Financial Statements of

DEVELOPMENT FINANCE LIMITED

December 31, 2018
(Expressed in Thousands Trinidad and Tobago Dollars)

DEVELOPMENT FINANCE LIMITED

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Statement of Management's Responsibilities
Development Finance Limited

Management is responsible for the following:

- Preparing and fairly presenting the accompanying financial statements of Development Finance Limited ("the Company"), which comprise the statement of financial position as at December 31, 2018, the statements of profit or loss, 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 Company 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 Company's assets, detection/prevention of fraud and the achievement of the Company's operational efficiencies;

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

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

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

In preparing these 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 Company will not remain a going concern for the next twelve months from the reporting date, or up to the date the accompanying financial statements have been authorised for issue, if later. Management affirms that it has carried out its responsibilities as outlined above.

Duane Hinkson
Chief Executive Officer

Date: March 28, 2019

Stacey Bachoo
Chief Accountant

Date: March 28, 2019

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Chartered Accountants
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Independent Auditors' Report
To the shareholders of Development Finance Limited

Opinion

We have audited the financial statements of Development Finance Limited ("the Company"), which comprise the statement of financial position as at December 31, 2018, the statements of profit or loss, 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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 financial statements in the Republic of Trinidad and Tobago, and we have fulfilled our other ethical responsibilities in accordance with these requirements and with the IESBA Code. 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 Company's Annual Report but does not include the financial statements and our auditors' report thereon. The Company's 2018 Annual Report is expected to be made available to us after the date of this auditors' report.

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

Other Information (continued)

In connection with our audit of the 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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Company's 2018 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 Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG

Chartered Accountants
Port of Spain
Trinidad and Tobago
March 29, 2019

DEVELOPMENT FINANCE LIMITED

Statement of Financial Position

December 31, 2018
(Expressed in Trinidad and Tobago Dollars)

	Notes	2018 $'000	2017 $'000
ASSETS			
Cash and cash equivalents	6	106,278	78,800
Statutory deposit with Central Bank	7	10,020	4,920
Asset held for sale	8	7,716	8,324
Investment securities	9	251,936	210,687
Loans and advances to customers	10	152,826	147,465
Due from related parties	11	1,200	1,203
Computer software	12	800	652
Furniture and equipment	13	429	444
Other assets	14	1,029	13,720
Post-employment benefits	15	23,472	25,643
Total assets		555,706	491,858
EQUITY AND LIABILITIES			
Equity			
Stated capital	16	136,639	136,639
Reserves	17	22,645	27,688
Retained earnings		54,731	51,890
Total equity		214,015	216,217
Liabilities			
Borrowings	18	163,389	184,356
Customers' deposits	19	172,662	80,157
Other liabilities		5,640	11,128
Total liabilities		341,691	275,641
Total equity and liabilities		555,706	491,858

The accompanying notes on pages 10 to 84 are an integral part of these financial statements.

These financial statements have been approved for issue by the Board of Directors on March 28, 2019 and signed on its behalf by:

Director ______________________ Director ______________________

DEVELOPMENT FINANCE LIMITED

Statement of Profit or Loss

Year ended December 31, 2018
(Expressed in Trinidad and Tobago Dollars)

	Notes	2018	2017
		$'000	**$'000**
Interest income	21	23,551	27,967
Interest expense	22	(13,437)	(11,000)
Net interest income		10,114	16,967
Gain arising from derecognition of financial assets measured at amortised cost		-	19,822
Other income	23	10,909	9,084
Revenue		21,023	45,873
Reversal of impairment loss allowance	24	95	14,376
Recoveries		21	24
General overheads and corporate expenses	25	(12,060)	(13,680)
Profit before taxation		9,079	46,593
Taxation	26	(104)	(175)
Profit for the year		8,975	46,418

The accompanying notes on pages 10 to 84 are an integral part of these financial statements.

DEVELOPMENT FINANCE LIMITED

Statement of Comprehensive Income

Year ended December 31, 2018
(Expressed in Trinidad and Tobago Dollars)

	Notes	2018	2017
		$'000	**$'000**
Profit for the year		8,975	46,418
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit plan asset	15	(2,725)	(905)
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (FVOCI debt instruments)		(5,941)	(78)
Other comprehensive income		(8,666)	(983)
Total comprehensive income for the year		309	45,435

The accompanying notes on pages 10 to 84 are an integral part of these financial statements.

DEVELOPMENT FINANCE LIMITED

Statement of Changes in Equity

Year ended December 31, 2018
(Expressed in Trinidad and Tobago Dollars)

	Ordinary Shares	Preference Shares	Statutory Reserve	Revaluation Reserve	Contingency for General Banking Risks	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at December 31, 2017							
Balance at January 1, 2017	**90,039**	**46,600**	**21,580**	**820**	**665**	**13,408**	**173,112**
Transfer to General Banking Risk Reserve	-	-	-	-	60	(60)	-
Transfer to Statutory Reserve	-	-	4,641	-	-	(4,641)	-
	90,039	46,600	26,221	820	725	8,707	173,112
Profit for the year	-	-	-	-	-	46,418	46,418
Other comprehensive income	-	-	-	(78)	-	(905)	(983)
Total comprehensive income	-	-	-	(78)	-	45,513	45,435
Transactions with Owners recorded directly in equity							
Dividends paid	-	-	-	-	-	(2,330)	(2,330)
Balance at December 31, 2017	90,039	46,600	26,221	742	725	51,890	216,217
Balance at December 31, 2018							
Balance at January 1, 2018	**90,039**	**46,600**	**26,221**	**742**	**725**	**51,890**	**216,217**
Adjustment on initial application of IFRS 9	-	-	-	-	-	(181)	(181)
Transfer to Statutory Reserve	-	-	898	-	-	(898)	-
	90,039	46,600	27,119	742	725	50,811	216,036
Profit for the year	-	-	-	-	-	8,975	8,975
Fair value reserve (FVOCI debt instrument)	-	-	-	(5,941)	-	-	(5,941)
Remeasurement of defined benefit asset	-	-	-	-	-	(2,725)	(2,725)
Total comprehensive income	-	-	-	(5,941)	-	6,250	309
Transactions with Owners recorded directly in equity							
Dividends paid	-	-	-	-	-	(2,330)	(2,330)
Balance at December 31, 2018	90,039	46,600	27,119	(5,199)	725	54,731	214,015

The accompanying notes on pages 10 to 84 are an integral part of these financial statements.

DEVELOPMENT FINANCE LIMITED

Statement of Cash Flows

Year ended December 31, 2018
(Expressed in Trinidad and Tobago Dollars)

	Notes	2018 $'000	2017 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		8,975	46,418
Adjustments for non-cash items in operating activities	27	(16,752)	(31,459)
Cash flows before changes in operating assets		(7,777)	14,959
Changes in:			
- Loans and advances to customers		(4,578)	(13,193)
- Balance with Central Bank		(5,100)	(1,300)
- Asset held for sale		608	(8,324)
- Related party balances		3	37
- Other assets		12,818	(10,296)
- Other liabilities		(5,614)	5,104
Taxation expense		104	175
		(1,759)	(27,797)
Interest received		20,674	25,654
Interest paid		(10,915)	(9,498)
Taxation paid		(104)	(175)
		9,655	15,981
Net cash from (used in) operating activities		119	3,143
CASH FLOWS FROM INVESTING ACTIVITIES			
(Acquisition) disposal of investment securities		(41,337)	10,765
Proceeds from sale of investment securities		2,379	11,375
Additions to furniture and equipment and computer software		(368)	(933)
Net cash from investing activities		(39,326)	21,207
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in customers' deposits		83,271	26,649
Repayment of debt securities		(14,256)	(50,009)
Dividend paid		(2,330)	(2,330)
Net cash (used in) from financing activities		66,685	(25,690)
Net increase in cash and cash equivalents		27,478	(1,340)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		78,800	80,140
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	106,278	78,800

The accompanying notes on pages 10 to 84 are an integral part of these financial statements.

