HOME MORTGAGE BANK

Mortgages | Investments

ANNUAL REPORT 2017

HOME MORTGAGE BANK

Mortgages | Investments

Mission Statement

Home Mortgage Bank was created through legislation and enacted by the Parliament of Trinidad and Tobago by way of the Home Mortgage Bank Act, Chap. 79:08

The Purpose of the Bank is as follows:

- To develop a mortgage market and maintain a secondary mortgage market in Trinidad and Tobago
- To contribute to the mobilisation of long-term savings for investment in housing
- To support the development of a system of real property and housing finance and provide leadership in the housing and home finance industry
- To promote the growth of the capital market

Contents

Chairman's Report 2017

Overall Performance

Home Mortgage Bank (the Bank) has had another successful year despite the weak economic climate. For fiscal 2017, Total Assets increased to $2.7 billion, an increase of 8% over 2016 while Profit Before Tax was $84.1 million, a 1% increase over 2016.

The International and Regional Economies

In its 2018 World Economic Outlook update, the International Monetary Fund (IMF) estimated global growth at 3.7% in 2017, while making projections for 2018 and 2019 at 3.9%. For the Caribbean, the IMF estimated growth at a modest 2.1% in 2017 with cautions arising from weaknesses in commodity prices and the damage arising from last year's hurricanes which will impact negatively the growth in tourism-dependent economies.

Domestically, increased exploration activity in the natural gas sector is expected to spur a recovery in the energy sector which expanded by 13.5% year-on-year in Q3-2017, but the expectations for the non-energy sector which declined by an estimated 1.9% year-on-year in Q3-2017, are more guarded as output from the non-energy sector has visibly geared down. In particular, in the construction sector, local sales of cement fell by 4.0% in Q3-2017, while activity in the manufacturing, transport and electricity and water sectors recorded year-on-year contractions of 0.5%, 0.8% and 0.1% respectively in Q3-2017. According to the Central Bank, the finance, insurance and real estate sectors also exhibited some weakness in Q3-2017, having contracted by 1.0% as slower activity in the commercial bank and non-bank financial institutions overshadowed a pick-up in activity in the trust and mortgage companies.

Looking ahead, Trinidad and Tobago's economic growth for 2018 has been projected by the IMF at 1.9%, with the uplift coming from increased activity in the hydrocarbons sector.

Capital Markets

BOND MARKET

The primary bond market saw twenty (20) issues raising a total of $12.8 billion. The Government of Trinidad and Tobago was the primary issuer with nine (9) issues tapping TT$9.2 billion and US$100 million. HMB successfully participated with (two) 2 issues generating $350 million. The primary bond market continues to show its depth and rewards issuers for innovative product structures.

The Economic Bulletin (March 2018) published by Central Bank of Trinidad and Tobago indicated trading on the secondary government bond market weakened during the latter half of 2017 with trades of approximately $529.9 Million Face Value compared to roughly $705.9M Face Value in 2016.

STOCK MARKET

The yearly report produced by the Trinidad and Tobago Stock Exchange reported that the composite index advanced by 4.70%, the cross listed index advanced by 38.64%, however the All T&T Index declined by 5.75%.

Based on the year end review published by WISE trading activity on the first tier market for the financial year 2017 resulted in approximately 84.55 million shares changing hands compared to 2016 in which approximately 91.98 million shares traded, a decrease of 8.07%.

MUTUAL FUND MARKET

Aggregate funds under management grew by 0.4% to $43.1 Billion compared to a 4.1% increase from the previous year.

2018 and Beyond

In 2017, the Bank prepared its Strategic Plan for the three (3) year period (2017-2020) which, among other things, will focus on deepening its strategic alliance with the Trinidad and Tobago Mortgage Finance Company Limited (TTMF) and exiting the residential mortgage market. This is in keeping with the National Budget 2010 - 2011, when the Honourable Minister of Finance and the Economy articulated the intent to consolidate the Government's mortgage interests through the restructure of TTMF and Home Mortgage Bank (HMB).

Trinidad and Tobago's economic growth for 2018 has been projected by the IMF at 1.9%

Chairman's Report 2017

Home Mortgage Bank will revert to its initial mandate of developing the local secondary mortgage market while concentrating on expanding its reach into the commercial mortgage and project financing segments of the market. Additionally, the Bank will also focus on expanding the development of mortgage backed securities for the local capital markets.

The alliance with TTMF will allow both entities to exploit the synergies between both organizations with the objective of providing affordable financing to the domestic real estate market. As the Bank continues to redefine its role within the Trinidad and Tobago financial market, I am confident the strategic initiatives will redound to the benefit of all our stakeholders.

Home Mortgage Bank will revert to its initial mandate of developing the local secondary mortgage market

Conclusion

During 2017 the Bank welcomed Mr. Suresh Dan to its Board of Directors. I would like to acknowledge Mr. Dan and his valuable contributions to the Board to date. I would also like to pay special tribute to my former Board members; Mr. Ruthven Jaggassar who retired in January 2018 and Mrs. Joanne Milford-Walcott whose term expired on June 2017. Mr. Jaggassar and Mrs. Milford-Walcott's contributions were critical to positioning the Bank for long-term success.

Finally, I take the opportunity to thank all my fellow directors for their support and guidance, the management and staff for their strong commitment and dedication, and our customers for their continued loyalty to and support of the Home Mortgage Bank.

Ansel Howell
Chairman

Board Of Directors

Ansel Howell
Chairman

Mr. Howell is an Organisational Effectiveness and Change Management consultant with a wealth of corporate governance experience having held several leadership positions in a leading financial institution over the past 20+ years. He provides consulting services in various areas including, team development, crisis management and prevention, project management, business process and system design and project financing. Mr. Howell holds a B.Sc. and M.Sc. both in Computer Science from the University of the West Indies as well as several Management certifications including Internal Auditing. Currently, Mr. Howell is also the Chairman of the Trinidad and Tobago Mortgage Finance Company Limited.

Marilyn Gordon
Deputy Chairman

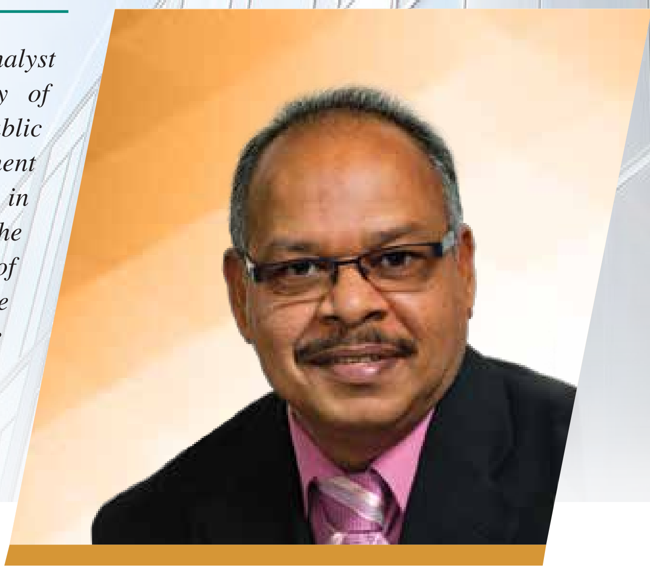
Ms. Gordon served as a teacher at both the primary and secondary school levels. She then served as Minister in various ministries. She brings with her over forty (40) years' experience. She graduated from the University of Newcastle on Tyne, England with a Bachelor of Arts in Geography. She represented Trinidad and Tobago at hockey and athletics and went on to coach the first national junior women's hockey team to compete in Jamaica. Ms. Gordon has led the team which conceptualized and implemented several property development projects in Western Trinidad. Currently, Ms. Gordon is a Director of the Trinidad and Tobago Mortgage Finance Company Limited.

Board Of Directors

Ms. Sinanan is a retired strategic leader and visionary from the insurance industry, she was at the helm in excess of twenty (20) years at ALGICO as the General Manager and Senior Executive of the general insurance operations, and the first female President of the Association of Trinidad and Tobago Insurance Companies (ATTIC). Ms. Sinanan's leadership and management qualities attracted Board directorships in several organizations such as NIBTT, its subsidiaries NIPDEC, HMB and TTMF; First Citizens Bank and its subsidiary First Citizens Asset Management Company; CMMB, TATIL, ALGICO and ADB. Notably, because of her insistence and eye for detail, she has been part of the Audit Committees in most of these companies. She currently holds directorships on the Board of TTIFC, IBWIL and Flavorite Foods. Ms. Sinanan was appointed to the HMB Board in August 2016. She attained academic qualifications of a Bachelor's Degree and a Master's Degree at Pace University, New York, U.S.A.

Inez B. Sinanan
Director

Mr. Suresh Dan is an acting Senior Business Analyst with the Investments Division of the Ministry of Finance. He has over 33 years' experience in the public sector, the majority of which was in government accounting, systems and procedures. He worked in several Ministries before being assigned to the Ministry of Finance in 2001. Mr. Dan is the holder of an Advanced Diploma in Administrative Management from the Institute of Administrative Management, U.K; B.A. (Hons) in Business Management from the University of Sunderland, U.K.; and Master in Business Administration (MBA) from Heriot-Watt University, U.K. Additionally, he has received training in Corporate Governance of State Owned Enterprises; Merger, Amalgamations and Reorganisation Processes; Excel Secrets and Techniques in Management Reporting; Governance, Audit and Compliance; and Monitoring and Evaluation of organizations.

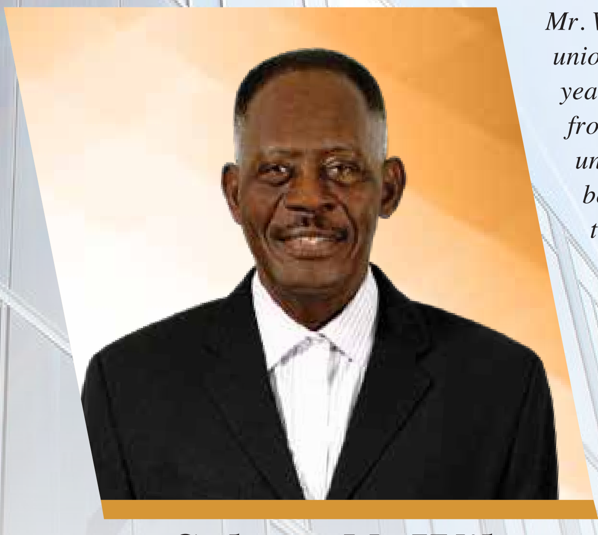


Suresh Dan
Director

Board Of Directors

Walton Hilton-Clarke
Director

Walton Hilton-Clarke served as a senior executive in the oil industry for twenty-five (25) years. He has been a member on various committees in the trade and business industries and for the last twenty (20) years, Mr. Hilton-Clarke has represented Trinidad and Tobago at the International Labour Conferences at Geneva, Switzerland. He currently serves as a member of the Board of Directors of the National Insurance Board, of the Employers' Consultative Association and of the Home Mortgage Bank.



Sylvan N. Wilson
Director

Mr. Wilson's professional life is a combination of active trade union activism and industrial plant operations. In his 28 years of plant operations, he progressed through the ranks from trainee operator to that of Shift Supervisor. His trade union activities extend well over 35 years. His career began in the Education and Research Committee in the then Federation Chemicals Branch and he moved through the ranks of the Oilfield Workers' Trade Union (OWTU) to the position of Executive Vice President. He headed the Union's Labour Relations Department and led many negotiations though-out the various units of the OWTU. Mr. Wilson represented the Union at numerous Conferences, Seminars and Committees. He attended many training programmes in pension plans, health and safety, employee assistance programmes and industrial relations. Mr. Wilson worked closely with others in developing and negotiating the union's social wage programme particularly in pensions, employee home ownership programmes (utilizing pension funds), medical plans. He retired from Yara Trinidad Limited (formerly Hydro Agri and Federation Chemicals) at the end of December 2011. Mr. Wilson was appointed Honorary General Council member of the OWTU and continues to serve the general trade union movement.

