sale of mortgage assets	141,329,271	173,694,251
Net cash (used in) from investing activities	(152,193,387)	2,059,828
CASH FLOWS FROM FINANCING ACTIVITIES		
Subscriptions and interest reinvested	476,333,465	249,525,721
Redemptions	(324,936,914)	(251,943,514)
Net cash from (used in) financing activities	151,396,551	(2,417,793)
Net decrease in cash and cash equivalents	(804,501)	(365,242)
Cash and cash equivalents at the beginning of the year	3,142,294	3,507,536
Cash and cash equivalents at the end of the year	2,337,793	3,142,294
Represented by:		
Cash and cash equivalents	2,337,793	3,142,294

The accompanying notes are an integral part of the financial statements.

1. Description of the Fund

The following brief description of the Home Mortgage Bank Mortgage Participation Fund (the Fund) is provided for general information purposes only. Reference should be made to the Trust Deed and rules of the Fund for more complete information.

General Information

The Fund was established as an open-ended mutual fund. An open-ended fund is one in which the amount of Participations, which may be issued by the Fund, is unlimited. The Fund was established by the Original Trustee, the Home Mortgage Bank (the Bank) under a Trust Deed (the Deed) dated September 24, 2001. The Trust Deed is governed by the laws of the Republic of Trinidad and Tobago.

The principal activity of the Fund is to seek a high total investment return with safety of capital by investing primarily in a portfolio of mortgages secured by properties, which have either been identified and separated in the books of the Bank or purchased from Approved Mortgage Lenders and such other securities as permitted under the terms of the Deed.

The address of its registered office is Ground Floor, Prince's Court, Corner Keate and Pembroke Streets, Port of Spain, Trinidad, W.I.

Subscriptions

Participations in the Fund is offered at $1.00 per unit subject to the Bank determining otherwise, the minimum initial subscription for Units by an investor is $500 and thereafter, the minimum amount of an additional subscription by a Holder, save and except in the instances of the re-investment of any distributions payable in the Fund, is $100.

Distributions

The Bank makes distributions out of the net income at the declared rate of interest. The amount of such distributions is determined and declared by the Bank and paid monthly. Participations accrue entitlement to distributions as long as they are issued and outstanding. Participations are entitled to distributions as of the Subscription Date to (but not including) the Redemption Date.

Distributions payable in this Fund is ordinarily reinvested automatically in additional Participations of the Fund at the Issue Price as at the relevant Distribution Date unless investors or until holders request that their Distributions be paid to them in the form of a cheque.

1. Description of The Fund (continued)

Redemptions

Participations in the Fund is redeemed at $1.00 per unit without any penalties. Redemption of Participations is effected on every business day. To effect Redemption of Participation Holders must notify the Bank no later than 12 noon, or any later time specified by the Bank, on the relevant Business Day. Participations are redeemed at the Redemption Price less any stamp duty or taxation leviable thereon on the relevant Business Day. Remittance of the Redemption Proceeds is effected on the relevant Redemption Date.

Mortgage risk guarantee fee

Mortgage Risk Guarantee Fees are paid to the Bank for bearing the credit risk associated with guaranteeing a fixed return on mortgage assets.

Management fees

Management fees are paid to the Bank at a rate of 1.25% per month on the Net Asset Value of the Fund.

Taxation

Resident Individual Holders under the age of 60 years, is subject to 5% tax on income deducted prior to distribution. No further taxation is payable and the distributions do not have to be included in the Holder's annual income tax return. Resident Corporate Holders will be paid distributions without any deductions of taxes.

These financial statements were authorised for issue by the Trustees on March 29, 2017.

2. Significant Accounting Policies

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

(a) Basis of preparation

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention.

2. Significant Accounting Policies (continued)

(a) Basis of preparation (continued)

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

(i) Standards, amendment and interpretations which are effective and have been adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning January 1, 2016 that would be expected to have a material impact on the Fund.