1. General Information

Development Finance Limited (DFL or the Company) is an independent private limited liability company with the following shareholding:

Minister of Finance (Corporation Sole)	49.75%
Maritime General Insurance Company Limited	33.17%
Maritime Life (Caribbean) Limited	16.58%
DFL Caribbean Holdings Limited	0.50%

The address of the Company's registered office is 10 Cipriani Boulevard, Port of Spain.

The Company's principal activities are those of lenders, foreign exchange dealers, debt and equity capital market arrangers, securities dealers and investment and financial advisors to commercial, corporate, industrial, sovereign and institutional entities in Trinidad and Tobago and the wider Caribbean region.

The Company was incorporated in the Republic of Trinidad and Tobago and is registered under the Companies Act, 1995 and under the Securities Act (2012) as a Reporting Issuer, Broker-Dealer and an Underwriter. The Company has been granted Authorised Dealer status under the Exchange Control Act and can accept deposits, grant credit facilities and otherwise deal in foreign currency as it is licensed under the Financial Institutions Act (FIA) 2008 to carry out the classes of business listed below:

i acceptance/confirming house
ii finance house
iii leasing
iv merchant banking
v mortgage lending
vi financial services.

2. Basis of Preparation

(a) Basis of accounting

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

This is the first set of the Company's annual financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in Notes 2 and 3.

(b) Basis of measurement

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

- Net defined benefit asset is measured as the fair value of the plan assets less the present value of the defined benefit obligation, limited as explained in Note 3(j).
- Financial assets at fair value through other comprehensive income.

2. Basis of Preparation (continued)

(c) *Functional and presentation currency*

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

(d) *Use of critical estimates and judgements*

The preparation of the financial statements in conformity with IFRS 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 financial statements are identified below:

Accounting Policy 3(b) (ii)	Financial instrument classifications
Accounting Policy 3(b) (v) and Note 5	Measurement of financial instruments
Accounting Policy 3(j) and Note 15	Post-employment benefits
Note 4	Financial Risk Management

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

The Company has initially adopted IFRS 9 and IFRS 15 from January 1, 2018. A number of other new standards are also effective from January 1, 2018 but they do not have a material effect on the Company's financial statements.

Due to the transition method chosen by the Company in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements. Consequently, the related accounting policies for 2017 are not consistent with those of 2018.

2. Basis of Preparation (continued)

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

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognized by the Company. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:
- An increase in impairment losses recognized on the financial assets (see Note 2(e))
- Additional disclosures related to IFRS 9 (see Notes 3(b), 9, 10)

Except for the changes below, the Company has consistently applied the accounting policies as set out in Note 3(b) to all periods presented in these financial statements.

IFRS 9 *Financial Instruments*

Introduction

IFRS 9 – *Financial Instruments*. The new standard includes a new model for classification and measurement of financial assets as well as a forward-looking 'expected loss' impairment model for debt instruments. The standard replaces the existing guidance in IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 was effective from January 1, 2018.

Classification and measurement

From a classification and measurement perspective, the new standard requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Company's business model for managing the assets and the instruments' contractual cash flow characteristics (whether the contractual cash flows are solely payments of principal and interest (SPPI).

The IAS 39 measurement categories were replaced by: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 allows the Company to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch.

2. Basis of Preparation (continued)

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

IFRS 9 *Financial Instruments* (continued)

Classification and measurement (continued)

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from the Company's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarized below. The full impact of adopting the standard is set out in Note 4.

Impairment

IFRS 9 introduced an expected credit loss (ECL) impairment model that differs significantly from the incurred loss model under IAS 39 and is expected to result in the earlier recognition of credit losses going forward.

Scope

Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The scope of the IFRS 9 expected credit loss impairment model includes amortized cost financial assets.

Expected credit loss impairment model

Under IFRS 9, credit loss allowances will be measured on each reporting date according to a three-Stage expected credit loss impairment model under which each financial asset is classified in one of the stages below:

- Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults expected over the next 12 months. Interest is calculated based of the gross carrying amount of the asset.

2. Basis of Preparation (continued)

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

IFRS 9 *Financial Instruments* (continued)

Impairment (continued)

Expected credit loss impairment model (continued)

- Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognized equal to the credit losses expected over the remaining lifetime of the asset. Interest is calculated based of the gross carrying amount of the asset.
- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to the full lifetime expected credit losses will be recognized. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

The recognition and measurement of impairment is intended to be more forward looking than under IAS 39. The estimation of an ECL is required to be unbiased and probability weighted, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The estimate will also consider the time value of money.

The measurement of an ECL is primarily determined by an assessment of the financial asset's probability of default (PD), loss given default (LGD) and exposure at default (EAD) where the cash shortfalls are discounted to the reporting date.

Transition

The impairment and classification and measurement requirements of IFRS 9 were applied retrospectively by adjusting the Company's Statement of Financial Position at January 1, 2018, the date of initial application of IFRS 9, with the difference between previous carrying amounts and carrying amounts at initial application recognized in retained earnings. There is no requirement to restate comparative periods.

2. Basis of Preparation (continued)

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

IFRS 9 *Financial Instruments* (continued)

Transition (continued)

The following shows the impact of the transition to IFRS 9 on Financial Assets at Amortised cost

	IAS 39 Carrying Amount December 31, 2017	ECL Reclassification	Remeasurement	IFRS 9 Carrying Amount January 1, 2018
	$'000	**$'000**	**$'000**	**$'000**
Financial Assets				
Amortised cost				
Cash and cash equivalents				
Opening balance	78,800	-	-	78,800
Loans and advances				
Opening balance	147,465	-	(16)	147,449
Investment securities				
Opening balance	98,893	-	(165)	98,728
Other assets				
Opening balance	13,720	-	-	13,720
Total amortised cost	338,878	-	(181)	338,697

2. Basis of Preparation (continued)

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

IFRS 9 *Financial Instruments* (continued)

Transition (continued)

The following shows the impact of the transition to IFRS 9 on Financial Assets at Fair Value through Other Comprehensive Income

	IAS 39 Carrying Carrying Amount December 31, 2017	**ECL Reclassifications**	**Remeasurements**	**IFRS 9 Carrying Amount January 1, 2018**
	$'000	**$'000**	**$'000**	**$'000**
Financial Assets				
Fair value through other comprehensive income				
Hold to collect and sell-debt				
Opening balance	93,279	-	-	93,279
Fair value through profit or loss				
Equity				
Opening balance	16,993	-	-	16,993
Total fair value through Other comprehensive income	110,272	-	-	110,272

2. Basis of Preparation (continued)

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

IFRS 9 *Financial Instruments* (continued)

Transition (continued)

The following shows the impact of the transition to IFRS 9 on Retained Earnings.