Board Of Directors

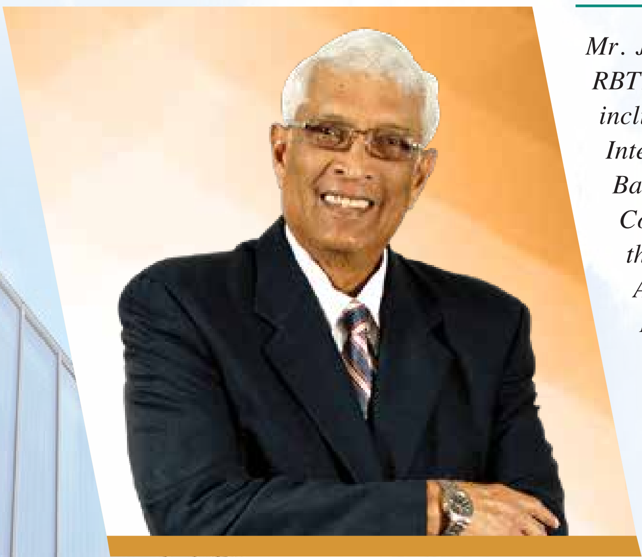
With her industrial relations experience, Mrs. De Bique Meade serves as General Secretary of the Contractors and General Workers Trade Union, and Trustee of the National Trade Union Centre (NATUC). She was President of the Pleasantville Community Council. Mrs. De Bique Meade currently serves as a member of the Board of Directors of the National Insurance Board and a member of the Board of the San Fernando Corporation Employees Credit Union.

Ermine De Bique Meade
Director

Mr. Nancoo is currently the Group Vice President – Human Resource and Corporate Services at Guardian Holdings Limited and has 30 years experience within the manufacturing sector locally and regionally, in such areas as Employee Relations, Industrial Relations, Marketing and Communications. He served for some 10 years as the Branch Secretary of NUGFW, and is currently the Chairman of the Employer's Consultative Association. Mr. Nancoo has a B.Sc. (cum laude) in Business Administration and an MBA in Marketing from Andrews University in Michigan, USA. He has gained additional training at The Chicago Business School- Leading Change and Innovation; Harvard Business School- Strategic Human Resource Management; London Business School- Talent Management; Cornell University- HR Strategy: Creating Competitive Advantage through People; and Arthur Lok Jack Business School- Building and Implementing Balanced Scorecard.

Keston Nancoo
Director

Board Of Directors



Ruthven A. Boyer Jaggassar
Director

Mr. Jaggassar is a career banker of 33 years with the RBTT Group where he held several senior positions including-- General Manager-Corporate and International Banking, Executive Director- Corporate Banking and Executive Director Retail and Commercial Banking Group until his retirement. He is the holder of an Intermediate Certificate from the ACCA, London and has Management Diplomas and Leadership Certificates from the American Management Association among others, and has received extensive training in Banking and Finance both locally and internationally. Mr. Jaggassar was a former Director of several companies within the RBTT Group including RBTT Merchant and Finance Ltd., Roytec and RBTT Insurance Services Ltd. He has also served on several Boards among them, The Trinidad & Tobago Manufacturers Association, National Enterprises Ltd., Development Finance Ltd., Caribbean Microfinance Ltd (Chairman), Caribbean Micro Finance Holdings Ltd., West Indies Stock Brokers Ltd (Chairman), EximBank T&T Ltd. (Chairman), and is currently Chairman of CLICO Trust Corporation and Director of a private enterprise. Mr. Jaggassar is also a former President of St. Andrews Golf Club.

Directors' Report

The Directors have pleasure in submitting their Report and the Audited Consolidated Financial Statements for the year ended 31st December, 2017

FINANCIAL RESULTS

	$ 000's
Net Profit before taxation	84,149
Taxation	(10,280)
Net Profit for the year	73,869
Retained earnings at the beginning of the year	592,475
	666,344
Add :	
Transfer from mortgage risk reserve	(1,439)
Less :	
Dividends paid	(31,281)
Retained earnings at the end of the year	633,624

LIQUIDITY

The Bank continues to maintain a positive liquidity position to meet its current and future business needs, with a Cash & Cash equivalent figure of $12,2 million representing 0.5% of total assets at the end of financial year.

DIVIDENDS

Dividends of $1.96 per share was paid during the year (2016 – 74 cents).

DIRECTORS' INTEREST

None of the Directors holds shares in the Bank.

No Director had, during the year, or at the end of the year, any interest in any contract pertaining to the Bank's business.

AUDITORS

The auditors KPMG retired, and being eligible, offered themselves for re- appointment.

BY ORDER OF THE BOARD

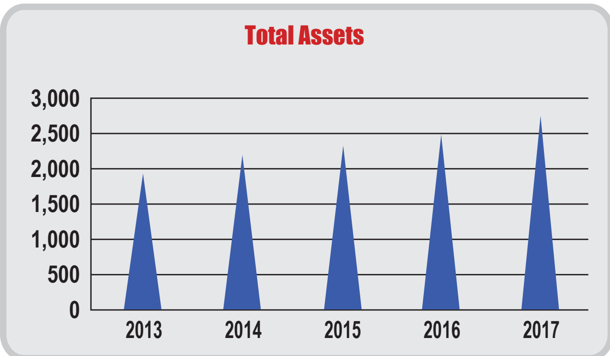
Patricia Ilkhtchoui
Corporate Secretary

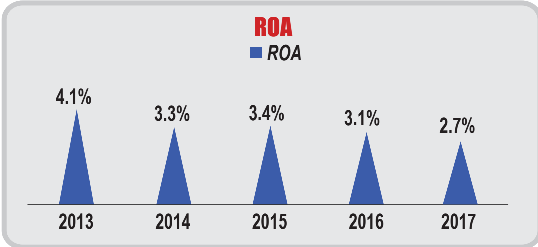
Financial Performance

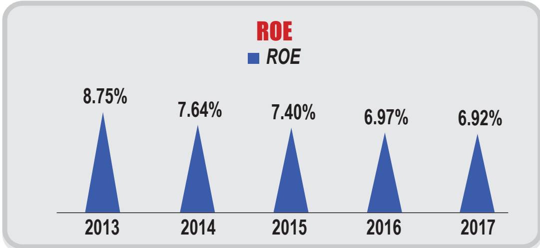
In 2017, Home Mortgage Bank (HMB) had another successful year, recording profits before tax of $84.1M an increase from $83.5M in 2016. Despite the challenges in the economy, the company was able increase its total income by 8% in 2017 over 2016. The increased earnings were however adversely affected by increases in funding costs of 19% and operating costs of 11% over 2016. Another impact on profitability for 2017 was the increase in the corporate tax rate to 30% applied in 2017 influencing a decrease in profits after taxes to $73.9M in 2017 compared with $78.2M in 2016.

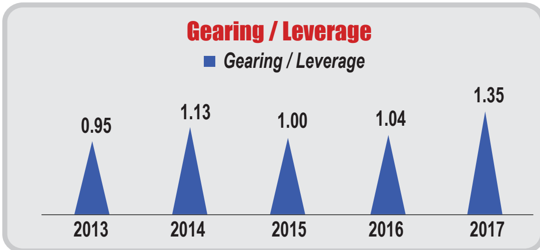
In response to these challenges HMB embarked upon a planning exercise at the beginning of 2017, which resulted in a New Strategic Plan 2017 -2020. This new plan included the deepening of the strategic alliance with Trinidad and Tobago Mortgage Finance Company Limited (TTMF) to leverage on each other strengths and create synergies, overall facilitating a closer working relationship between both organizations given their common shareholder and similar markets and objectives.

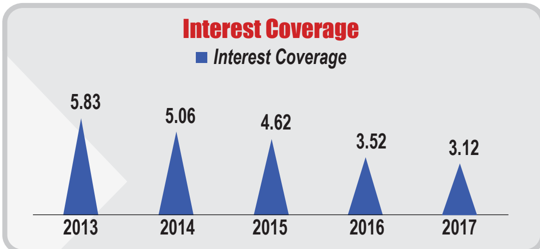
For the fiscal year 2017 most of the company's efforts were spent in laying the foundation for a new business model while managing the existing business. The effects of these activities can be seen on the Balance sheet, which yielded a net growth in the mortgage portfolio by 23%, increasing the Gross portfolio to just over $1.5B at the end of 2017. Overall, HMB's balance sheet grew by 8% during fiscal 2017.

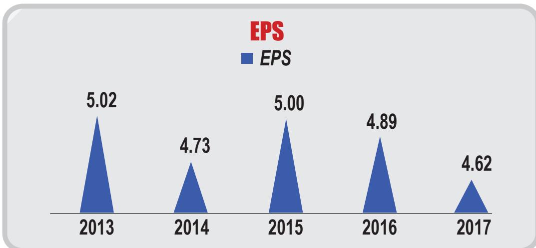


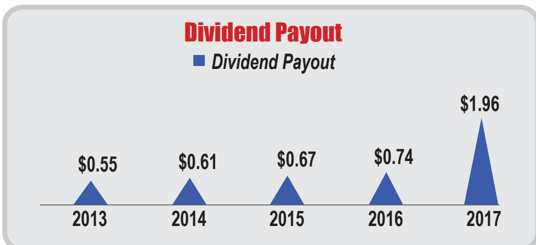












Management Discussion and Analysis

Mortgage Portfolio

In 2017, $530M in gross new mortgage disbursements was generated, of which $279M was contributed by our in-house sales activities and $251M earned through secondary mortgage purchases from TTMF. This resulted in an overall increase in new mortgage activities over 2016 of 60%.

As part of the new Strategic Plan, HMB would revert to its original mandate of developing the mortgage market through the secondary market, which would result in exiting the primary residential mortgage market, where TTMF is focused, and provide funding support to TTMF through the secondary mortgage purchases. Our internal sales resources would now realign their focus on commercial and project financing business.

Investments and Funding Activities

The local fixed income market continued to be challenging as liquidity tightened and credit spreads widened. Despite these challenges, the company was able to issue its 82nd and 83rd Bonds for a total value of $350M.

During the year, several features were utilized to improve the marketability of the bonds, ranging from callable/puttable arrangements to the issue of Tax-Exempt Bonds for the savvy tax planners. Under the HMB Act, HMB can issue up to $600M in Tax-Exempt bonds. The level of interest expressed in the company's bond offerings for 2017 gave confidence to our capital market activities in the future.

Asset Backed Securities

The Trinidad and Tobago NGL Limited (TTNGL) and First Citizens (FC) Additional Public Offerings (APO), significantly challenged growth within the local mutual fund market in 2017. For the nine (9) months ending September 2017, Income Funds declined by 0.2% to $34.7 billion in funds under management. HMB, through its Mortgage Participation Fund (MPF) competes within the Income Fund market and, throughout 2017, the Fund offered an interest rate of 1.50% to investors. For the year ended December 2017 the Fund's balance decreased from $644 million to $586 million.

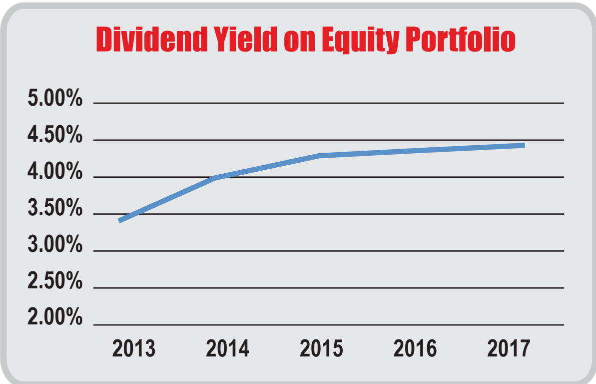
As part of its Strategic Plan, HMB intends to introduce its new line of mortgage backed securities in 2018, including Collateralized Mortgage Obligation products and a new floating NAV Mortgage Backed Mutual Fund.

Fixed Income Investment Securities

HMB holds a portfolio of high grade fixed income securities totaling $738.8 million. These securities are used in part to secure HMB's debt financing for the year 2017 and there were no significant changes to this portfolio.

Equity Portfolio

The Trinidad and Tobago Composite Index (TTCI) grew by 5% for the year ended 2017. This growth was driven by a 39% increase in cross-listed stocks. The All T&T Index declined by 6% year on year. The price depreciation amongst locally domiciled public companies negatively impacted HMB's equity portfolio but, the company passively holds this portfolio and retains confidence in the equities held as it continues to provide and acceptable yield.



Outlook

HMB maintains a positive outlook for 2018 as it continues to effectively implement its Strategic Plan 2017–2020 with the intent to develop innovative financial securities whilst increasing its share of the commercial mortgage market. We also intend to assist with the development of capital market activities, with the introduction of new mortgage backed instruments.

HMB will continue to provide support to the residential mortgage market through the strategic alliance with TTMF with the planned increase in secondary mortgage activities. We will seek to strengthen our internal processes by leveraging on synergies created through the strategic alliance with TTMF and ensure we can deliver an efficient level of service to all our stakeholders and higher returns to our shareholder.

In closing, I wish to thank the Board of Directors for their direction and support, the management team and staff for their commitment and participation as we position HMB for continued and sustainable growth in the coming years ahead. The success of HMB is reflected in the continued support of our valued investors, customers and shareholder.