(ii) Standards effective after January 1, 2016 that have been early adopted by the Fund

- IAS 1, *Presentation of Financial Statements* has been amended to clarify or state the following:
  - Specific single disclosures that are not material do not have to be presented even if they are the minimum requirements of a standard.
  - The order of notes to the financial statements is not prescribed.
  - Line items on the statement of financial position and the statement of profit or loss and other comprehensive income (OCI) should be disaggregated if this provides helpful information to users. Line items can be aggregated if they are not material.
  - Specific criteria are now provided for presenting subtotals on the statement of financial position and in the statement of profit or loss and OCI, with additional reconciliation requirements for the statement of profit or loss and OCI.
  - The presentation in the statement of OCI of items of OCI arising from joint ventures and associates accounted for using the equity method follows the IAS 1 approach of splitting items that may, or that will never be, reclassified to profit or loss.

2. Significant Accounting Policies (continued)

(a) Basis of preparation (continued)

(ii) Standards effective after January 1, 2016 that have been early adopted by the Fund (continued)

- IFRS 7, *Financial Instruments: Disclosures,* has been amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred assets in cases when they are derecognised in their entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset -e.g. if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred asset to the transferee is not, in itself, sufficient to be considered 'continuing involvement'.

  IFRS 7 has also been amended to clarify that the additional disclosures required by *Disclosures: Offsetting Financial Assets* and *Financial Liabilities (Amendment to IFRS 7)* are not specifically required for inclusion in condensed interim financial statements for all interim periods; however, they are required if the general requirements of IAS 34, *Interim Financial Reporting*, require their inclusion.

  The adoption of these amendments did not result in any change to the presentation and disclosures in the financial statements.

(iii) Standards, amendments and interpretations issued but not yet effective and not early adopted by the Fund (although relevant to the Fund's operations)

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these financial statements. These are not expected to have a significant effect on the financial statements of the Fund with the exception of the following set out below:

- Amendments to IAS 7, *Statement of Cash Flows*, effective for accounting periods beginning on or after January 1, 2017, requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

  The Fund is assessing the impact that this amendment will have on its 2017 financial statements.

2. Significant Accounting Policies (continued)

(a) Basis of preparation (continued)

(iii) Standards, amendments and interpretations issued but not yet effective and not early adopted by the Fund (although relevant to the Fund's operations) (continued)

- IFRS 9, *Financial Instruments,* which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value though profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

  The Fund is assessing the impact that this amendment will have on its 2018 financial statements.

- IFRS 15, *Revenue From Contracts With Customers*, effective for accounting periods beginning on or after January 1, 2018, replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes,* IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter Transactions Involving Advertising Services.* It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two entities in the same line of business exchange non-monetary assets to facilitate sales to other parties.

  The Fund will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance.

2. Significant Accounting Policies (continued)

(a) Basis of preparation (continued)

(iii) Standards, amendments and interpretations issued but not yet effective and not early adopted by the Fund (although relevant to the Fund's operations) (continued)

- IFRS 15, *Revenue From Contracts With Customers* (continued)

  There will be new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

  The fund is assessing the impact that this amendment will have on its 2018 financial statements.

(b) Functional and presentation currency

The primary activity of the Fund is to invest in mortgage assets denominated in Trinidad and Tobago dollars. Subscriptions and redemptions of units are denominated in Trinidad and Tobago dollars. The performance of the Fund is measured and reported to the investors in Trinidad and Tobago dollars. The Trustee considers the Trinidad and Tobago dollar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Trinidad and Tobago dollars which is the Fund's functional and presentation currency.

(c) Financial assets

(i) Classification

The Fund classifies its investments as loans and receivables. The Trustee determines the classification of its financial assets at initial recognition. Loans and receivables are those that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(ii) Recognition/de-recognition

All purchases and sales of loans and receivables are recognised on the trade date - the date on which the Fund commits to purchase or sell the financial asset. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all risks and rewards of ownership.