	IFRS 9 Carrying Amount January 1, 2018 $'000
Financial Assets	
Closing Balance under IAS 39 as at December 31, 2017	51,890
Recognition of expected credit losses under IFRS 9 including loans and advances and investments	(181)
Opening balance under IFRS 9 as at January 1, 2018	51,709

The following shows the Classification and Measurement of financial assets in accordance with IAS 39 and IFRS 9 as at January 1, 2018

	IAS 39		IFRS 9	
	Measurement	Carrying Amount $'000	Measurement	Carrying, Amount $'000
Financial Assets				
Cash and cash equivalents	Amortised Cost	78,800	Amortised Cost	78,800
Loans and Advances	Amortised Cost	147,465	Amortised Cost	147,449
Other Assets	Amortised Cost	13,720	Amortised Cost	13,720
Deposits with Central Bank	Amortised Cost	4,920	Amortised Cost	4,920
Investment securities	Amortised Cost	98,893	Amortised Cost	98,728
Investment securities Hold to collect and sell-debt	FVOCI	93,279	FVOCI	93,279
Investment securities Equity	FVTPL	16,993	FVOCI	16,993

2. Basis of Preparation (continued)

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

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18, IAS 11 Construction Contracts and related interpretations.

The Company initially applied IFRS 15 on January 1, 2018 in accordance with IAS 8 without any practical expedients. The timing or amount of the Company's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

3. Significant Accounting Policies

The Company has consistently applied the accounting policies as set out in Note 3 to all periods presented in these financial statements.

(a) 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.

3. Significant Accounting Policies (continued)

(b) Financial instruments

Financial instruments comprise balances with related parties, cash and cash equivalents, investment securities, loans and advances to customers, staff loans, and debt securities and customers' deposits.

(i) Recognition and initial measurement

The Company initially recognises loans and advances to customers, deposits and debt securities issued on the date at which they are disbursed, booked and issued respectively. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Company 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

Policy applicable before January 1, 2018

The Company classifies its financial assets into one of the following categories:

- loans and advances to customers and receivables;
- held-to-maturity;
- available-for-sale; and
- fair value through profit or loss; and within this category as:
  - held for trading; or
  - designated at fair value through profit or loss.

Financial assets

Policy applicable from January 1, 2018

On initial recognition, a financial asset is classified as measured at:

- amortised cost;
- FVOCI; and
- FVTPL

3. Significant Accounting Policies (continued)

(b) Financial instruments (continued)

(ii) Classification (continued)

Financial assets (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within the business model whose objective is to hold assets to collect contractual cash flows; and

- The contractual terms of the financial asset gives rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent in fair value in OCI. The election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

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

(b) ***Financial instruments*** (continued)

(ii) *Classification* (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

This category includes financial assets held for trading or financial assets designated at fair value through profit or loss. A financial asset is classified in this category is acquired principally for the purpose of selling in the short term or if so designated by management.

Financial assets at fair value through other comprehensive income

This category includes financial assets held as available-for-sale or financial assets designated at fair value through other comprehensive income. A financial asset in this category is acquired principally for the purpose of holding to collect and sell.

Financial liabilities

The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss (FVTPL).

(iii) *Derecognition*

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

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(iv) *Modifications of financial assets and financial liabilities*

Financial assets

If the terms of a financial asset are modified, then the Company evaluates whether the cash flows of the modified asset are substantially different.

3. Significant Accounting Policies (continued)

(b) Financial instruments (continued)

(iv) Modifications of financial assets and financial liabilities (continued)

Financial assets (continued)

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms.

Financial liabilities

The Company derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and consideration paid is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss.

(v) Measurement

Financial assets

Policy applicable from January 1, 2018

Subsequent to initial recognition, all financial assets at FVTPL and FVOCI assets are measured at fair value, based on their quoted market price at the reporting date without any deduction for transaction costs. 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 Company. has access at that date.

3. Significant Accounting Policies (continued)

(b) Financial instruments (continued)

(v) Measurement (continued)

Financial assets (continued)

Policy applicable from January 1, 2018 (continued)

Where the instrument is not actively traded or quoted on recognised exchanges, fair value is determined using discounted cash flow analysis. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions.

Policy applicable before January 1, 2018

Any available-for-sale asset that does not have a quoted market price in an active market and for which fair value cannot be reliably measured, is stated at cost, including transaction costs, less impairment losses.

Gains and losses arising from the change in the fair value of available-for-sale investment securities subsequent to initial recognition are accounted for as changes in the investment revaluation reserve and recognised in other comprehensive income (OCI).

Gains and losses, both realised and unrealised, arising from the change in the financial assets at fair value through profit or loss are reported in other income.

Originated loans and receivables and held-to-maturity financial assets are measured at amortised cost less impairment losses.

Financial liabilities

Subsequent to initial recognition all non-trading financial liabilities are measured at amortised cost.

(vi) Amortised cost measurement

Amortised cost is calculated on the effective interest rate method. Premiums, discounts, and initial transaction costs are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

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

(b) ***Financial instruments*** (continued)

(vii) Offsetting

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

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

(viii) Designation at fair value through profit or loss

Management designates financial assets and financial liabilities at fair value through profit or loss when the assets or liabilities are managed and reported internally on a fair value basis, or the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(ix) Identification and measurement of impairment

The Company recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- loan commitments issued.

No impairment loss is recognized on equity investments.

(x) Impairment

<u>Measurement of ECL</u>

ECL are a probability-weighted estimate of credit losses.

At each reporting date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. The Company recognises loss allowances for estimated credit loss, ECL.

12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1 financial instruments'.

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

(b) ***Financial instruments*** (continued)

(x) *Impairment* (continued)

Measurement of ECL (continued)

Life-time ECL is the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as 'Stage 2 financial instruments'. Lifetime ECL was not calculated as of December 31, 2018.

A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably, this is referred to as 'Stage 3 financial instruments'. (See Note 3(d)(ii): Classification of impaired loans).

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

- loan commitments and financial guarantee contracts: generally, as a provision;

- where a financial instrument includes both a drawn and an undrawn component and the Company cannot distinguish the ECL separately, the Company presents a combined loss allowance for both components.

- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

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

(b) Financial instruments (continued)

(x) Impairment (continued)

Write-off

Loans and debt securities are written off when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

(xi) Designation at fair value through profit or loss

The Company 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 20 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.

(c) 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 Company in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3. Significant Accounting Policies (continued)

(d) Loans and advances to customers

(i) Recognition

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments, other than investment securities, that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term. Loans and advances to customers are classified as loans and receivables. Loans and advances are initially measured at fair value plus incremental direct transaction costs and subsequent to initial recognition loans and advances are measured at amortised cost using the effective interest method.

(ii) Classification of impaired loans

A loan or any other financial asset is classified as impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact (that can be estimated reliably) on the future cash flows. An impaired loan is a loan where the outstanding amount of the loan (without loan loss provisions) is greater than its fair value measured on the basis of expected cash flows in accordance with the contracted terms of the loan.

Impairment indicates that it is probable that the lender will be unable to collect all amounts due according to the terms of the loan agreement. Unless the loan is fully secured by readily marketable collateral and there is objective evidence that provides reasonable assurance of timely repayment of principal and interest, the Company will determine whether there is objective evidence of an impairment loss by using the following criteria to determine that there is objective evidence of an impairment loss:

- Arrears of either principal or interest for more than 3 months (90 days);
- Indications of insolvency proceedings;
- Un-resolved breaches in loan covenants;
- Adverse economic conditions that correlate historically with defaults in the Company affecting a group of assets including deterioration in the value of collateral.