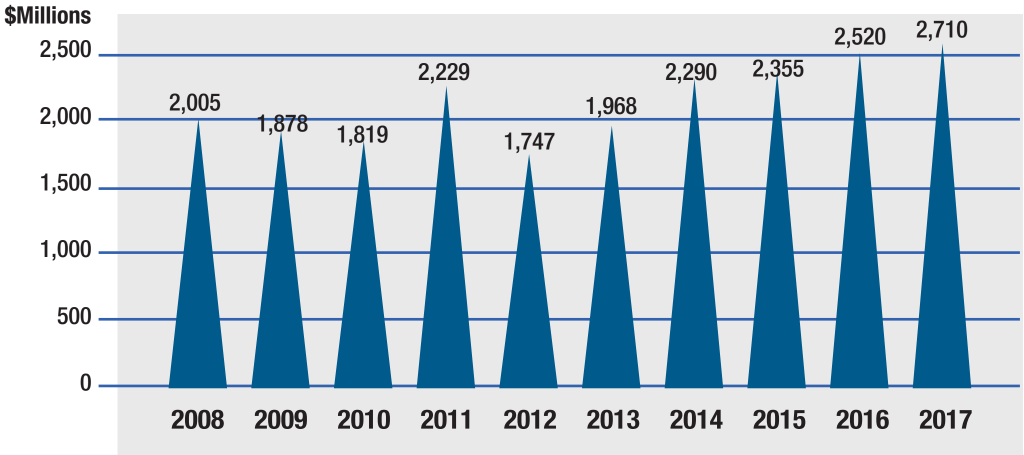
Mark Wight
Manager, Finance & Administration/
Chief Executive Officer (Ag)

FIVE YEAR REVIEW

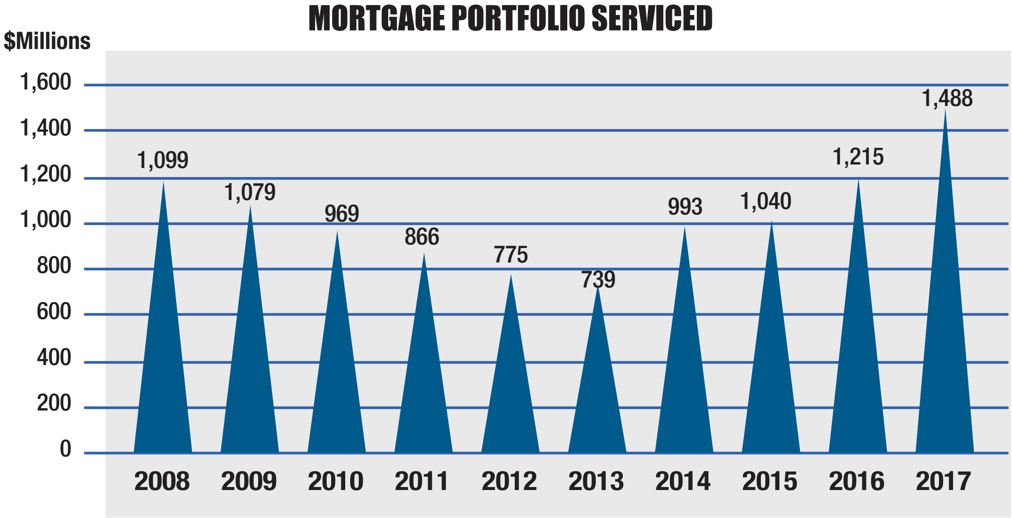
December 31st,	2017 $'000	Restated 2016 $'000	2015 $'000	2014 $'000	2013 $'000
Balance Sheet					
Loans & Advances	939,841	603,023	560,402	514,051	248,488
Investment Securities	1,680,611	1,822,138	1,700,059	1,681,974	1,609,555
Total Assets	2,710,102	2,520,107	2,354,783	2,289,641	1,967,587
Funding Liabilities	1,444,236	1,168,130	1,077,973	1,114,317	870,511
Total Liabilities	1,362,840	1,398,392	1,273,524	1,299,296	1,049,182
Share Capital	16,000	16,000	16,000	16,000	16,000
Retained Earnings	633,624	592,476	527,142	458,093	393,494
Income Statement					
Income	147,139	132,517	125,041	119,377	128,432
Profit before Taxation	84,149	83,579	86,119	83,257	90,695
Net Income	**73,869**	**78,202**	**80,020**	**75,650**	**80,335**
Operating Expenses	23,661	21,325	19,034	16,338	14,586
Earnings per share	$4.62	$4.89	$5.00	$4.73	$5.02

TEN YEAR REVIEW

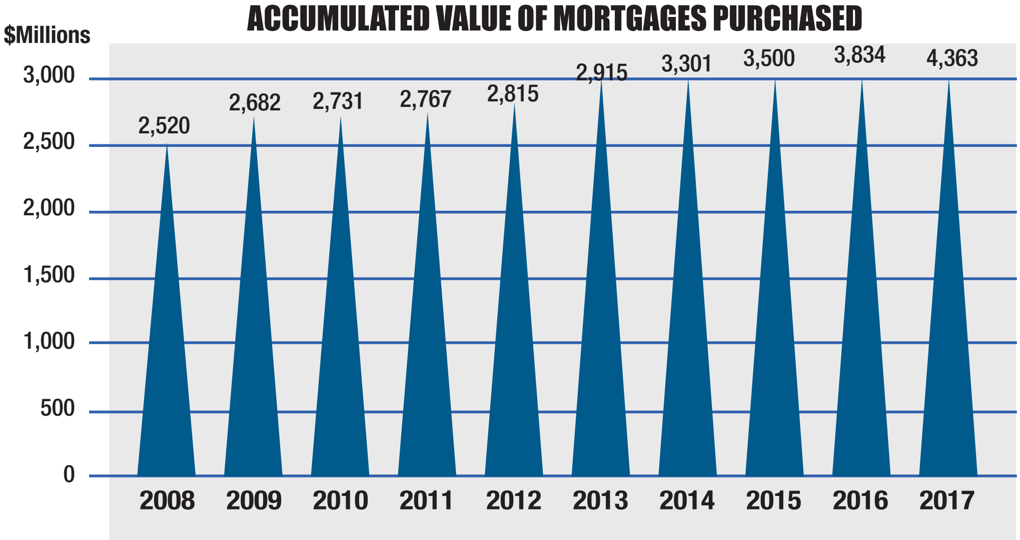
TOTAL ASSETS



MORTGAGE PORTFOLIO SERVICED

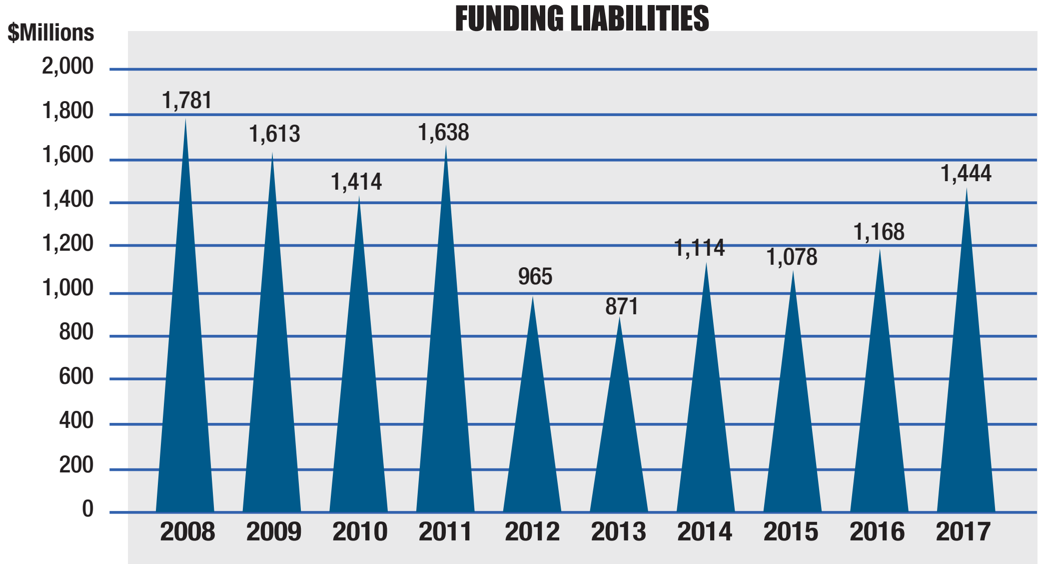


ACCUMULATED VALUE OF MORTGAGES PURCHASED

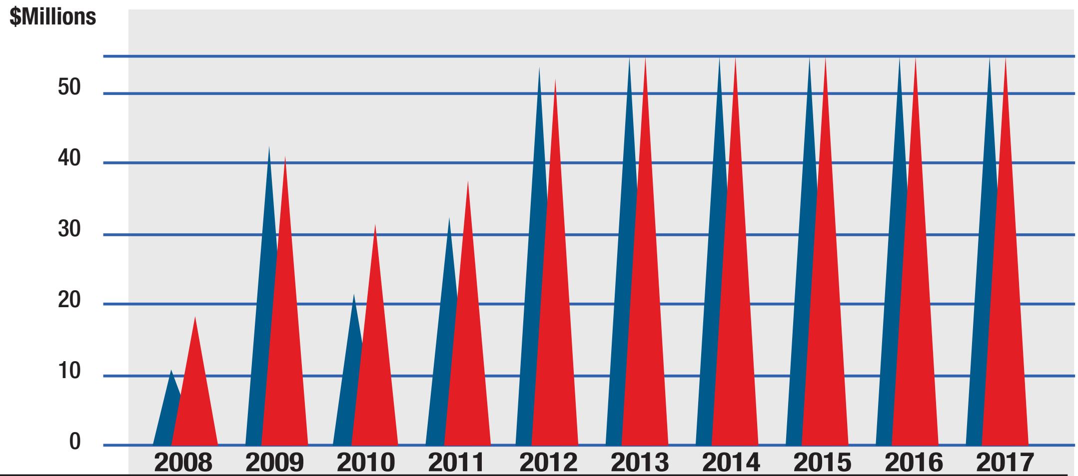


TEN YEAR REVIEW

FUNDING LIABILITIES

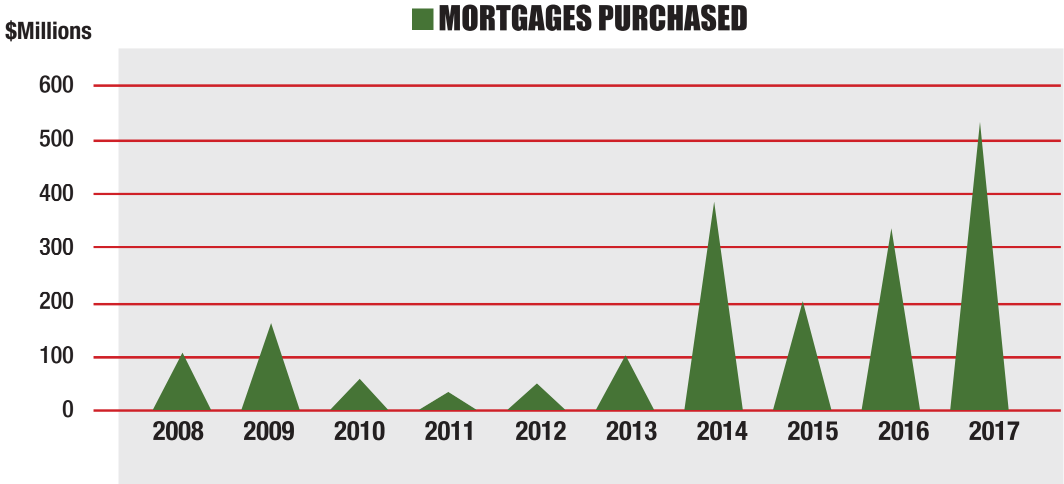


COMPARATIVE NET INCOME



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Profit before Taxation	11	42	22	33	53	91	83	86	84	84
Profit after Taxation	18	41	31	37	52	80	76	80	78	74

MORTGAGES PURCHASED



CHANGES ON THE BOARD OF DIRECTORS

Mr. Suresh Dan was appointed by the Honourable Minister of Finance, as one of the Ministry of Finance Representatives on the Board, effective October 04, 2017 in accordance with the Home Mortgage Bank Act. Mrs. Joanne Milford-Walcott's term expired at the close of business at the 29th AGM held on June 08, 2017.