2. Significant Accounting Policies (continued)

(c) Financial assets (continued)

(iii) Measurement

Loans and receivables are initially recognised at fair value plus transaction costs. Subsequent to initial recognition, loans and receivables are carried at amortised cost.

(d) Impairment of financial assets

The Trustee assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Trustee uses to determine that there is objective evidence of an impairment loss include:

(i) significant financial difficulty of the issuer or debtor

(ii) a breach of contract, such as default or delinquency in payments

(iii) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation

(iv) the disappearance of an active market for that financial asset because of financial difficulties

(v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of individual assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of issuers or debtors in the group; or
- national or local economic conditions that correlate with defaults on assets in the group.

If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit or loss.

2. Significant Accounting Policies (continued)

(d) Impairment of financial assets (continued)

If loans and receivables have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Fund may measure impairment on the basis of an instrument's fair value using an observable market price.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

(e) Cash and cash equivalents

Cash and cash equivalents comprise of cash balances held in the bank account for the purpose of either investing into a mortgage or cash held for redemption purposes.

(f) Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. 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. The increase in the provision due to passage of time is recognised as interest expense.

(g) Net assets attributable to unit holders

The Fund issues one class of units. These are redeemable at the unit holder's option and are classified as equity in accordance with IAS 1 (Amendment). Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation'.

Redeemable units can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's net asset value calculated in accordance with the Fund's regulations.

The units are carried at the redemption amount that is payable at the statement of financial position date if the holder exercises the right to put the unit back to the Fund. Units are issued and redeemed at the holder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption.

2. Significant Accounting Policies (continued)

(g) Net assets attributable to unit holders (continued)

Should the redeemable units' terms and conditions change such that they do not comply with the strict criteria contained in the amendment, the redeemable units would be reclassified to a financial liability from the date the instrument ceases to meet the criteria. The financial liability would be measured at the instrument's fair value at the date of reclassification. Any difference between the carrying value of the equity instrument and fair value of the liability on the date of reclassification would be recognised in equity.

(h) Interest income

Interest income is recognised on a time-proportionate basis using the effective interest method and is included in the statement of comprehensive income. It includes interest income from cash and cash equivalents and on loans and receivables. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(i) Expenses

Expenses are accounted for on the accrual basis.

(j) Subscriptions and redemptions

Subscriptions and redemptions are accounted for on the accrual basis.

(k) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position sheet where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(l) Distributions

Distributions are accounted for on the accrual basis when declared by the Trustee. These are recognised in the statement of changes in net assets attributable to unit holders.

3. Critical Accounting Estimates and Judgments in Applying Accounting Principles

Impairment losses on financial assets

The Fund reviews its mortgage assets to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Fund makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from investment securities. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

	2016	2015
	$	$
4. Mortgage Assets (Acquired under Trust)		
Balance brought forward	489,488,153	491,547,981
Additions	293,522,658	171,634,423
Disposals	(141,329,271)	(173,694,251)
Balance carried forward	641,681,540	489,488,153
5. Cash at Bank		
Balances with banks	2,337,793	3,142,294

6. Related Parties

Identity of related parties

The Fund has a related party relationship with its Parent, affiliates, Trustess, directors, key management personnel and their immediate relatives.

The Fund appointed the Home Mortgage Bank, which was incorporated in the Republic of Trinidad and Tobago under the Home Mortgage Bank Act 1985 and the subsequent amendments made to the Act through Act No. 17 of 2005 (the 'Amendment Act'), as the investment management company and administrator of the Fund.

6. Related Parties (continued)

Under the administrative agreement, the Home Mortgage Bank is required to provide administrative services for the Fund including financial accounting services. The investment manager and administrator receives a management fee at a monthly rate of 1.25% of the Net Asset Value attributable to holders of redeemable shares on each valuation day as defined in the prospectus.