A loan that is in the process of collection may be classified separately in "Collateral-dependent loans" as it is not impaired if the collection process is intended to be irreversible and the loan is fully secured by readily marketable collateral that based on objective, independent evidence provides adequate assurance of recovery of the loan. The present value of the estimated future cash flows of a collateral dependent loan includes the cash flows that may result from the realisation of collateral, net of expenses.

3. Significant Accounting Policies (continued)

(d) Loans and advances to customers

(ii) Classification of impaired loans

Impaired loans may be reclassified as unimpaired based on events occurring after impairment was recognised that justify a reasonable expectation that payments of principal and interest will be made in a timely manner based on a detailed evaluation of the borrower's financial condition by Management and evidence that:

(a) Payment of all past due principal and interest has been received and none of the principal and interest is due and unpaid.

(b) Payments have been received regularly for a reasonable period of time and payments are expected to be made as scheduled.

Loans that are subject to impairment assessment and whose terms have been renegotiated in accordance with standard terms for new loans are no longer considered past due but are treated as new loans.

(iii) Loans with re-negotiated terms

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

3. Significant Accounting Policies (continued)

(e) Investment securities

Investment securities primarily comprise government bonds and other registered securities that are being held-to-maturity. A portion of investment securities is set aside within Bond Redemption Fund to provide for partial redemption of bonds issued by the Company up to 2030. These securities are managed by Trustees by way of Trust Deeds and are not available for other use by the Company.

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost- these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

- debt securities measured as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;

- ECL and reversals; and

- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

(f) Furniture and equipment

All furniture and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss during the financial period in which they are incurred.

3. Significant Accounting Policies (continued)

(f) Furniture and equipment (continued)

Depreciation on other assets is computed on the straight line balance method over the estimated useful lives of the related assets at the following rates:

Furniture and equipment - 12½ % - 25%.

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

(g) Computer software

Software acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. The amortisation of computer software is computed on the straight line method over the estimated useful lives of the related assets at the rate of 25%. Amortisation methods, useful lives and residual values of assets are reviewed and adjusted if appropriate at each reporting date.

(h) Impairment of non-financial assets

The carrying amounts of the Company'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 the 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.

(i) Debt securities and deposits

Debt securities is one of the Company'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 Company 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.

3. Significant Accounting Policies (continued)

(i) Debt securities and deposits (continued)

Preference shares with mandatory redemptions are classified as a financial liability and are reported at fair value through profit or loss. The Company's preference shares are included in equity.

When the Company sells a financial asset and simultaneously enters into an agreement to repurchase its assets at a fixed price on a future date (sale-and-repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Company's financial statements.

(j) Employee benefits

Retirement benefits for employees are provided by a defined benefit scheme, the assets of which are held in a separate trustee-administered fund. The pension plan is funded by contributions from the Company and the employees taking account the recommendations of independent qualified actuaries.

(i) Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in profit or loss.

3. Significant Accounting Policies (continued)

(j) Employee benefits (continued)

(i) Defined benefit plans (continued)

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(ii) Other long-term employee benefits

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

(iv) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(v) Defined contribution plan

The Company also operates a defined contribution pension plan which covers employees employed after 2015. The Company's contribution expense in relation to this Plan for the year amounts to $207 thousand (2017: $140 thousand).

(k) 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.

3. Significant Accounting Policies (continued)

(l) Interest

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 Company 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 judgement there was a deterioration in credit quality that if continued would lead to impairment.

Interest income and expenses presented in profit or loss include interest on financial assets and liabilities measured at amortised cost calculated on an effective interest basis.

(m) Fees and commissions

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income, including account servicing fees, fund management fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transactions and service fees which are expensed as the services are received.

(n) Taxation

The Company is exempt from taxation under the Corporation Tax Act, Chapter 75.02 as amended. However, the Company is required to pay Green Fund Levy which is disclosed as taxation in profit or loss.

3. Significant Accounting Policies (continued)

(o) Dividends

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

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

- 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.

- Amendments to IFRS 9, *Prepayment Features with Negative Compensation*, which is effective for annual reporting periods beginning on or after January 1, 2019, removes the word "additional" so that negative compensation may be regarded as "reasonable compensation" irrespective of the cause of the early termination. Financial assets with these prepayment features can therefore be measured at amortised cost or at FVOCI if they meet the other relevant requirements of IFRS 9. Retrospective application is required, subject to relevant transitional reliefs.

  The Board clarified that IFRS 9 (as issued in 2014) requires to:
  - recalculate the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate (EIR); and
  - recognize any adjustment to profit or loss.

  The accounting treatment is therefore consistent with that required for modifications of financial assets that do not result in derecognition. If the initial application of IFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to transitional reliefs.

3. Significant Accounting Policies (continued)

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

- Amendments to IAS 19, *Plan Amendment, Curtailment or Settlement,* which is effective for annual reporting periods beginning on or after January 1, 2019, clarifies that:

  - on amendment, curtailment or settlement of a defined benefit plan, the Company can now use updated actuarial assumptions to determine its current service cost and net interest for the period; and
  - the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separate in other comprehensive income.

- Annual Improvements to IFRS Standards 2015-2017 Cycle, which is effective for annual reporting periods beginning on or after January 1, 2019:

  - Amendments to IFRS 3, *Business Combinations and* IFRS 11, *Joint Arrangements*, clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business. The amendments also provide further guidance on what constitutes the previously held interest. This is the entire previously held interest in the joint operation.

  - Amendments to IAS 23, *Borrowing Costs,* clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that are intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. The changes are to be applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

- Amendments to Reference to Conceptual Framework in IFRS Standards, which is effective for annual reporting periods beginning on or after January 1, 2020, is a comprehensive revision of the exiting framework. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. Most of the concepts are not new, the revised framework codifies the IASB's thinking adopted in recent standards. Some areas such as the distinction between liabilities and equity have been removed from the revised Framework, and are being dealt with in separate projects.

(q) *Contingency for general banking risks*

The contingency for general banking risks is an appropriation of retained earnings that is not available for distribution to shareholders.

4. Financial Risk Management

Introduction and overview

The Company's Mission, and the characteristics of the economies in which it operates, makes credit concentrations from time to time unavoidable, in particular, risk inherent in small and medium-sized enterprises (SME risk). Capital risk management is a critical component of financial soundness and cost of capital.

The Company has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risks
- Foreign Exchange risks
- Interest rate risks
- Operational risk.

This note presents information about the Company's objectives, policies and processes for measuring and managing risk.

Risk Management Framework

The Board of Directors (the Board) ensures that suitably qualified management and senior staff review and implement the Company's risk management policies that are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits and report to the Board, which has overall responsibility for the establishment and oversight of the Company's risk management framework. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Company's Audit and Risk Committee oversees responsibility for risk management, reviews the adequacy of the risk management framework in relation to the risks faced by the Company and reports to the Board on compliance with the Company's risk management policies and procedures.

(i) Portfolio SME concentration risk

The Company's risk profile is elevated because its loans are mainly in small and medium-sized enterprises (SME). These are vulnerable to interruptions in the supply chain due to transport facilities, weather, utilities, licensing regimes and natural disasters such as hurricanes and flooding as well as changes in customer preferences due to global influences and variable household incomes. It is noteworthy that the majority of SME loans are to segments that are stable or growing (e.g. distributive trade, real estate, manufacturing and services).