MANAGEMENT

The Bank's management structure comprises:

- **Rawle Ramlogan - Chief Executive Officer**
- **Mark Wight - Manager, Finance and Administration**
- **Osmond Prevatt - Manager, Treasury and Investment**
- **Sita Mangal - Manager, Mortgage Sales and Operations**
- **Indira Geeban - Manager, Risk Management**
- **Cheryl - Ann Neptune – Manager, Human Resources;**
  and
- **Patricia Ilkhtchoui - Corporate Secretary.**

Home Mortgage Bank is committed to its continued growth and profitability and to the strengthening and enhancement of its corporate governance programme. The Bank has maintained its engagement of internal auditors and external auditors.

BOARD-APPOINTED COMMITTEES

There are four (4) Board-appointed Committees, namely, the Audit Committee (formerly Audit and Risk Committee), the Human Resources and Remuneration Committee, the Asset, Liability and Risk Management Committee and the Management Risk Committee.

Audit Committee

This Committee meets as often as may be deemed necessary, but not less that once every quarter, to review the financial reporting process, the system of internal control, the company's internal and external auditing, accounting and financial reporting, the company's Enterprise Risk Management Policy and reporting, and the company's process for monitoring compliance with laws, regulations and the Code of Conduct and Ethics. Members of the Committee are:

- **Inez Sinanan – Chairman**
- **Marilyn Gordon**
- **Suresh Dan**

Human Resources and Remuneration Committee

The Committee meets as required, to review human resource matters affecting management and staff, including remuneration of senior management and other key personnel, and to ensure consistency with the culture, objectives, strategy and control environment of the Bank. Members of the Committee are:

- **Sylvan Wilson - Chairman**
- **Walton Hilton-Clarke**
- **Keston Nancoo**
- **Ermine De Bique-Meade**

Asset, Liability and Risk Management Committee

This Committee was established on October 26, 2017 and replaced the Restructuring Committee. The Committee meets monthly, to review financial statements and disclosure matters, the system of internal control, risk management, compliance, credit and treasury. Members of the Committee are:

- **Ruthven Boyer Jaggassar - Chairman**
- **Ansel Howell**
- **Sylvan Wilson**
- **Rawle Ramlogan (CEO – Ex officio Member)**

Management Risk Committee (A Management Committee)

The establishment of this Committee was approved by the Board, comprising all Managers of the Bank, and chaired by the Chief Executive Officer. The Committee meets monthly, and is responsible for the establishment of an appropriate risk management framework for the effective identification, assessment and management of risk. The primary objective is to assist the Board in discharging it responsibilities to exercise due care, diligence and skill in relation to business operations and to advise on any matter of financial or regulatory significance. This Management Committee reports to the Audit Committee through the Manager, Risk Management.

Kerilynn Phillip, Amichai Drayton, Brent Bhagaloo, Indira Geeban, Vicki Bruce, Anna Gonzales, Parbatie Chin Cheong, Nicholas Mohammed, Natalie Hector, Cheryl-Ann Neptune, Renuka Ramjattan, Debbie Aguillera-Sammy, Mark Wight, Gillian Torries, Debra Singh, Rawle Ramlogan

C. Allison John-Baptiste, Patricia Ilkhtchoui, Nigel Gibson, Osmond Prevatt, Keishelle Strachan, Sita Mangal, Avian Harris-Khan, Davina Jagmohan, Israel Khan, Teemoi Chaitan, Andel Ramdath, Vishwadai Moonsammy, Marc Trestrail, Sunil Teeluck, Padma Bhual-Ail

Financial Statements

Statement of Management Responsibilities
Home Mortgage Bank

Management is responsible for the following:

- Preparing and fairly presenting the accompanying consolidated financial statements of Home Mortgage Bank (the Bank) and its subsidiaries (collectively, the Group), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information;

- Ensuring that the Group keeps proper accounting records;

- Selecting appropriate accounting policies and applying them in a consistent manner;

- Implementing, monitoring and evaluating the system of internal control that assures security of the Group's assets, detection/prevention of fraud and the achievement of the Group's operational efficiencies;

- Ensuring that the system of internal control operated effectively during the reporting period;

- Producing reliable financial reporting that comply with laws and regulations, including the Companies Act; and

- Using reasonable and prudent judgement in the determination of estimates.

In preparing these consolidated financial statements, management utilised the International Financial Reporting Standards, as issued by the International Accounting Standards Board and adopted by the Institute of Chartered Accountants of Trinidad and Tobago. Where International Financial Reporting Standards presented alternative accounting treatments, management chose those considered most appropriate in the circumstances.

Nothing has come to the attention of management to indicate that the Group will not remain a going concern for the next twelve months from the reporting date, or up to the date the accompanying consolidated financial statements have been authorised for issue, if later.

Management affirms that it has carried out its responsibilities as outlined above.

Mark Wight, Manager Finance & Administration	Patricia Ilkhtchoui, Corporate Secretary
Date: February 28, 2018	Date: February 28, 2018

KPMG

Independent Auditors' Report
To the Shareholders of Home Mortgage Bank

Opinion

We have audited the consolidated financial statements of Home Mortgage Bank ("the Bank") and its subsidiaries (collectively, the Group), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2017, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements section of our report. We are independent of the Bank in accordance with the 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 consolidated financial statements in the Republic of Trinidad and Tobago, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information consists of the information included in the Group's Annual Report but does not include the consolidated financial statements and our auditors' report thereon. The Group's 2017 Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

KPMG

Other Information *(continued)*

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Group's 2017 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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.

KPMG

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

- 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 Bank's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank'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 consolidated 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 Bank to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

KPMG

Chartered Accountants
Port of Spain
Trinidad and Tobago
March 2, 2018

Consolidated Statement of Financial Position

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

	2017	*2016*	Notes	2017	Restated 2016
	$'000	*$'000*		$'000	$'000
ASSETS					
Cash and cash equivalents			8	12,242	18,400
Investment securities			9	1,680,611	1,822,138
Loans and advances to customers			10	939,841	603,023
Total loans administered	*1,528,050*	*1,250,769*			
Mortgages held in trust	*(588,209)*	*(647,746)*			
Other assets			11	21,965	18,369
Capitalised bond issue costs			12	721	209
Property development costs			13	24,605	27,305
Property and equipment			14	3,001	3,265
Investment property			15	18,876	18,876
Taxation recoverable				2,494	2,494
Deferred tax asset			16	5,746	6,028
Total assets				2,710,102	2,520,107
EQUITY AND LIABILITIES					
EQUITY					
Stated capital			17	16,000	16,000
Retained earnings				633,624	592,475
Revaluation reserve			18	411,199	507,388
Mortgage risk reserve			19	7,291	5,852
Total equity				1,068,114	1,121,715
LIABILITIES					
Other liabilities			20	21,266	12,630
Short-term borrowings			21	110,000	127,000
Debt securities			22	1,334,236	1,041,130
Deferred tax liability			16	176,486	217,632
Total liabilities				1,641,988	1,398,392
Total equity and liabilities				2,710,102	2,520,107

The notes on pages 10 to 63 are an integral part of these consolidated financial statements.

These consolidated financial statements have been approved for issue by the Board of Directors on February 28, 2018 and signed on its behalf by:

Director ________________ Director ________________

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

	Notes	2017 $'000	2016 $'000
Income			
Interest income	25	121,200	102,636
Interest expense	25	(15,128)	(12,384)
Net interest income	25	106,072	90,252
Dividend income		42,005	46,722
Other income (net)		2	3
		148,079	136,977
Expenditure			
General and administrative expenses	26	23,661	21,325
Loss on sale of property	27	940	4,461
Finance costs		39,630	33,200
Charge to (reversal of) provision for impairment of loans and advances to customers	10	639	(1,127)
Reversal of provision for impairment of property development costs	13	(940)	(4,461)
		63,930	53,398
Profit before taxation		84,149	83,579
Taxation	28	(10,280)	(5,377)
Profit for the year		73,869	78,202
Other comprehensive loss for the year			
Items that are or may be reclassified to profit or loss			
Revaluation of available-for-sale investments		(137,412)	13,778
Related tax	16	41,223	(39,685)
Other comprehensive loss for the year, net of tax		(96,189)	(25,907)
Total comprehensive (loss) income for the year		(23,320)	52,295

		2017	2016
Basic and diluted earnings per share ($)		4.61	4.88
Number of shares ('000)	17	16,000	16,000

Consolidated Statement of Changes in Equity

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

	Notes	Stated Capital $'000	Retained Earnings $'000	Revaluation Reserve $'000	Mortgage Risk Reserve $'000	Total Equity $'000
Balance at December 31, 2016						
Balance at January 1, 2016		16,000	527,143	533,295	4,822	1,081,260
Transfer to mortgage risk reserve	19	-	(1,030)	-	1,030	-
		16,000	526,113	533,295	5,852	1,081,260
Total comprehensive income						
Profit for the year		-	78,202	-	-	78,202
Other comprehensive income for the year		-	-	(25,907)	-	(25,907)
Total comprehensive income for the year		-	78,202	(25,907)	-	52,295
Transaction with owners of the Bank, recognised directly in equity						
Dividends		-	(11,840)	-	-	(11,840)
Restated balance as at December 31, 2016	35	16,000	592,475	507,388	5,852	1,121,715
Balance at December 31, 2017						
Restated balance at January 1, 2017		16,000	592,475	507,388	5,852	1,121,715
Transfer to mortgage risk reserve	19	-	(1,439)	-	1,439	-
		16,000	591,036	507,388	7,291	1,121,715
Total comprehensive income						
Profit for the year		-	73,869	-	-	73,869
Other comprehensive income for the year		-	-	(96,189)	-	(96,189)
Total comprehensive income for the year		-	73,869	(96,189)	-	(22,320)
Transaction with owners of the Bank, recognised directly in equity						
Dividends		-	(31,281)	-	-	(31,281)
Balance at December 31, 2017		16,000	633,624	411,199	7,291	1,068,114

Consolidated Statement of Cash Flows

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

	Note	2017 $'000	2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		84,149	83,579
Adjustments for:			
Charge to (reversal of) provision for impairment of loans and advances		639	(1,127)
Loss on property and equipment		4	7
Depreciation		851	982
Capitalised interest on managed funds		8,820	6,446
Net premium recognized on investments		(9,982)	(4,986)
Bond issue costs amortised	12	157	53
Operating profit before working capital changes		84,638	84,954
Changes in:			
- Other assets		(3,596)	2,883
- Other liabilities		5,036	(1,909)
Corporation taxes paid		(6,322)	(9,754)
Tax refund received		-	1,992
Net cash from operating activities		79,756	78,166
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Issuance of new mortgages and loans		(530,425)	(333,695)
Proceeds from repayment on mortgages and loans		252,504	142,082
Purchase of property and equipment		(591)	(606)
Proceeds from sale of property plant and equipment		-	2
Proceeds from sale of maturity investments		14,099	13,470
Purchase of investments		-	(116,786)
Purchase of investment property		-	(18,876)
Proceeds from sale of property		2,700	10,041
Proceeds from managed funds		250,639	470,504
Repayment of managed funds		(318,996)	(326,833)
Net cash used in investing activities		(330,070)	(160,697)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings		325,000	551,000
Repayment of short-term borrowings		(342,000)	(500,700)
Proceeds from bonds issued		350,000	96,750
Redemption of bonds		(56,894)	(56,893)
Dividends paid		(31,281)	(11,840)
Bond issue costs incurred		(669)	(53)
Net cash from financing activities		244,156	78,264

Consolidated Statement of Cash Flows (continued)

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

	2017 $'000	2016 $'000
Net decrease in cash and cash equivalents	(6,158)	(4,267)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,400	22,667
CASH AND CASH EQUIVALENTS AT END OF YEAR	12,242	18,400
Represented by:		
Cash at bank and on hand	11,980	18,150
Short-term deposits	262	250
	12,242	18,400
Supplemental information:		
Income received during the year	70,978	79,060
Interest paid during the year	42,005	46,722
Dividend received	(35,317)	(31,928)
Dividend paid	(31,281)	(11,840)

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

1. General Information

Home Mortgage Bank (the 'Bank' or 'Parent') is 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 'Amended Act'). Its principal activities are the trading of mortgages made by primary mortgage lenders, direct mortgage lending and the issue of bonds for investment in housing.

The Bank has three subsidiary companies which are listed below and collectively are referred to as 'the Group':

Subsidiary Company	Country of Incorporation	Percentage Owned
Tobago Fairways Villas Limited	Trinidad and Tobago	100%
Tobago Plantation House Limited	Trinidad and Tobago	100%
Tobago Fairways Management Limited	Trinidad and Tobago	100%

The principal activity of these subsidiaries is real estate development.

The registered office of the Parent and its subsidiaries is located at Prince's Court, Corner Keate and Pembroke Streets, Port of Spain. The Bank's ultimate parent entity is The National Insurance Board of Trinidad and Tobago, a company incorporated in Trinidad and Tobago under Act No. 35 of 1971.