Home Mortgage Bank receives a fee for bearing the credit risk associated with guaranteeing a fixed return on the Mortgage assets. This fluctuates to make the overall net returns to the Fund NIL.

All transactions with related parties have been executed at arms' length in the normal course of the Fund's operations.

Total transactions for the year, and balances outstanding at the end of the year, are detailed below.

	2016 $	2015 $
Transactions		
Mortgages purchased	293,522,658	171,634,423
Mortgages sold	(141,329,271)	(173,694,251)
Managements fee for the year	6,893,377	6,983,613
Mortgage Risk Guarantee fee	15,769,603	18,736,968
Interest paid	746,237	681,958
Other balances		
Net assets attributable to unit holders	52,471,043	50,885,601

7. Net Assets Attributable to Unit Holders

In accordance with the terms of the Fund's Trust Deed, distributions to unit holders are at the Trustee's discretion.

The Fund issues one class of Units. At the reporting date, the net asset value would be $1 per unit since the Fund is managed in such a way to keep a steady value of $1 per unit.

7. Net Assets Attributable to Unit Holders (continued)

The table below illustrates the calculation of the operating net asset value (NAV) of a unit in the Fund at the reporting date used for the execution of subscriptions and redemptions of units:

	2016	2015
	$	$
Balance at beginning of year	492,573,409	494,991,202
Interest reinvested	6,963,002	6,709,912
Subscriptions	469,370,463	242,815,809
Redemptions	(324,936,914)	(251,943,514)
Net assets attributable to unit holders	643,969,960	492,573,409
Number of units outstanding at end of year	643,969,960	492,573,409
Net asset value per unit	$1.00	$1.00

8. Distributions

	2016	2015
	%	%
Average rate of return without reinvestment option	1.41	1.35
Annualised effective yield with the reinvestment option	1.48	1.36

9. Financial Risk Management

The Fund's activities expose it to a variety of financial risks and those activities involve the acceptance, analysis 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 Fund's investment manager has been given discretionary authority to manage the assets in line with the Fund's investment objectives.

Compliance with the target asset allocations and the composition of the portfolio are monitored on a regular basis. In instances where the portfolio has diverged from target asset allocations, the Fund's investment manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits. The most important types of financial risk are credit risk, market risk, operational risk and liquidity risk. Market risk includes currency risk, interest rate and other price risk.

9. Financial Risk Management (continued)

a) Credit risk

'Credit risk' is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund.

The Fund's policy over credit risk is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the credit standards set out in the Fund's prospectus and by taking collateral. This risk is mitigated by only investing cash provided by investors into mortgages. There is therefore hardly any risk involved since failure by the mortgage customer to pay their installment would result in the company selling the property and using the funds received from the sale to repay the investor or to invest in another property. Credit risk is monitored regularly by the investment manager in accordance with the policies and procedures put in place. If the credit risk is not in accordance with the investment policy or guidelines of the Fund, then the investment manager is obliged to rebalance the portfolio of each determination that the portfolio is not in compliance with the stated investment parameters.

(i) Definition

Credit risk is the potential for loss due to the failure of a counter-party or borrower to meet its financial obligations.

(ii) Management of credit risk

Credit risk is mitigated to some extent by limiting the Fund's exposure to a single debtor. The Bank provides 100% guarantee on default of any of these assets.

(iii) Analysis of credit quality

The Fund's exposure to credit risk arises in respect of the following financial instruments:

	2016	2015
	$	$
Mortgage assets	641,681,540	489,488,153
Cash and cash equivalents	2,337,793	3,142,294
	644,019,333	492,630,447

At the reporting date, there are no financial assets which were either impaired or past due.

9. Financial Risk Management (continued)

a) Credit risk (continued)

(iii) Analysis of credit quality (continued)

Mortgage assets

Mortgage assets represents collaterialised borrowings with residential customers. Credit risk is considered small because the Bank provides 100% guarantee on default of any of these assets.