4. **Financial Risk Management** (continued)

Risk management framework (continued)

(i) Portfolio SME concentration risk (continued)

This risk is highly correlated with "Country risk" in terms of governance, economic conditions and the operation of markets. The correlation between SME risk and Country risk arises from the inability of some countries to increase competitiveness due to delays in improving infrastructure, in delivering appropriately trained entrants to the work force and in creating conditions that allow markets to function effectively. This reduces sustained access by SME to markets and operating finance.

The Company manages "Country risk" (as defined above) using conventional country assessments to provide country ratings that are indexed to its assessment of its home country. This, in conjunction with detailed individual assessment, facilitates the determination of a credit score that in turn ultimately influences the pricing of loans.

(ii) Credit risk management

The Company's Board is responsible for managing credit risk along with the Chief Executive Officer who is responsible for implementing the credit and risk management policy approved by the Board which relies on oversight by the Board's Audit and Risk Committee. Specific management measures include:

- Ensuring that suitably qualified staff is adequately trained in various aspects of credit risk management and providing advice, guidance and specialist skills and training to business units to promote sound techniques and practices.

- Formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.

- The authorisation structure for the approval of credit and related decisions.

- Limitation of credit concentrations, industry and country risk exposure and reviewing compliance of business units with agreed exposure limits and the credit quality of local portfolios and ensuring that appropriate corrective action is taken where required.

- Developing and maintaining the Company's risk rating and pricing systems and its procedures for determining impairment loss.

4. Financial Risk Management (continued)

Risk management framework (continued)

(ii) Credit risk management (continued)

Credit risk in the Company refers mainly to "Business enterprise risk" which is the probability that an enterprise might fail and not be able to meet its obligations because of poor management or poor judgement or inadequate execution of plans.

Management deals with that risk as follows:

- Management evaluates business proposals using a three-tiered approach that centres on the business enterprise, the macroeconomic and industry environment in which it will operate and the likely effects those factors as well as continuing assessment of key success factors and credit criteria. The results of the evaluations and management's insights and judgements provide the inputs for the credit scoring/risk rating model that takes Country risk and likely loss given default, based on exposure at default, into account to determine the eventual business risk rating (BRR). The security is also evaluated on a separate scale to determine a facility security risk rating (FSRR). Both are then combined to determine the overall composite facility risk rating (CFRR). The eventual loan pricing is then derived from the CFRR. Since the model centers on a normal risk threshold, scores that are higher than statistically derived normal ranges are subject to independent review.

- Management monitors "Business enterprise risk" by regularly reviewing the performance of companies in its portfolio.

- The Company's credit risk is managed primarily at source by the Management and reviewed by the Audit & Risk Committee and the Board.

- The Company has its own internal self-assessment and risk management controls. Loan operations and loan management services are segregated from loan origination and credit appraisal responsibilities.

(a) Restructured loans

Loans that are temporarily impaired may be re-scheduled or re-structured when sources of payment are identified and the enterprises are re-structured to remove the causes of loan impairment thus improving viability.

4. Financial Risk Management (continued)

Risk management framework (continued)

(ii) Credit risk management (continued)

(a) Restructured loans (continued)

Loans that have been re-structured on concessionary terms resulting in an impairment loss are classified separately as "Loans with re-negotiated terms". Concessionary terms refer to extended capital repayment periods with a moratorium on capital repayment. These concessions may sometimes create an impairment loss unless the interest rate is adjusted to increase the effective interest and maintain the fair value of the loan. Any significant changes in these exposures that arise from abnormal risk during the year or any change in the methods used to measure risk in these exposures are disclosed and reported separately.

(b) Credit concentration risk

A risk concentration refers to aggregate exposure to any group of counterparties having similar characteristics that would cause their ability to meet contractual obligations to be affected by similar events including changes in market, industry or economic or other conditions.

While concentrations can improve yields, such aggregate exposure could produce losses large enough to threaten the financial soundness of the Company. Accordingly, concentration of risk in the loan portfolio is measured in terms of capital and reserves.

The probability of incidence and likely impact arising from risk concentrations are both variable and uncertain especially since most of its loans and investments are long term. Risk concentrations of varying types are unavoidable because of the structure, size and characteristics of the economies in which the Company operates and the limitations of small and medium-sized enterprises but are mitigated by the regulatory and internal risk framework which sets obligor and industry exposure limits.

The Company's concentration risk management strategy includes the following measures:

1. Identification of likely areas of concentration and assessment of the joint probabilities of default using suitable methodologies and data, where available, and appropriate judgement based on reasonableness in the light of experience.

4. Financial Risk Management (continued)

Risk management framework (continued)

(ii) Credit risk management (continued)

(b) Credit concentration risk (continued)

2. The Board approves aggregate credit limits, in terms of capital and reserves, based on objective criteria and analyses regarding:

    a. Significant exposures to an individual counterparty or group of related counterparties;

    b. Credit exposures to counterparties in the same economic or industry sector;

    c. Credit exposures within the same national economies

3. Establishment of appropriate capital structures and risk-sharing arrangements to carry on lending and investment operations in national economies that have vulnerabilities or resource constraints.

4. The Company's technical capability and availability of resources to manage its traditional portfolio concentration are reviewed periodically, including access to industry-specific expertise.

The following table summarizes the sector risk concentration in the loan portfolio.

	2018		2017	
	$'000	%	$'000	%
Manufacturing	8,257	5	4,100	3
Distribution	9,025	6	23,141	16
Tourism	34,842	23	36,760	25
Real estate	28,662	19	35,530	24
Industrial and commercial services	65,096	42	46,299	31
Consumer	6,944	5	1,635	1
Total outstanding	152,826		147,465	

4. Financial Risk Management (continued)

Risk management framework (continued)

(ii) Credit risk management (continued)

(c) Geographical concentrations of assets and liabilities

	Total Assets		Total Liabilities	
	$'000	**%**	**$'000**	**%**
As at December 31, 2018				
Trinidad and Tobago	491,511	88	316,032	93
Eastern Caribbean	18,782	3	2,525	1
Guyana and Suriname	9,215	2	-	-
European Union	10,701	2	14,774	4
Other	25,497	5	8,360	2
Total	555,706		341,691	
As at December 31, 2017				
Trinidad and Tobago	430,798	88	243,933	89
Eastern Caribbean	21,180	4	5,862	2
Guyana and Suriname	10,018	2	-	-
European Union	12,046	2	22,761	8
Other	17,816	4	3,085	1
Total	491,858		275,641	

Sectoral analysis of loan commitments

	2018	2017
	$'000	**$'000**
Industrial and commercial services	9,922	9,135
Total outstanding	9,922	9,135

4. Financial Risk Management (continued)

Risk management framework (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis

	Loans and Advances to Customers		Investment Securities	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Carrying amount	152,826	147,465	251,936	210,687
Individually impaired				
Gross amount	16,722	4,716	-	-
Allowance for impairment	(538)	(521)	(193)	-
Carrying amount	16,184	4,195	(193)	-
Past due but not impaired				
Carrying amount	21,798	30,441	-	-
Past due comprises:				
30-60 days	16,352	12,001	-	-
60-90 days	4,540	18,401	-	-
90-180 days	399	-	-	-
180 days +	507	39	-	-
Carrying amount	21,798	30,441	-	-
Neither past due nor impaired				
Gross amount	114,844	79,907	252,129	210,687
Loan with renegotiated terms				
Gross carrying amount	-	32,922	-	-

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended. However, collateral provides additional security and the Company generally requests that corporate borrowers provide it. The Company may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

4. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Maximum credit exposure

Due to the Company's focus on corporate customer's creditworthiness, it does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Company obtains appraisals of collateral because it provides input into determining the management credit risk actions.