These consolidated financial statements were approved for issue by the Board of Directors on February 28, 2018.

2. Basis of Preparation

(a) Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material item in the statement of financial position:

- Available-for-sale financial assets are measured at fair value.
- Investment property is measured at fair value
- Property development costs are valued at the lower of cost and net realisable value.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

2. Basis of Preparation (continued)

(c) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Trinidad and Tobago dollars, which is the Bank's functional and presentation currency. Except as otherwise indicated, all amounts presented have been rounded to the nearest thousand.

(d) Use of critical estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 6.

3. Significant Accounting Policies

The Group has consistently applied the accounting policies as set out below to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

The consolidated financial statements of the Group include the assets and liabilities and results of operations of the Bank and those of the subsidiaries after the elimination of inter-company transactions and balances.

(i) Subsidiaries

A subsidiary company is an investee controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

3. Significant Accounting Policies (continued)

(a) Basis of consolidation (continued)

(ii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Transactions denominated in foreign currencies are translated into the respective functional currencies at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(c) Financial instruments

Financial instruments comprise cash and cash equivalents, investment securities, loans and advances to customers, other assets, other liabilities, short-term borrowings and debt securities.

(i) Recognition and initial measurement

The Group initially recognises loans and advances to customers, short-term borrowings and debt securities issued on the date at which they are originated.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(i) Recognition and initial measurement (continued)

All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the settlement date at which the Group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

- ***Loans and receivables***

Loans and receivables include mortgages which are primarily personal residential mortgages. These are carried at principal outstanding net of adjustments for premiums and discounts on purchase. Premiums and discounts on the purchase of these mortgages are amortised over the remaining life of the related pool of mortgages using an amortisation method that in the aggregate, approximates a constant yield over the remaining life of the mortgages.

Construction loan advances represent advances made by the Group or through the Bank's approved lenders to mortgagors on new residential construction and/or to project developers. These advances are stated at the principal balances outstanding and are secured by a first mortgage over real property. On completion of construction these advances are converted to mortgages.

Other loan advances represent secured short term loan facilities, which are measured at amortised cost using the effective interest rate method, calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'interest income' in profit or loss. The losses arising from impairment are recognised in profit or loss in 'provision for loan losses'.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(ii) Classification (continued)

Financial assets (continued)

- ***Available-for-sale***

Available-for-sale investments are securities which are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates. These investments are initially recognised at cost. After initial recognition, available-for-sale investments are measured at fair value. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in profit or loss.

- ***Held-to-maturity***

Held-to-maturity investments are financial assets with fixed or determined payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost less any provision for impairment.

Financial liabilities

A financial instrument is classified as a financial liability if it is (1) a contractual obligation to deliver cash or another asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the reporting entity; or (2) a contract that will or may be settled in the reporting entity’s own equity instruments under certain circumstances.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(iii) Derecognition (continued)

Financial assets (continued)

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of:

(i) the consideration received (including any new asset obtained less any new liability assumed); and

(ii) any cumulative gain or loss that had been recognized in other comprehensive income (OCI).

is recognised in profit or loss.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a consolidated asset or liability in the statement of financial position.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged, or cancelled, or expired.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a current legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions.

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(vi) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(vii) Identification and measurement of impairment

The carrying value of all financial assets not carried at fair value through profit or loss is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

In order to determine whether negative revaluations on investment securities correctly represent impairment, all investment securities for which the market value has been significantly below cost price for a considerable period of time, are individually reviewed. A distinction is made between negative revaluations due to general market fluctuations and due to issuer specific developments. The impairment review focuses on issuer specific developments regarding financial condition and future prospects, taking into account the intent and ability to hold the securities under the Group's long-term investment strategy.

If there is objective evidence that the cost may not be recovered, an available-for-sale equity security is considered to be impaired. Objective evidence that the cost may not be recovered, in addition to qualitative impairment criteria, includes a significant or prolonged decline in the fair value below cost. The Group's policy considers a significant decline to be one in which the fair value is below the weighted-average cost by more than 30% and a prolonged decline to be one in which fair value is below the weighted-average cost for greater than one year. This policy is applied by all subsidiaries at the individual security level.

If an available-for-sale equity security is impaired based upon the Group's qualitative or quantitative impairment criteria, any further declines in the fair value at subsequent reporting dates are recognized as impairments. Therefore, at each reporting period, for an equity security that is determined to be impaired based upon the Group's impairment criteria, an impairment is recognized for the difference between the fair value and the original cost basis, less any previously recognized impairments.

For held-to-maturity financial assets and loans and advances carried at amortised cost, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any impairment loss is recorded in profit or loss.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

3. **Significant Accounting Policies** (continued)

(c) ***Financial instruments*** (continued)

(*viii*) ***Designation at fair value through profit or loss***

The Group has designated financial assets and financial liabilities at fair value through profit or loss in either of the following circumstances.

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 7 sets out the amount of each class of financial asset or financial liability that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

(d) Guaranteed Mortgage Investment Certificates (Gareemics) and Mortgage Participation Fund (MPF)

These represent beneficial interests in pools of mortgages held in trust by the Group. The pools of mortgages are not assets of the Group, except when reacquired in the event of default.

For Gareemics, the Group guarantees the timely payment of principal and interest on the underlying mortgages, whether or not received, together with the full principal balance of any foreclosed mortgages. (Refer to Notes 10 and 23).

For MPF, the investors earn a stated rate of return (variable) and there are no repayments of capital until investors elect to redeem their investments in part or in full. (Refer to Notes 10 and 23).

(e) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at banks and other short-term highly liquid investments with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

3. Significant Accounting Policies (continued)

(f) Property development costs

Property development costs are accounted for at the lower of cost (plus other direct expenses incurred in the acquisition and the development of these properties) and net realisable value. (Refer to Note 13).

(g) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided at various rates which are estimated to write off the cost of the assets over their useful lives.

The rates used are as follows:

Furniture, fixtures and office machinery	7½% to 33⅓% on reducing balance
Computer equipment	25% on reducing balance
Motor vehicles	25% on cost/straight-line.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

(h) Investment property

Property held for capital appreciation or long-term rental yields, which is not occupied by the Bank, is classified as investment property.

Investment property comprises freehold land. Investment property is carried at fair value which is reviewed periodically. Fair value is based on market prices or if this is not available, on the discounted cash flow projections, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. Investment property being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

Land held for undetermined future use is included in investment properties and is carried at fair value.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

3. Significant Accounting Policies (continued)

(i) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Debt securities

Debt securities are the Group's source of debt funding. Debt securities are initially measured at fair value minus incremental direct transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss.

(k) Capitalised bond issue costs

The costs incurred in the issue of bonds for investment in housing are amortised over the duration of the respective bond issues (Note 12).

(l) Employee benefits

The Group operates a defined contribution pension plan, which covers all of its eligible employees. The Group's contribution expense in relation to this plan for the year amounts to $838,418 (2016: $594,917).

(m) Other assets and liabilities

Other assets and liabilities, not classified as financial instruments, are initially recognised and subsequently measured at amortised cost in the statement of financial position with relevant costs recognised in profit or loss.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

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3. Significant Accounting Policies (continued)

(n) Revenue recognition

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial assets or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates the future cash flows considering all contractual terms of the financial instrument, but not the future credit losses.

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Interest income is recognised on an accrual basis in the period in which it is due and in accordance with the underlying loan contract terms and conditions except for loans classified as impaired or for loans classified as non-accrual when in management's judgment there was a deterioration in credit quality that if continued would lead to impairment.

Interest income is shown net of the interest expense incurred on managed funds.

Other income is accounted for on the accruals basis.

(o) Taxation

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017
(Expressed in Trinidad and Tobago Dollars)

3. **Significant Accounting Policies** (continued)

(o) ***Taxation*** (continued)

A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(p) ***Earnings per share***

Earnings per share for each year are computed by relating profit after taxation accruing to shareholders to the weighted average number of shares in issue during the year.

(q) ***Dividends***

Dividends are recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Board of Directors.

(r) ***New, revised and amended standards and interpretations that became effective during the year***

Certain new, revised and amended standards and interpretations came into effect during the current financial year. The Group has assessed them and has adopted those which are relevant to its financial statements:

- Amendments to IAS 7, *Statement of Cash Flows*, 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.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

3. Significant Accounting Policies (continued)

(r) New, revised and amended standards and interpretations that became effective during the year (continued)

- Amendments to IAS 12, *Income Taxes*, clarifies the following:

  - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

  - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.

  - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.

  - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

  - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

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

(s) New, revised and amended standards and interpretations not yet effective

Certain new, revised and amended standards and interpretations have been issued which are not yet effective for the current year and which the Group has not early-adopted. The Group has assessed the relevance of all such new standards, amendments and interpretations with respect to the Group's operations and has determined that the following are likely to have an effect on the consolidated financial statements.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017
(Expressed in Trinidad and Tobago Dollars)

3. **Significant Accounting Policies** (continued)

(s) ***New, revised and amended standards and interpretations not yet effective*** (continued)

Impact of the adoption of IFRS 9

The Group is required to adopt IFRS 9 *Financial Instruments* from January 1, 2018. The Group is assessing the estimated impact that the initial application of IFRS 9 will have on its financial statements.

- **IFRS 9 *Financial Instruments***

IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non‑financial items. This standard replaces IAS 39 Financial Instruments: *Recognition and Measurement.*

i. Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The Group has not assessed how the new classification requirements will impact its accounting for loans, investments in debt securities and investments in equity securities that are managed on a fair value basis. At December 31 2017, the Group had equity investments classified as available‑for‑sale and in the strategic plan the Group expects to sell these equity investments. Under IFRS 9, the Company has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in OCI, no impairment losses will be recognised in profit or loss and no gains or losses will be reclassified to profit or loss on disposal.

3. **Significant Accounting Policies** (continued)

(s) ***New, revised and amended standards and interpretations not yet effective*** (continued)

- **IFRS 9 *Financial Instruments*** (continued)

ii. Impairment – Financial assets, loan commitments and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

– 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Group has chosen to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. Based on the impairment methodology described below, the Group has estimated that application of IFRS 9's impairment requirements at January 1, 2018 results in additional impairment losses.

Loans and advances to customers

The estimated ECLs will be calculated based on actual credit loss experience. The Group will perform the calculation of ECL rates separately for corporates and individuals.

Exposures within the Group will be segmented based on common credit risk characteristics such as credit risk grade, industry, delinquency status, and type of product purchased.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

3. **Significant Accounting Policies** (continued)

(s) ***New, revised and amended standards and interpretations not yet effective*** (continued)

- **IFRS 9 *Financial Instruments*** (continued)

ii. Impairment – Financial assets, loan commitments and contract assets (continued)

Loans and advances to customers (continued)

Actual credit loss experience will be adjusted by scalar factors to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Group's view of economic conditions over the expected lives of the loans and advances to customers.

Debt securities

The Group monitors changes in credit risk by tracking published external credit ratings.

To determine whether there has been a significant increase in credit risk at January 1 2018 that has not been reflected in published ratings, the Group also reviewed changes in bond yields and, where available, CDS prices together with available press and regulatory information about issuers.

12-month and lifetime probabilities of default were based on historical data supplied by for each credit rating and were recalibrated based on current bond yields and CDS prices. Loss given default (LGD) parameters generally reflect an assumed recovery rate of 40% except when a security is credit-impaired, in which case the estimate of loss was based on the instrument's current market price and original effective interest rate.

Cash and cash equivalent

The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA- to AA+, based on Caribbean Information & Credit Rating Services Limited (CariCRIS) ratings as at December 31, 2017.

The estimated impairment on cash and cash equivalents was calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at January 1, 2018.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

3. **Significant Accounting Policies** (continued)

(s) ***New, revised and amended standards and interpretations not yet effective*** (continued)

- **IFRS 9 *Financial Instruments*** (continued)

iii. Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

– the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
– the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at January 1, 2018.

v. Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and ECLs. The Group's assessment includes an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

vi. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

– The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at January 1, 2018.

– The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

– The determination of the business model within which a financial asset is held.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017
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3. **Significant Accounting Policies** (continued)

   (s) ***New, revised and amended standards and interpretations not yet effective*** (continued)

   - **IFRS 9 *Financial Instruments*** (continued)

     vi. Transition (continued)

     Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below (continued)

     – The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
     – The designation of certain investments in equity instruments not held for trading as at FVOCI.

   - 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 Group 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.

     The Group 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.

     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 Group is assessing the impact that this amendment will have on its 2018 consolidated financial statements.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

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3. Significant Accounting Policies (continued)

(s) New, revised and amended standards and interpretations not yet effective (continued)

- IFRS 16*, Leases,* which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Entities will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short- term leases and for low-value items with value of US$5,000 or less.

  Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases.

  Early adoption is permitted if IFRS 15, *Revenue from Contracts with Customers* is also adopted.

  The Group is assessing the impact that this amendment will have on its 2019 consolidated financial statements.

(t) Contingency for mortgage risks reserve

This represents amounts set aside as general provisions based on an evaluation of the portfolio in respect of losses which, although not specifically identified, are known from experience to be present in any such portfolio. These loan loss requirements are dealt with as appropriations of equity. This reserve is not available for distribution to shareholders.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

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4. Risk Management

The Group's activities are primarily related to the purchase of mortgages from primary mortgage lenders and direct mortgage lending. The Group accesses the capital market to raise funding by the issuance of bonds to on-lend in the longer-term mortgage market. The capital market activity allows the Group to access funding for shorter tenors at lower cost and thereby earning a positive spread in its mortgage activity.

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring. This process of risk management is critical to the Group's continuing profitability. The Group is exposed to credit risk, liquidity risk, market risk, interest rate risk and operational risk.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks.

Board of Directors

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

The Board is responsible for overseeing the Group's risk management, including overseeing the management of credit risk, market risk, liquidity risk, interest rate risk and operational risk.

The Board carries out its risk management oversight function by:

- Reviewing and assessing the quality, integrity and effectiveness of the risk management systems. Overseeing the development of policies and procedures designed to:

  (a) Define, measure, identify and report on credit, market, liquidity, counterparty and operational risk; and

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

4. Risk Management (continued)

Board of Directors (continued)

The Board carries out its risk management oversight function by: (continued)

- Reviewing and assessing the quality, integrity and effectiveness of the risk management systems (continued)

  (b) Establish and communicate risk management controls throughout the Group.

- Ensuring that the Group has implemented an effective ongoing process to identify risk, to measure its potential impact against a broad set of assumptions and then to activate what is necessary to pro-actively manage these risks, and to decide the Group's appetite or tolerance for risks.

- Reviewing management reports detailing the adequacy and overall effectiveness of risk management, its implementation by management, reports on internal control and any recommendations and confirm that appropriate action has been taken.

- Providing an independent and objective oversight and view of the information presented by management on corporate accountability and specifically associated risk.

- Keep the Board informed on risk exposures and risk management activities through the submission of periodic reports from management.

Treasury

Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept.

Information compiled is examined in order to analyse, control and identify early risks. Management assesses the appropriateness of the allowance for credit losses on a semi-annual basis. The Board of Directors receives a report of arrears by portfolio on a monthly basis.

Excessive risk concentration

The Group reviews its residential mortgage concentration to prevent over exposure in any area or any residential housing development.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

4. Risk Management (continued)

Excessive risk concentration (continued)

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.

Credit risk

Credit risk is the potential for loss due to the failure of a counter-party or borrower to meet its financial obligations. Credit risk arises in the Group's normal trading activity in mortgages. The Group's credit control processes emphasize early detection of deterioration and prompt implementation of remedial action. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Where the recovery of the outstanding asset may be doubtful or unduly delayed, such accounts are transferred from performing to non-performing status. Loan loss provisions are set aside to cover any potential loss in respect of non-performing mortgages. These provisions are reviewed semi-annually.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	Gross Maximum Exposure	
	2017	**2016**
	$'000	**$'000**
Cash and cash equivalents	12,242	18,400
Investment securities	1,680,611	1,822,138
Gross mortgage portfolio	1,488,371	1,214,609
Construction advances	42,898	38,738
Other assets	21,965	18,369
Total gross financial assets	3,246,087	3,112,254
Mortgage commitments	36,799	135,548
Total credit risk exposure	3,282,886	3,247,802

Notes to the Consolidated Financial Statements

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4. Risk Management (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral.

The main type of collateral obtained is for residential lending - mortgages 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.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Group does not occupy repossessed properties.

Credit quality per class of financial assets

The Group has determined that significant credit risk exposure arises from the following items in the statement of financial position:

- Loans and advances to customers
- Investment securities.

Loans and advances to customers

Loans and advances to customers are 'classified' according to the arrears position as at the end of the financial year in addition to other risk factors. Neither past due nor impaired are where loan payments are up to date. Past due but not impaired advances are no more than six months in arrears and are very well secured based on Management's review of the collateral values. Individually impaired advances are advances that are greater than six months in arrears and specific provisions have been established for these loans. Management closely monitors and follow up all loans in arrears.

Investment securities

Individually impaired investment securities are securities that are not operating in accordance with the agreed upon terms and conditions. These are being closely monitored and specific provision has been established for the impaired portion.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017
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4. Risk Management (continued)

Credit quality per class of financial assets (continued)

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group from both its loans and advances to customers' portfolio and investment securities based on the following:

- 97.4% of the loans and advances to customers' portfolio is categorised in the top two grades of the grading system (2016: 97.7%);
- Loans and advances to customers, which represent 46% (2016: 39%) of financial assets, are backed by collateral.

Credit quality analysis

	Loans and Advances to Customers		Investment Securities	
	2017 $'000	**2016 $'000**	**2017 $'000**	**2016 $'000**
Carrying amount	1,528,050	1,250,769	1,680,611	1,822,138
Individually impaired				
Gross amount	17,128	12,963	48,638	48,638
Allowance for impairment	(3,219)	(2,578)	(48,638)	(48,638)
Carrying amount	13,909	10,385	-	-
Past due but not impaired				
Carrying amount	254,039	236,865	-	-
Past due comprises:				
30-60 days	194,749	197,140	-	-
61-90 days	36,397	21,997	-	-
91-180 days	15,816	13,458	-	-
181 days +	7,077	4,270	-	-
Carrying amount	254,039	236,865	-	-
Neither past due nor impaired				
Carrying amount	1,260,102	1,003,519	1,680,611	1,822,138

Notes to the Consolidated Financial Statements

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4. Risk Management (continued)

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of mortgagors or infringement of the original terms of the contract.

The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the availability of other financial support and the realisation value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Liquidity risk and funding management

Liquidity risk is the risk that the Group 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 liquidity risk management process ensures that the Group is able to honour all of its financial commitments as they fall due. To limit this risk, management has arranged diversified funding sources in addition to its core investment base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs.

The table below summaries the maturity profile of the Group's financial assets and liabilities at December 31, 2017 based on contractual **undiscounted** repayment obligations, over the remaining life of those assets and liabilities. These balances include interest to be paid over the remaining life of the instruments and will therefore be greater than the carrying amounts on the consolidated statement of financial position.

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4. Risk Management (continued)

Liquidity risk and funding management (continued)

2017	**Within 1 Year $'000**	**2-5 Years $'000**	**Over 5 Years $'000**	**Total $'000**
Financial Assets				
Cash and cash equivalents	12,242	-	-	12,242
Investments securities	975,644	198,113	730,228	1,903,985
Other assets	21,965	-	-	21,965
Loans and advances to customers	223,958	724,055	1,028,069	1,976,082
Total financial assets	1,233,809	922,168	1,758,297	3,914,274
Financial Liabilities				
Mortgage participation fund	594,497	-	-	594,497
Collaterised mortgage obligation	2,498	-	-	2,498
Short-term borrowings	113,025	-	-	113,025
Debt securities	314,802	959,906	201,351	1,476,059
Total undiscounted financial liabilities	1,024,822	959,906	201,351	2,186,079
Net gap	208,987	(37,738)	1,556,946	1,728,195
Cumulative gap	208,987	171,249	1,728,195	-

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4. Risk Management (continued)

Liquidity risk and funding management (continued)

2016	Within 1 Year $'000	2-5 Years $'000	Over 5 Years $'000	Total $'000
Financial Assets				
Cash and cash equivalents	18,400	-	-	18,400
Investments securities	28,571	1,239,721	786,535	2,054,827
Other assets	12,286	-	-	12,286
Loans and advances to customers	153,197	579,548	1,422,783	2,155,528
Total financial assets	212,454	1,819,269	2,209,318	4,241,041
Financial Liabilities				
Mortgage participation fund	653,630	-	-	653,630
Collaterised mortgage obligation	3,776	-	-	3,776
Short-term borrowings	130,493	-	-	130,493
Debt securities	85,226	765,896	298,959	1,150,081
Total undiscounted financial liabilities	873,125	765,896	298,959	1,937,980
Net gap	(660,671)	1,053,373	1,910,359	2,303,061
Cumulative gap	(660,671)	392,702	2,303,061	-

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4. Risk Management (continued)

Liquidity risk and funding management (continued)

	On Demand $'000	Less Than 3 Months $'000	3-12 Months $'000	1-5 Years $'000	Over 5 Years $'000	Total $'000
2017						
Commitments	-	36,799	-	-	-	36,799
2016						
Commitments	-	135,548	-	-	-	135,548

The Group expects that not all of its commitments will be drawn before expiry of the commitments.

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 Group has no exposure to currency risk as all financial instruments are denominated in Trinidad and Tobago dollars.

Equity price risk

Equity price risk is the risk that the fair values of equities will decrease as the result of decrease in equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on equity will arise as a result of changes in the fair value of equity instruments categorised as available-for-sale.

The effect on equity and income at December 31, 2017 due to a reasonably possible change in equity indices of +/- 5% with all other variables held constant will have an impact on equity of +/- $47.09 million (2016: $53.96 million).

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Year ended December 31, 2017

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4. **Risk Management** (continued)

Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. It manages this risk by maintaining a positive interest rate gap between its major financial assets and liabilities as follows:

(a) Financial assets

Loans and advances to customers

The Group has the ability to vary interest rates on its variable rate portfolios by giving three to six months notice to mortgagors. The variable rate portfolios account for 88.7% of the total gross mortgage portfolio as at December 31, 2017 (2016: 87.4%).

In addition, the rates on the fixed rate portfolios are only fixed for periods ranging between three to ten years, after which the mortgages convert to variable rate mortgages.

(b) Financial liabilities

Bonds in issue

The Group has the ability to reset rates on a quarterly basis. The rate is calculated on a spread ranging between 1.35% to 1.75% over the current 90 day GOTT treasury bill.

Mortgage participation fund

The Group has the ability to vary this rate at any time.

Collateralised mortgage obligations

The rates paid on Collateralised Mortgage Obligations (CMO) are linked to the rates on the mortgage pools which back this financial liability. The mortgages backing this fundraising instrument are all variable rate mortgages. Therefore upward or downward movements in the variable interest rate will be matched by upward or downward movements in interest paid to CMO investors.

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4. **Risk Management** (continued)

Interest rate risk (continued)

The table below shows the Group's financial assets and liabilities categorised by type of interest rate.

	Variable Rate 2017 $'000	Fixed Rate 2017 $'000	Total 2017 $'000	Variable Rate 2016 $'000	Fixed Rate 2016 $'000	Total 2016 $'000
Loans and advances to customers	1,357,762	173,519	1,531,281	1,095,270	158,100	1,253,370
Percentage of total loans and advances to customers	88.7%	11.3%	100.0%	87.4%	12.6%	100%
Bonds in issue	867,936	466,300	1,334,236	574,830	466,300	1,041,130
Percentage of total bonds in issue	65.1%	34.9%	100.0%	55.2%	44.8%	100%

The table below shows the maturity profiles for the Group's fixed rate mortgages to revert to variable rate mortgages.

	Within 1 Year $'000	1-3 Years $'000	3-5 Years $'000	5-7 Years $'000	7-10 Years $'000	Total $'000
2017						
Loans and advances to customers	128,945	39,981	522	-	4,071	173,519
Percentage of total fixed loans and advances to customers	74.3%	23.0%	0.3%	0%	2.3%	100.0%

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4. Risk Management (continued)

Interest rate risk (continued)

	Within 1 Year $'000	1-3 Years $'000	3-5 Years $'000	5-7 Years $'000	7-10 Years $'000	Total $'000
2016						
Loans and advances to customers	17,467	123,229	1,022	268	16,114	158,100
Percentage of total fixed loans and advances to customers	11.1%	77.9%	0.6%	0.2%	10.2%	100.0%

Sensitivity analysis

The Group has been a market-maker in terms of mortgage rates and therefore it is not the policy of the Group to follow the market in terms of average mortgage rates.

However it should be noted that the majority of the Group's financial assets are held in loans and advances to mortgagers. Variable rate mortgages account for 87.4% (2016: 87.4%) of the mortgage pool which gives the Group the ability to change interest rates if needed, within a short time frame.

Therefore the Group can quickly respond to any changes in interest rates, driven by the Financial Services Sector or Government, if needed, and re-price its assets and liabilities.

Because of the above, management does not believe that any changes in interest rates would have a significant impact on net income or equity.