The Investment Manager monitors the financial position of the mortgage assets on a quarterly basis.

Cash and cash equivalents

The Fund's cash and cash equivalents are with reputable financial institutions. The Investment Manager monitors the financial position on a quarterly basis.

(iv) Concentration of credit risk

As at the reporting date, the Fund's assets were concentrated in the following areas:

	Financial Institutions	Mortgages	Total
	$	$	$
As at December 31, 2016			
Mortgage assets	-	641,681,540	641,681,540
Cash and cash equivalents	2,337,793	-	2,337,793
	2,337,793	641,681,540	644,019,333
As at December 31, 2015			
Mortgage assets	-	489,488,153	489,488,153
Cash and cash equivalents	3,142,294	-	3,142,294
	3,142,294	489,488,153	492,630,447

There is a significant concentration in the mortgage asset portfolio towards residential mortgages. No individual investments exceeds 1% of the net assets attributable to unit holders either at December 31, 2016 or December 31, 2015.

9. Financial Risk Management (continued)

(b) 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 such as interest rate risk and other price risk trading portfolios. The Fund has no exposure to currency risk as all financial instruments are denominated in Trinidad and Tobago dollars.

(i) Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value and future cash flows of financial assets and liabilities. Fixed interest securities expose the Fund to fair value interest rate risk. Floating rate debt instruments and cash equivalents expose the Fund to cash flow interest rate risk.

(ii) Sensitivity analysis

The Fund's financial assets and net assets attributable to unit holders are exposed to fair value interest rate risk. This risk is managed by maintaining fixed rate instruments with an appropriate mix of maturity profiles. As the Fund's investments generally comprise of fixed rate instruments and interest rates on net assets attributable to unit holders are also fixed, there is no significant exposure to cash flow interest rate risk.

9. Financial Risk Management (continued)

(b) Market risk (continued)

(ii) Sensitivity analysis (continued)

A summary of the Fund's interest rate gap position analysed by the earlier of contractual re-pricing on maturity date is as follows:

	Up to One Year	One to Five Years	Over Five Years	Non-Interest Bearing	Total
	$	$	$	$	$
As at December 31, 2016					
Mortgage assets	252,177	16,053,247	625,376,116	-	641,681,540
Cash and cash equivalents	2,337,793	-	-	-	2,337,793
Total assets	2,589,970	16,053,247	625,376,116	-	644,019,333
Unit holders	643,969,960	-	-	-	643,969,960
Other payables	-	-	-	49,373	49,373
Total liabilities	643,969,960	-	-	49,373	644,019,333
Total interest rate gap	(641,379,990)	16,053,247	625,376,116	(49,373)	-
As at December 31, 2015					
Mortgage assets	592,661	13,795,114	475,100,378	-	489,488,153
Cash and cash equivalents	3,142,294	-	-	-	3,142,294
Total assets	3,734,955	13,795,114	475,100,378	-	492,630,447
Unit holders	492,573,409	-	-	-	492,573,409
Other payables	-	-	-	57,038	57,038
Total liabilities	492,573,409	-	-	57,038	492,630,447
Total interest rate gap	(488,838,454)	13,795,114	475,100,378	(57,038)	-

(iii) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from changes in interest rates or foreign exchange rates), whether those changes are caused by factors specific to the individual financial instruments or issuer, or factors affecting all similar financial instruments traded in the market.

During the period, the Fund did not hold any equity investments.

9. Financial Risk Management (continued)

c) Liquidity risk (continued)

Liquidity risk is the risk that the Fund will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk arises from fluctuations of cash flows.

The Fund's policy and the investment manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including estimated redemptions of shares, without incurring unacceptable losses or risking damage to the Fund's reputation. The Fund's liquidity risk is managed on a daily basis by the investment manager in accordance with the policies and procedures in place. Customers wishing to withdraw balances over $500,000 are required to give 2 days notice. Should the Fund not have sufficient funds in its bank account, the balance would be transferred from the Home Mortgage Bank to the Fund to facilitate the withdrawal, as the Bank guarantees settlement of any shortfalls by the Fund.