At December 31, 2018, the net carrying amount of credit-impaired loans and advances to corporate customers amounted to $16.7 million (2017: $4.7 million) and the value of identifiable collateral (mainly commercial properties) held against these loans and advances amounted to $30.4 million (2017: $30.1 million). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

All loans and advances to customers are measured at amortised cost.

The maximum exposure to credit risk in the Company (loans plus commitments) at December 31, 2018 without taking account of any collateral held or other credit enhancements was $530 million (2017: $450 million).

Collateral held as security generally includes charges on freehold property and equipment. At present the Company does not pursue any unsecured lending.

Loans that were neither past due nor impaired as at December 31, 2018 amounted to 75% of the total portfolio (2017: 77%).

Loans past due but not impaired as at December 31, 2018 amounted to 14% of the total portfolio (2017: 21%).

In addition to the above, the Company had entered into lending commitments of $9.9 million (2017: $9.1 million) with counterparties.

The Company has issued no financial guarantee contracts in respect of debtors (2017: NIL). The maximum amount payable by the Company, assuming all guarantees are called on, is NIL (2017: NIL).

The following table sets out information about the credit quality of financial assets maintained at amortised cost, FVOCI debt investments (2018) and available for sale debt assets (2017). Unless specifically indicated, for financial assets, the amount in the table represent gross carrying amounts. Explanation of terms "Stage1", "Stage 2" and "Stage 3" is included in Note 2 (e).

4. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Maximum credit exposure (continued)

	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	2018 Total $'000	2017 Total $'000
Loans and Advances to customers at amortised cost					
Rating 5L - 5H: low-fair credit risk	1,518	-	-	1,518	1,776
Rating 4L - 4H: moderate credit risk	67,934	-	-	67,934	46,700
Rating 3L - 3H: acceptable-substantial credit	62,629	13,069	2,434	78,132	93,965
Rating NR: high credit risk	-	-	4,997	4,997	4,754
Total				152,581	147,195
Less allowance provision				(538)	(521)
Carrying amount				152,043	146,674

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with

- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

4. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Maximum credit exposure (continued)

Significant increase in credit risk (continued)

The Company uses three criteria for determining whether there has been a significant increase in credit risk:

- Quantitative test based on movement in PD;
- Quantitative indicators; and
- A backstop of 30 days past due.

Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement.

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit deteriorates so, for example, the difference in risk of default between credit risk grades 5H and 5L is smaller than the difference between credit risk grades 3M and 3L.

Each exposure is allocated to a credit risk rating on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk rating band. The monitoring typically involves use of the following data.

Corporate and Commercial Exposures

- Information obtained during periodic review of customer files – eg. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are; gross profit margin, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, key management changes, etc.

- Data from credit reference agencies, press articles, changes in external credit ratings (where applicable), etc.

4. **Financial Risk Management** (continued)

(ii) ***Credit risk management*** (continued)

(d) Credit quality analysis (continued)

Maximum credit exposure (continued)

Corporate and Commercial Exposures (continued)

- Actual and expected significant changes in the financial, economic, political, regulatory and technological environment of the borrower and/or in its business activities;
- Payment records inclusive of overdue status (where applicable);
- Utilisation of approved credit facilities;
- Requests for and granting of forbearance inclusive of adjustments to previously agreed terms and conditions

The table below provides an indicative mapping of how the Company's internal credit risk grades relate to PD and, for the corporate portfolio.

The corporate portfolio of the Company is comprised of loans and advances to corporates and other businesses.

Internal Rating	**12-month average PD (%)**
Rating 5L - 5H: low-fair credit risk	0.03
Rating 4L - 4H: moderate credit risk	0.22
Rating 3L - 3H: acceptable-substantial credit risk	1.08
Rating NR : high credit risk	100

Generating the term structure of PD

Credit risk grades are primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Company employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

4. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Maximum credit exposure (continued)

Determining whether credit risk has increased significantly

The Company assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative modelling:

- The remaining lifetime PD is determined to have increased by more than 5% of the corresponding amount estimated on initial recognition;

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Company's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experiences.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Past due is determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is any evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as a 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Company determines a probation period during which the financial assets required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

4. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Maximum credit exposure (continued)

Determining whether credit risk has increased significantly (continued)

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria is capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due;
- The average time between the identification of a significant increase in credit risk and default appears reasonable;
- Exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- The borrower is more than 90 days past due on any material credit obligation to the Company; or
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

4. **Financial Risk Management** (continued)

(ii) ***Credit risk management*** (continued)

(d) Credit quality analysis (continued)

Maximum credit exposure (continued)

Determining whether credit risk has increased significantly (continued)

Amounts arising from ECL

In assessing whether a borrower is in default, the Company considers indicators that are:

- Qualitative: e.g. breaches of covenant;
- Qualitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at a fair value in accordance with the accounting policy set out in Note 3d(iii).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with

- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

4. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Maximum credit exposure (continued)

Modified financial assets (continued)

The Company renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. This is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

For financial assets modified, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the Company's previous experience. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, re-negotiated terms is a qualitative indicator of a significant increase in credit risk and an expectation of default may constitute evidence that an exposure is credit-impaired (see Note 3 b(x) A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

4. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Maximum credit exposure (continued)

Modified financial assets (continued)

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property. LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if for credit risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

4. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Maximum credit exposure (continued)

Modified financial assets (continued)

The Company can cancel them with immediate effect, but this contractual right is not enforced in the normal day-to-day management, but only when the Company becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Company expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- Instrument type;
- Credit risk gradings;
- Collateral type;
- LTV ratio for retail mortgages;
- Date of initial recognition;
- Remaining term to maturity;
- Industry; and
- Geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Company has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

4. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Maximum credit exposure (continued)

Modified financial assets (continued)

External benchmarks used

	Exposure $'000	PD	LGD
Investments - Held at amortised cost	109,838	Bloomberg DRSK	Basel II Foundation Approach

Loss allowance

The following table shows reconciliations from opening to the closing balances of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance account for credit losses and reflect the measurement basis under IAS 39.

	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	2018 Total $'000	2017 Total $'000
Loans and advances to customers at at amortised cost					
Balance at January 1	-	-	521	521	521
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net measurement of loss allowance	17	-	-	17	-
New financial assets originated or purchased	-	-	-	-	-
Financial assets that have been Derecognized	-	-	-	-	-
Write-offs	-	-	-	-	-
Foreign exchange and other Movements	-	-	-	-	-
Balance at December 31				538	521

4. **Financial Risk Management** (continued)

(ii) ***Credit risk management*** (continued)

(d) Credit quality analysis (continued)

Maximum credit exposure (continued)

Modified financial assets (continued)

Loss allowance (continued)

	2018 Stage 1 $'000	2017 Total $'000
Investment securities at amortised cost		
Balance at January 1	165	-
Net measurement of loss allowance	-	-
Net financial assets originated or purchased	28	-
Balance at December 31	193	-

The Company regards loans and advances or investment debt securities as impaired in the following circumstances:

- There is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset such that it does not expect to collect all principal and interest due according to the contractual terms of the loan/investment security agreement(s).

- A loan is overdue when more than 90 days in arrears. Impaired loans and advances are in 90 days and over category in the Company's internal credit risk rating system.

Past due but not impaired loans and investment debt securities, other than those carried at fair value through profit or loss, are those for which contractual interest or principal payments are past due, but the Company believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Company.

4. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Maximum credit exposure (continued)

Modified financial assets (continued)

Impaired loans and investment debt securities

Loans with renegotiated terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3 (d)(iii).

The Company renegotiates loans to customers in financial difficulties (referred to as 'restructuring activities') to maximize collection opportunities and minimize the risk of default. Under the Company's restructuring loan policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the loan restructuring policy. Restructured loans are reported to the Audit and Risk Committee along with the non-performing loans.

For the purposes of disclosures in these financial statements, 'loans with renegotiated terms' are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Company has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Company had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, earlier repayment or until it is written off.

4. **Financial Risk Management** (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Modified financial assets (continued)

Loans with renegotiated terms (continued)

Irrespective of whether loans with renegotiated terms have been derecognised or not, they remain disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and there are no other indicators of impairment.

In respect of some of these loans the Company has made concessions that it would not otherwise consider. During 2018, there were no loans with renegotiated terms or a loan which was re-scheduled or restructured (2017: 1 Loan).

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be impaired when there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

(e) Offsetting financial assets and liabilities

There were no financial assets and liabilities offset during the year (2017: NIL).

(f) Financial assets pledged as collateral

Financial assets are pledged as collateral as part of sales and repurchases and securitisation transactions under terms that are usual and customary for such activities. The Company receives and gives collateral in the form of marketable securities of:

1. Sales-and-repurchase agreements;
2. Securities borrowing.

(g) Transfer of financial assets

In the ordinary course of business, the Company enters into transaction that result in the transfer of financial assets, primarily debt securities. In accordance with the accounting policy set out in Note 3(b)(iii), the transferred financial assets continue to be recognised in their entirety. The Company transfers financial assets that are not derecognised in their entirety through the following transactions: sales and repurchase of securities and securitisation activities.

4. Financial Risk Management (continued)

(iii) Operational risk

Operational risk refers to the probability of financial loss from causes associated with the functioning of the Company's business processes, personnel, technology and infrastructure and also from external factors other than credit, market and liquidity risks. Operational risk is an inevitable consequence of the execution of the Company's business processes.

The management of operational risk involves making appropriate judgements that balance risk and return by taking positive measures and instituting controls to avoid financial losses and damage to the Company's reputation while maintaining overall cost effectiveness.

The Company employs an overall system management approach to maintain a culture of integrity, diligence and alertness while avoiding control procedures that restrict initiative and creativity. This requires a commitment by senior management to openness and honesty and to the implementation of controls designed to address operational risk.

This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Adherence to business philosophies and corporate values;
- Compliance monitoring and reporting;
- Internal self-assessment and operational reviews;
- Reporting and analysis of operational losses including "near misses";
- Training and professional development in internal control systems and procedures;
- Development of contingency plans;
- Segregation of duties in critical aspects of loan management, information systems and expense control including the independent authorisation of transactions and access to systems; and
- Independent investigations by senior managers with professional experience in relevant fields.

Compliance with standards is supported by Board overview of a programme of systematic, periodic assessment of areas of likely operational risks identified and prioritised by management responsible for Risk Management and by internal audit (outsourced). The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to Management and the Audit and Risk Committee.

4. **Financial Risk Management** (continued)

(iv) Risk related to use of financial instruments

(a) Interest rate risk

Interest rate risk is the risk of loss from fluctuations in future cash flows or fair values of financial instruments because of a change in market interest rates.

Interest rate management

Movements in interest rates may adversely or positively affect net interest income which is the difference between interest income and the cost of funding. This risk is mitigated by matching interest rates on assets with interest rates on corresponding liabilities.

Generally, these rates are coordinated by standard asset/liability management practices. However this may be altered because of strategy or circumstances. In particular, the Company is exposed to interest rate risk because of movements in interest rates and:

a. differences in the times at which interest rate movement occur (Timing risk);
b. uncorrelated changes in interest rate indices (Index risk); and
c. fixed income debt in US$ on-lent at floating rates (Basis risk).

4. Financial Risk Management (continued)

(iv) Risk related to use of financial instruments (continued)

(a) Interest rate risk (continued)

Interest rate management (continued)

The following table summarises carrying amounts of assets and liabilities on the statement of financial position, in order to arrive at the Company's interest rate gap on the earlier of contractual repricing or maturity dates:

2018

	Due on Demand $'000	Due in One Year $'000	Due in Two to Five Years $'000	Over 5 Years $'000	Total $'000
Assets					
Cash and cash equivalents	106,074	204	-	-	106,278
Investment securities	-	133,569	38,251	80,116	251,936
Loans and advances to customers	1,980	140,896	515	9,435	152,826
Due from related parties	-	1,200	-	-	1,200
Other assets	-	1,029	-	-	1,029
	108,054	276,898	38,766	89,551	513,269
Liabilities					
Debt securities	-	161,032	2,357	-	163,389
Customers' deposits	-	128,599	44,063	-	172,662
Other liabilities	-	5,640	-	-	5,640
	-	295,271	46,420	-	341,691
Net gap	108,054	(18,373)	(7,654)	89,551	171,578
Cumulative gap	108,054	89,681	82,027	171,578	-

4. Financial Risk Management (continued)

(iv) Risk related to use of financial instruments (continued)

(a) Interest rate risk (continued)

Interest rate management (continued)

2017

	Due on Demand	Due in One Year	Due in Two to Five Years	Over 5 Years	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Assets					
Cash and cash equivalents	78,800	-	-	-	78,800
Investment securities	16,993	107,407	29,753	56,534	210,687
Loans and advances to customers	2,688	103,582	1,669	39,526	147,465
Due from related parties	-	1,203	-	-	1,203
Other assets	-	13,720	-	-	13,720
	98,481	225,912	31,422	96,060	451,875
Liabilities					
Debt securities	-	182,336	2,020	-	184,356
Customers' deposits	-	59,944	20,213	-	80,157
Other liabilities	-	11,128	-	-	11,128
	-	253,408	22,233	-	275,641
Net gap	98,481	(27,496)	9,189	96,060	176,234
Cumulative gap	98,481	70,985	80,174	176,234	-

The results of the sensitivity analysis conducted as at December 31 on the impact on net profits before tax and on equity as a consequence of a reasonably possible change in interest rates at that date, are presented below:

Change in interest rate	**Effect on PBT**		**Effect on equity**	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Increase of 1%	32	11	32	11
Decrease of 1%	(32)	(11)	(32)	(11)

4. Financial Risk Management (continued)

(iv) Risk related to use of financial instruments (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk management

The objective is to ensure that adequate funding is in place to meet its planned portfolio growth requirements, while managing holding costs and interest rate exposures. The Company will maintain minimum liquidity levels.

This is effectively managed by primarily matching long-term borrowings to the bond redemption funds which secure floating rate bonds and also, by new loan disbursements, arranging fixed deposits and maintaining tertiary lines of liquidity where feasible.

The following represents the Company's asset and liability maturity profile, based on their undiscounted cash flows, highlighting separately the short term of 12 months and less. The profile reflects the Company's business as a long term lender. The balances include both principal and interest cash flows over the remaining term to maturity and therefore would differ from the carrying amounts in the Company's statement of financial position.