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 control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

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5. Capital Management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the 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 for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group maintains mortgage risk reserves as part of its capital structure. This represents amounts set aside as collectively assessed allowances for losses on loans and advances; based on an evaluation of the portfolio in respect of losses which, although not specifically identified, are known from experience to be present in any such portfolio. These loan loss requirements are dealt with as appropriations of equity.

6. Use of Critical Estimates and Judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and their application and assumptions made relating to major estimation uncertainties and critical accounting judgements.

(a) Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(c)(vii).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

(b) Critical accounting judgments made in applying the Group's accounting policies

(1) Impairment of financial assets

Management makes judgements at each reporting period to determine whether financial assets are impaired. 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.

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6. Use of Critical Estimates and Judgements (continued)

(b) Critical accounting judgments made in applying the Group's accounting policies (continued)

(2) Property development

An impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less cost to sell calculation is based on Management's estimates in an arm's length transaction of similar assets or observable market prices less incremental costs for completing and disposing of the asset.

(3) Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(4) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(c)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on expected cash flows based on recent history, uncertainty of market factors and other risks affecting the specific instrument.

7. Fair Value of Financial Instruments

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 Group determines fair values using other valuation techniques.

(a) Valuation models

The Group 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.

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7. Fair Value of Financial Instruments (continued)

(a) Valuation models (continued)

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.

(b) Financial instruments measured at fair value

	2017			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial assets				
Equity securities	941,853	-	-	941,853

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

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7. **Fair Value of Financial Instruments** (continued)

(b) Financial instruments measured at fair value

	2016			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial assets				
Equity securities	1,079,266	-	-	1,079,266

Transfers between and movement in Levels

For the year ended December 31, 2017 there were no transfers of assets between and movement in Levels.

(c) Financial instruments not measured at fair value

The table below shows the financial assets and liabilities not measured at fair value and seeks to analyse them by the level in the fair value hierarchy into which they would be allocated had they been measured at fair value. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Level 1	Level 2	Level 3	Fair Value	Total Carrying Amount
	$'000	$'000	$'000	$'000	$'000
As at December 31, 2017					
Assets					
Investment securities	664,307	77,000	-	741,307	738,757
Loans and advances to customers	-	-	1,528,050	1,528,050	1,528,050
Liabilities					
Debt securities	1,051,292	283,167	-	1,334,459	1,334,236
Short-term borrowings	-	110,000	-	110,000	110,000
Mortgage Participation Fund	585,711	-	-	585,711	585,711
Collateral mortgage obligation	-	2,498	-	2,498	2,498

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7. Fair Value of Financial Instruments (continued)

(c) Financial instruments not measured at fair value (continued)

	Level 1	Level 2	Level 3	Fair Value	Total Carrying Amount
	$'000	$'000	$'000	$'000	$'000
As at December 31, 2016					
Assets					
Investment securities	665,872	147,000	-	812,872	742,872
Loans and advances to customers	-	-	1,250,768	1,250,768	1,250,769
Liabilities					
Debt securities	793,487	232,068	-	1,025,555	1,041,130
Short-term borrowings	-	127,000	-	127,000	127,000
Mortgage Participation Fund	643,970	-	-	643,970	643,970
Collateral mortgage obligation	-	3,776	-	3,776	3,776

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes interest rates and prepayment rates. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. Input into the models may include information obtained from other market participants, which includes observed primary and secondary transactions.

The fair value of debt securities is estimated using discounted cash flow techniques, applying the rates that are offered for debt securities of similar maturities and terms.

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	2017 $'000	2016 $'000
8. Cash and Cash Equivalents		
Cash and cash equivalents comprise:		
Cash at bank and on hand	11,980	18,150
Short-term deposits	262	250
Total cash and cash equivalents	12,242	18,400

The average effective interest rate on cash and short-term deposits is 0.01% (2016: 0.01%).

	2017 $'000	2016 $'000
9. Investment Securities		
Investment securities comprise:		
Held-to-maturity (a)	738,757	742,872
Available-for-sale (b)	941,854	1,079,266
Other securities (c)	-	-
	1,680,611	1,822,138
(a) Held-to-maturity		
- State-owned company securities	499,685	509,329
- Government securities	239,072	233,543
	738,757	742,872
(b) Available-for-sale		
- Local equities	941,854	1,079,266
(c) Other securities		
- Matured investment securities	48,638	48,638
- Provision for impairment	(48,638)	(48,638)
	-	-

The average effective interest rate on investment securities for the year is 4.21% (2016: 4.21%).

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9. Investment Securities (continued)

	2017 $'000	2016 $'000
Provision for impairment on other securities	48,638	48,638

On January 30, 2009, the Central Bank of Trinidad and Tobago ('CBTT') intervened in the operations of Clico Investment Bank Limited ('CIB') and took control of that entity under Section 44D of Central Bank Act Chap. 72:02. The Bank held funds totalling $48.6 million with CIB as at the date of the intervention. These facilities matured in the first quarter of 2009 and have not yet been repaid. These funds represent $36.0 million Investment Note Certificates and $12.6 million Certificate of Deposit. The Government has stated that it will guarantee to honour all third party deposits of CIB. The Bank is of the opinion that these investments will be covered under the Government's guarantee and it will continue to pursue the recovery thereof. The Bank has taken a decision to make a full provision for these investments on the basis of prudence and the uncertainty of timing of recovery.

On January 6, 2018, the liquidators of CIB held a meeting with the creditors to vote on a resolution position. HMB awaits further information on the option to be exercised.

10. Loans and Advances to Customers

		2017 $'000	2016 $'000
Total loans administered		1,528,050	1,250,769
Mortgages held in trust (Note 23)		(588,209)	(647,746)
Net loans retained		939,841	603,023

The composition of loans and advances to customers is as follows:

Retained mortgage loans	(a)	896,943	564,285
Construction loan advances	(b)	42,898	38,738
		939,841	603,023

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10. Loans and Advances to Customers (continued)

	2017 $'000	2016 $'000
(a) Retained mortgage loans		
Principal balances and unamortised discounts:		
Total loans administered at January 1	1,214,609	1,040,590
New mortgages/transfers from construction loan advances	523,328	313,400
Principal repayments	(249,568)	(139,381)
	1,488,369	1,214,609
Specific provision for impaired loans	(3,217)	(2,578)
Total loans administered at December 31	1,485,152	1,212,031
Mortgages held in trust (Note 23)		
- Guaranteed Mortgage Investment Certificates	(2,498)	(3,776)
- Mortgage Participation Fund	(585,711)	(643,970)
	(588,209)	(647,746)
Retained mortgage loans	896,943	564,285
Represented by:		
Mortgages with recourse	3,711	5,445
Mortgages without recourse	893,232	558,840
Balance at December 31	896,943	564,285
Specific provision for impaired loans:		
Balance at January 1	2,578	3,705
Charge (reversal) for the year	639	(1,127)
Balance at December 31	3,217	2,578

The average effective interest rate on the retained mortgage portfolio is 7.12% (2016: 7.30%).

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10. Loans and Advances to Customers (continued)

(b) Construction loan advances

	2017 $'000	2016 $'000
Balance at January 1	38,738	21,142
New advances	33,229	31,253
Repayments	(2,937)	(2,700)
Advances converted to mortgages	(26,132)	(10,957)
Balance at December 31	42,898	38,738

The average effective interest rate on Construction loan advances is 5.05% (2016: 5.69%).

11. Other Assets

	2017 $'000	2016 $'000
Interest receivable on investment securities	5,991	6,082
Bond repayments due	3,060	2,118
Sundry debtors	1,917	4,650
Mortgage remittance receivable	10,997	5,519
	21,965	18,369

12. Capitalised Bond Issue Costs

	2017 $'000	2016 $'000
Balance at January 1	209	210
Costs incurred during the year	669	52
	878	262
Costs amortised during the year	(157)	(53)
Balance at December 31	721	209

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	2017 $'000	2016 $'000
13. Property Development Costs		
Balance at January 1	42,265	56,767
Cost of units sold (Note 27)	(3,640)	(14,502)
	38,625	42,265
Provision for impairment	(14,020)	(14,960)
Balance at December 31	24,605	27,305
Provision for Impairment:		
Balance at January 1	14,960	19,421
Provisions reversed during the year	(940)	(4,461)
Balance at December 31	14,020	14,960

After considering the results of the valuation of Lands for Development and Villa Units unsold, which was carried out in October 2015, and based on the acceptance of the sales price offered, management concluded that no additional provisions would be necessary for the financial year 2017.

14. Property and Equipment

	Furniture, Fixtures, Office Machinery and Equipment $'000	Motor Vehicles $'000	Total $'000
Cost			
Balance at January 1, 2017	5,656	2,544	8,200
Additions	346	245	591
Disposals	(17)	-	(17)
Balance at December 31, 2017	5,985	2,789	8,774
Depreciation			
Balance at January 1, 2017	3,193	1,742	4,935
Charge for the year	438	413	851
Disposals	(13)	-	(13)
Balance at December 31, 2017	3,618	2,155	5,773
Net book value	2,367	634	3,001

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14. Property and Equipment (continued)

	Furniture, Fixtures, Office Machinery and Equipment $'000	Motor Vehicles $'000	Total $'000
Cost			
Balance at January 1, 2016	5,529	2,302	7,831
Additions	364	242	606
Disposals	(237)	-	(237)
Balance at December 31, 2016	5,656	2,544	8,200
Depreciation			
Balance at January 1, 2016	2,960	1,221	4,181
Charge for the year	461	521	982
Disposals	(228)	-	(228)
Balance at December 31, 2016	3,193	1,742	4,935
Net book value	2,463	802	3,265

15. Investment Property

Investment property comprises one property acquired for $18.876 million during June 2016. The fair value measurement for investment property has been categorised as a Level 2 in the fair value hierarchy. Fair value is deemed to be the purchase price given that the property was acquired in 2016.

16. Deferred Tax Asset (Liability)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The Group does not offset deferred tax assets and deferred tax liabilities.

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16. Deferred Tax Asset (Liability) (continued)

i. The movement in deferred tax assets and liabilities during the year is as follows:

	Restated 2016 $'000	(Charged) credited to Profit or loss $'000	OCI $'000	2017 $'000
Deferred tax assets				
Impairment provision on lands for Development and Units unsold	4,488	(282)	-	4,206
Impairment provision on available-for-sale investments	1,540	-	-	1,540
	6,028	(282)	-	5,746
Deferred tax liabilities				
Discount on purchase of Mortgage Pools	(27)	9	-	(18)
Revaluation of available-for-sale investments	(217,449)	-	41,223	(176,226)
Bond issue costs	(63)	(153)	-	(216)
Property and equipment	(93)	67	-	(26)
	(217,632)	(77)	41,223	(176,486)
Net deferred tax liability	(211,604)	(359)	41,223	(170,740)

	2015 $'000	(Charged) credited to Profit or loss $'000	OCI $'000	Restated 2016 $'000
Deferred tax assets				
Impairment provision on lands for Development and Units unsold	4,855	(367)	-	4,488
Impairment provision on available-for-sale investments	1,282	258	-	1,540
	6,137	(109)	-	6,028
Deferred tax liabilities				
Discount on purchase of Mortgage Pools	(35)	8	-	(27)
Revaluation of available-for-sale investments	(177,764)	-	(39,685)	(217,449)
Bond issue costs	(53)	(10)	-	(63)
Property and equipment	(154)	61	-	(93)
	(178,006)	59	(39,685)	(217,632)
Net deferred tax liability	(171,869)	(50)	(39,685)	(211,604)

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16. Deferred Tax Asset (Liability) (continued)

ii. The movement on the deferred tax account is as follows:

	2017 $'000	Restated 2016 $'000
Balance at January 1	(211,604)	(171,869)
Charge to profit or loss (Note 28)	(359)	(50)
Prior year adjustment	-	(35,553)
Charge to other comprehensive income	41,223	(4,132)
Balance at December 31	(170,740)	(211,604)

17. Stated Capital

	2017	2016
Authorised		
An unlimited number of ordinary shares of no par value		
Issued and fully paid		
16,000,000 ordinary shares of no par value	16,000	16,000

18. Revaluation Reserve

The revaluation reserve is used to record increases or decreases in the carrying value of the Group's available-for-sale equity portfolio. If the value of this portfolio increases or decreases based on market prices, this movement is recognised in equity under the heading revaluation reserve and other comprehensive income. These assets are tested for impairment and once the indicators of impairment are achieved, the impairment loss is recognised in the profit or loss. At the reporting date, there was no impairment on the equity portfolio.