(i) Definition

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities and redeemable units.

(ii) Management of risk

The Fund is exposed to daily cash redemption of redeemable units. It therefore invests all of its assets in mortgages which can be disposed of in a relatively short space of time if the need arises. The Fund has the ability to temporarily borrow using the Fund's assets as security at times when the Trustee considers it inadvisable to realise any of the assets of the Fund. Such borrowings may be used to provide cash to redeem units. Such borrowings may be used to provide cash to redeem units, but is limited to 5% of the value of the fund and must be for a period of six (6) months of less. No such borrowings have arisen during the year.

The Fund also provides for certain restrictions on the maximum value of units that can be redeemed in cash over defined periods of time and for the redemption of units in specie where there is insufficient cash available.

(iii) Maturity analysis of financial liabilities

All balances are due within twelve months of the reporting date and are equal to their carrying balances as the impact of discounting is not significant.

9. Financial Risk Management (continued)

c) Liquidity risk (continued)

(iii) Maturity analysis of financial liabilities (continued)

The following were the contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted and include estimated interest payments.

	Carrying Amount	Less than 1 Month	1 to 3 Months	12 Months
	$	$	$	$
2016				
Other payables	49,373	49,373	-	-
Net assets attributable to unit holders	643,969,960	3,919,583	20,171,828	619,878,549
2015				
Other payables	57,038	57,038	-	-
Net assets attributable to unit holders	492,573,409	1,189,614	24,189,019	467,194,776

The table above shows the undiscounted cash flows of the Fund's financial liabilities on the basis of their earliest possible contractual maturity. The Fund's expected cash flows on these instruments (other than net attributable to unit holders) do not vary significantly from this analysis. For net assets attributable to unit holders, the Fund has a contractual obligation to redeem within 2 days of them being submitted for redemption. Historical experience indicates that these units are held by unit holders on a medium or long-term basis.

The ratio of net assets with an expected liquidation period of 2 days (liquid assets) to total net assets is 0.4% (2015: 0.6%).

d) Fair value estimation

The fair value of financial assets and liabilities that are traded in active markets are based on quoted market prices or dealer quotations. For all other financial instruments, the Fund determines fair values using other valuation techniques.

9. Financial Risk Management (continued)

d) Fair value estimation (continued)

a) Valuation models (continued)

The Fund measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

9. Financial Risk Management (continued)

d) Fair value estimation (continued)

b) Financial assets not measured at Fair Value

All financial assets are measured at amortised cost. The fair values of financial assets at the reporting date is $641,681,540 (2015: $489,488,153). These have all been classified as level 3 in the fair value hierarchy.

The Fund routinely redeems and issues units at the amount equal to the proportionate share of net assets of the Fund at the time of redemption, calculated on a basis consistent with that used in these financial statements. Accordingly, the carrying amount of net assets attributable to unit holders approximates their fair value. The units are categorised into Level 2 of the fair value hierarchy.

e) Operational risk

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities with financial instruments, either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour. The Fund's objective is to manage operational risk so as to balance the limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to investors. The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors

This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas.

- the documentation of controls and procedures;
- appropriate segregation of duties between various functions, roles and responsibilities:
  - reconciliation and monitoring of transactions; and
  - periodic assessment of operational risk faced;
- the adequacy of controls and procedures to address the risks identified;

9. Financial Risk Management (continued)

e) Operational risk (continued)

- compliance with regulatory and other legal requirements;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance if this is effective.

10. Contingencies and Commitments

The Fund has no undisclosed contingent liabilities or commitments which have not been provided for in these financial statements.

11. Events after the Reporting Date

There are no events which have taken place after the reporting date up to the date of authorisation of these financial statements for issue which would affect the carrying values of the Fund's assets and liabilities at that date.