19. Mortgage Risk Reserve

	2017 $'000	2016 $'000
Balance at January 1	5,852	4,822
Transfer from retained earnings	1,439	1,030
Balance at December 31	7,291	5,852

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	2017 $'000	2016 $'000
20. Other Liabilities		
Interest payable on bonds	9,548	5,236
Sundry creditors and accruals	7,833	7,085
Gareemic holders payable	79	101
	17,460	12,422
Taxation payable	3,806	208
	21,266	12,630

21. Short-term Borrowings

Balance at January 1	127,000	76,700
Proceeds	325,000	551,000
Repayments	(342,000)	(500,700)
Balance at December 31	110,000	127,000

The short-term borrowing facility is comprised of a RBC one year revolving facility renewable each September. As at September 2017 the facility was set at $225 million. These borrowings are secured by investment securities valued at $380 million.

	2017 $'000	2016 $'000
22. Debt Securities		
Balance at January 1	1,041,130	1,001,273
Issues	350,000	96,750
Redemptions	(56,894)	(56,893)
Balance at December 31	1,334,236	1,041,130

Notes:

(a) These bonds are secured by debentures created at the time of issue and rank pari-passu over the fixed and floating assets of the Bank.

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22. Debt Securities (continued)

(b) The amounts outstanding on bonds issued are redeemable as follows:

	2017 $'000	2016 $'000
Within 1 year	273,194	56,894
1 to 2 years	56,894	273,194
2 to 3 years	456,894	56,894
3 to 4 years	56,894	306,894
4 to 5 years	290,360	56,894
Over 5 years	200,000	290,360
	1,334,236	1,041,130

	2017 $'000	2016 $'000
(c) Tax free bonds	175,930	124,011
Other bonds	1,158,306	917,119
	1,334,236	1,041,130

Under the Home Mortgage Bank Act 1985, the Bank is authorised to issue tax-free bonds up to $600 million of which $176 million has been issued at year end (2016: $124 million).

23. Managed Fund Liabilities

Managed Funds comprises:

	2017 $'000	2016 $'000
Guaranteed Mortgage Investment Certificates	2,498	3,776
Mortgage Participation Fund	585,711	643,970
	588,209	647,746
Carrying value of loans backing the Managed Fund liabilities (Note 10)	(588,209)	(647,746)
Net liability	-	-

The maturity value of these financial liabilities is determined by the fair value of the Bank's assets at maturity value. There will be no difference between the carrying amount and the maturity amount at the valuation date.

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	2017 $'000	2016 $'000
23. Managed Fund Liabilities (continued)		
The movement in the Managed Fund liabilities is as follows:		
Balance at January 1	647,746	497,625
Additions	250,639	470,508
Capitalised interest	8,820	6,446
Repayments	(318,996)	(326,833)
Balance at December 31	588,209	647,746
Accrued interest		
Balance at January 1	-	-
Interest paid	(9,391)	(7,628)
Interest expense	9,391	7,628
Balance at December 31	-	-

Guaranteed Mortgage Investment Certificates (Gareemics)

As issuer and guarantor of Gareemics, the Bank is obligated to disburse scheduled monthly instalments of principal and interest (at the coupon rate) and the full unpaid principal balance of any foreclosed mortgage to Gareemics investors, whether or not any such amounts have been received. The Bank is also obligated to disburse unscheduled principal payments received from borrowers. At December 31, 2017 the outstanding balances of securitised mortgages and the related Gareemics issued amounts to $2.5 million (2016: $3.7 million).

The Group's credit risk is mitigated to the extent that sellers of pools of mortgages elect to remain at risk for the loans sold to the Group or other credit enhancement was provided to protect against the risk of loss from borrower default. Lenders have the option to retain the primary default risk, in whole or in part, in exchange for a lower guarantee fee. The Group however, bears the ultimate risk of default.

Mortgage Participation Fund

The Bank guarantees the investments under its Mortgage Participation Fund (MPF) investment programme. This fund is backed by mortgage and/or other securities. At the reporting date, the outstanding balance under the MPF investment product was $585.71 million (2016: $643.9 million).

Notes to the Consolidated Financial Statements

Year ended December 31, 2017
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24. Classification of Financial Assets and Financial Liabilities

The following table provides a reconciliation between line items in the statement of financial position and the categories of financial instruments

	FVOCI Equity	Amortised Cost	Total
	$	$	$
2017			
Assets			
Cash and cash equivalents	-	12,242	12,242
Investment securities	941,854	738,757	1,680,611
Loans and advances to customers		939,841	939,841
Other assets	-	21,965	21,965
Total financial assets	941,854	1,712,805	2,654,659
Liabilities			
Other liabilities	-	21,266	21,266
Short-term borrowings	-	110,000	110,000
Debt securities	-	1,334,236	1,334,236
Total financial liabilities	-	1,465,502	1,465,502
2016			
Assets			
Cash and cash equivalents	-	18,400	18,400
Investment securities	1,079,266	742,872	1,822,138
Loans and advances to customers	-	603,023	603,023
Other assets	-	18,369	18,369
Total financial assets	1,079,266	1,382,664	2,461,930
Liabilities			
Other liabilities	-	12,630	12,630
Short-term borrowings	-	127,000	127,000
Debt securities	-	1,041,130	1,041,130
Total financial liabilities	-	1,180,760	1,180,760

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

	2017 $'000	2016 $'000
25. Interest Income		
Loans and advances to customers	87,243	69,825
Investment securities	33,957	32,811
	121,200	102,636
Interest expense	(15,128)	(12,384)
Net interest income	106,072	90,252
26. General and Administrative Expenses		
Staff costs	9,099	8,030
Premises	3,291	2,920
Other operating expenses	11,271	10,375
	23,661	21,325
Included within other operating expenses are the following charges:		
Depreciation	851	982
Directors' fees	1,799	1,546
27. Loss on Sale of Property Units		
Income from sale of units	2,700	10,041
Cost of units sold	(3,640)	(14,502)
Loss on sale of property units	(940)	(4,461)
28. Taxation		
(i) Current taxation:		
Corporation tax	8,844	4,335
Green Fund levy	607	456
Business levy	470	536
Deferred taxation	359	50
Taxation charge for the year	10,280	5,377

Notes to the Consolidated Financial Statements

Year ended December 31, 2017
(Expressed in Trinidad and Tobago Dollars)

28. Taxation (continued)

(ii) Tax recognised in other comprehensive income:

	2017			2016		
	Before Tax $'000	Tax Benefit $'000	Net of Tax $'000	Before Tax $'000	Tax Expense $'000	Net of Tax $'000
Available-for-sale investments	(137,412)	41,223	(96,189)	13,778	(39,685)	(25,907)

(iii) Tax reconciliation:

The Group's effective tax rate varies from the statutory rate of 30% as a result of the differences shown below:

	2017 $'000	2017 %	2016 $'000	2016 %
Profit before taxation	84,149	100.00	83,579	100.00
Tax at the statutory rate of 25% and 30%	25,194	29.93	20,895	25.00
Changes in estimates related to prior years	1,115	1.32	329	0.39
Green Fund levy	607	0.72	456	0.54
Business levy	470	0.56	536	0.64
Tax exempt income	(17,106)	(20.31)	(16,839)	(20.14)
	10,280	12.22	5,377	6.43

An increase in the corporation tax rate from 25% to 30% has been announced for 2017 and has been deemed to be substantively enacted as at the reporting date.

29. Related Party Transactions and Balances

(a) Identity of related parties

A party is related to the Group if:

(a) The party is a subsidiary or an associate of the Group;

(b) The party is, directly or indirectly, either under common control or subject to significant influence with the Group or has significant or joint control of the Group.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

29. Related Party Transactions and Balances (continued)

(a) Identity of related parties (continued)

A party is related to the Group if (continued)

(c) The party is a close family member of a person who is part of key management personnel or who controls the Group;

(d) The party is controlled or significantly influenced by a member of key management personnel or by a person who controls the Group;

(e) The party is a joint venture in which the Group is a venture partner;

(f) The party is a member of the Group's or its parent's key management personnel;

(g) The party is a post-employment benefit plan for the Group's employees.

(h) The party, or any member of a group of which it is a part, provides key management personnel services to the Group.

(b) Related party balances

	2017 $'000	2016 $'000
Loans, investments and other assets		
The National Insurance Board and its subsidiaries	217,000	217,000
Directors and key management personnel	9,334	3,549

All outstanding balances with these related parties are conducted on an arm's length basis. None of the balances are secured.

	2017 $'000	2016 $'000
Bonds in issue and other liabilities		
The National Insurance Board and its subsidiaries	252,382	251,603
Directors and key management personnel	914	868

(c) Related party transactions

	2017 $'000	2016 $'000
Interest and other income		
The National Insurance Board and its subsidiaries	9,384	7,759
Directors and key management personnel	356	183
Bond interest and other expenses		
The National Insurance Board and its subsidiaries	6,279	6,217
Directors and key management personnel	16	29

Notes to the Consolidated Financial Statements

Year ended December 31, 2017
(Expressed in Trinidad and Tobago Dollars)

29. Related Party Transactions and Balances (continued)

	2017 $'000	2016 $'000
(d) Key management compensation		
Directors and management compensation		
Short term benefits	5,454	4,999
Post-retirement benefits	384	362

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

There were no provisions for doubtful debts related to outstanding balances, including related parties, nor were there any bad or doubtful debts recognised during the period.

Key management personnel transactions

The aggregate values of transactions and outstanding balances related to key management personnel were as follows:

	Transaction Values		Maximum Balance		Balance Outstanding	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Mortgage Lending	2,543	977	4,009	1,311	3,874	1,331
MPF	3	5	5	6	2	6

30. Mortgage Commitments

The Group has issued standby mortgage commitments of which undrawn balances amount to $36.8 million (2016: $135.5 million).

31. Employees

At year-end, the Group had in its employ a staff complement of 34 employees (2016: 31).

32. Dividend Paid

The Group made a dividend payout of one dollar, ninety six cents ($1.96) cents per share which was paid on July 07, 2017 in relation to 2016 profits.

Notes to the Consolidated Financial Statements

Year ended December 31, 2017

(Expressed in Trinidad and Tobago Dollars)

33. Contingent Liabilities

As at December 31, 2017, there were no legal proceedings outstanding against the Group, as such no provisions were required (2016: NIL).

34. Events after the Reporting Date

There are no events occurring after the consolidated statement of financial position date and before the date of approval of these consolidated financial statements by the Board of Directors that require adjustment to or disclosure in these consolidated financial statements.

35. Prior Year Restatement

	As Previously Reported	Restatement	As Restated
	$	$	$
December 31, 2016			
Deferred tax liability	(182,079)	(35,553)	(217,632)
Revaluation reserve	(542,941)	35,553	(507,388)
Other comprehensive income	9,646	(35,553)	(25,907)

The restatement arose from corrections necessary to the deferred tax calculation on the revaluation of the available for sale investments balance which was taxed at 25%.

SHAREHOLDERS

The stated capital is 16,000,000 ordinary shares to a value of $16,000,000 subscribed as follows as at 31st December, 2017:

Institution	Amount $	%
The National Insurance Board of Trinidad and Tobago	16,000,000	100

CORPORATE INFORMATION

MANAGEMENT

RAWLE RAMLOGAN
Chief Executive Officer

MARK WIGHT
Manager, Finance & Administration

OSMOND PREVATT
Manager, Treasury and Investment

SITA MANGAL
Manager, Mortgage Sales and Operations

INDIRA GEEBAN
Manager, Risk Management

CHERYL - ANN NEPTUNE
Manager, Human Resources

PATRICIA ILKHTCHOUI
Corporate Secretary

OFFICE LOCATIONS

PORT OF SPAIN (HEAD OFFICE)
Ground Floor, Prince's Court
Corner Keate & Pembroke Streets
CHAGUANAS
#33 Mulchan Seuchan Road

EXTERNAL AUDITORS

KPMG
Trinre Building
69-71 Edward Street
Port of Spain

INTERNAL AUDITORS

DELOITTE & TOUCHE
54 Ariapita Avenue
Woodbrook
Port of Spain

ATTORNEYS- AT-LAW

POLLONAIS, BLANC, DE LA BASTIDE AND JACELON
17-19 Pembroke Street
Port of Spain

M.G. DALY & PARTNERS
115A Abercromby Street,
Port-of-Spain

J D SELLIER & COMPANY
129-131 Abercromby Street
Port of Spain

BANKERS

Republic Bank Limited
Independence Square
Port of Spain

TRUSTEE, REGISTRAR AND PAYING AGENTS FOR BOND ISSUES
Republic Bank Limited
Trust and Asset Management Division
(Trustee)
Republic House
9-17 Park Street, Port of Spain

FIRST CITIZENS TRUSTEE SERVICES LIMITED
(Registrar and Paying Agents)
45 Abercromby Street, Port of Spain