As at December 31, 2018

	Carrying Value	*Gross Nominal Inflow (Outflow)	1 to 12 Months	1 to 5 Years	5 to 10 Years	Over 10 Years
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	106,278	106,278	106,278	-	-	-
Investment securities	251,936	344,411	70,619	78,545	144,815	50,432
Loans and advances to customers	152,826	230,223	34,298	77,979	51,463	66,483
Due from related parties	1,200	1,200	1,200	-	-	-
Other assets	1,029	1,029	1,029	-	-	-
Debt securities	(163,389)	(223,696)	(36,444)	(42,289)	(87,654)	(57,309)
Customers' deposits	(172,662)	(178,148)	(130,459)	(47,689)	-	-
Other liabilities	(5,640)	(5,640)	(5,640)	-	-	-
Net gap	171,578	275,657	40,881	66,546	108,624	59,606

* Undiscounted cash flows include estimated interest payments.

4. Financial Risk Management (continued)

(iv) Risk related to use of financial instruments (continued)

(b) Liquidity risk (continued)

Liquidity risk management (continued)

As at December 31, 2017

	Carrying Value	*Gross Nominal Inflow (Outflow)	1 to 12 Months	1 to 5 Years	5 to 10 Years	Over 10 Years
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	78,800	78,800	78,800	-	-	-
Investment securities	210,687	284,063	80,668	60,910	88,421	54,064
Loans and advances to customers	147,465	236,842	26,719	74,542	61,647	73,934
Due from related parties	1,203	1,203	1,203	-	-	-
Other assets	13,720	13,720	13,720	-	-	-
Debt securities	(184,356)	(251,843)	(48,665)	(49,972)	(91,119)	(62,087)
Customers' deposits	(80,157)	(82,235)	(60,298)	(21,937)	-	-
Other liabilities	(11,128)	(11,128)	(11,128)	-	-	-
Net gap	176,234	269,422	81,019	63,543	58,949	65,911

* Undiscounted cash flows include estimated interest payments.

(c) Foreign currency risk

The reporting currency of the Company is the Trinidad and Tobago dollar. The aggregate amount of assets and liabilities denominated in the respective currencies are as follows:

	2018					
	TT	US	EURO	GBP	GUY	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Assets	399,121	145,821	3	1,906	8,855	555,706
Liabilities	(236,000)	(105,691)	-	-	-	(341,691)
Net assets	163,121	40,130	3	1,906	8,855	214,015

4. Financial Risk Management (continued)

(iv) Risk related to use of financial instruments (continued)

(c) Foreign currency risk (continued)

	2017					
	TT $'000	**US $'000**	**EURO $'000**	**GBP $'000**	**GUY $'000**	**Total $'000**
Assets	369,991	118,921	-	2,201	745	491,858
Liabilities	(193,460)	(80,117)	(2,064)	-	-	(275,641)
Net assets	176,531	38,804	(2,064)	2,201	745	216,217

The management of foreign currency risk against exchange gap limits is further supplemented by monitoring the sensitivity of the possible impact on net profits before tax and on equity relative to fluctuations in foreign exchange rates to the TT dollar.

The results of the sensitivity analysis conducted as at December 31 on the possible impact on net profits before tax and on equity of fluctuations of the foreign exchange rates relative to the TT dollar are presented below.

Change in currency rate	**Effect on PBT**		**Effect on equity**	
	2018 $'000	**2017 $'000**	**2018 $'000**	**2017 $'000**
Increase of 1%	84	191	84	191
Decrease of 1%	(133)	(232)	(133)	(232)

(d) Capital risk management

The Company's capital risk management policies seeks to achieve several objectives:

- Compliance with capital requirements as set by the Central Bank of Trinidad and Tobago
- Ensure the Company's ability to continue as a going concern
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Company's management. The Company employs techniques derived from the guidelines developed by the Basel Committee on Banking Supervision - Basel I 1998 Capital Accord as implemented by the Central Bank of Trinidad and Tobago. The required information is filed with the regulatory authority on a monthly basis.

4. Financial Risk Management (continued)

(iv) Risk related to use of financial instruments (continued)

(d) Capital risk management (continued)

The following table summarises the composition of regulatory capital and the ratios for the Company as at December 31, 2018. The Company has complied with all the externally imposed capital requirements to which it is subject.

	2018 $'000	2017 $'000
Total risk adjusted assets	380,636	346,065
Total core capital	212,964	169,075
Allowable supplementary capital	1,051	47,142
Qualifying capital	214,015	216,217
Capital ratios		
- Core capital to total risk adjusted assets	55.95%	48.86%
- Total qualifying capital to total risk adjusted	56.23%	62.48%

5. 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 Company determines fair values using other valuation techniques.

(a) Valuation models

The Company's accounting policy on fair value measurements is discussed in accounting policy 3(b)(v).

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

5. Fair Value of Financial Instruments (continued)

(a) Valuation models (continued)

Level 2: Valuation techniques based on observable inputs, 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 where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data 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 where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(b) Financial instruments measured at fair value – fair value hierarchy

The following financial instruments were measured at fair value:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Fair Value $'000
As at December 31, 2018				
Equity securities	24,738	-	-	24,738
Debt securities	69,623	33,652	12,186	115,461
	94,361	33,652	12,186	140,199
As at December 31, 2017				
Equity securities	16,993	-	-	16,993
Debt securities	28,448	52,315	12,516	93,279
	45,441	52,315	12,516	110,272

5. Fair Value of Financial Instruments (continued)

(c) Financial instruments not measured at fair value

The table below shows the financial assets and liabilities not measured at fair value and analyses them by the level in the fair value hierarchy into which the fair value measurement is categorised. 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, 2018					
Assets					
Investment securities	110,392	-	-	110,392	109,838
Loans and advances to customers	-	152,826	-	152,826	152,826
Liabilities					
Debt securities	(163,389)	-	-	(163,389)	(163,389)
Customers' deposits	(172,662)	-	-	(172,662)	(172,662)
As at December 31, 2017					
Assets					
Investment securities	60,669	40,901	-	101,570	98,893
Loans and advances to customers	-	147,465	-	147,465	147,465
Liabilities					
Debt securities	(184,356)	-	-	(184,356)	(184,356)
Customers' deposits	(80,157)	-	-	(80,157)	(80,157)

Where available, the fair value of loans and advances and investment securities are 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 and customers' deposits are estimated using discounted cash flow techniques, applying the rates that are offered for debt securities of similar maturities and terms. The fair value of cash and cash equivalents is the amount payable at the reporting date.

	2018	2017
	$'000	$'000

6. Cash and Cash Equivalents

Cash and balances with banks:		
- Local currency	63,691	56,037
- Foreign currency	42,383	22,763
- Short term local currency fixed deposits	204	-
	106,278	78,800

7. Statutory deposit with Central Bank

The Financial Institutions Act, 2008 requires that every non-bank financial institution licensed under the Act in the Republic of Trinidad and Tobago hold and maintain a non - interest bearing deposit account, to be called a reserve account, with the Central Bank of Trinidad and Tobago, equivalent to 9% of the total deposit liabilities of that institution.

As at December 31, 2018 and 2017, the Company has complied with the above requirement.

	2018	2017
	$'000	$'000
Statutory deposit with Central Bank	10,020	4,920

8. Assets Held for Sale

The Company enforces its power of sale agreements over various types of collateral, as a consequence of failure by borrowers or counterparties to honour its financial obligations. During 2017 the Company took possession of an income generating asset in lieu of debt. The asset is located in Suriname and a real estate agency was immediately engaged to monetize the asset in the shortest possible time. The fair value of the asset was determined by an Independent Valuator.

	2018 $'000	2017 $'000
9. Investment Securities		
Amortised Cost:		
- Government bonds and state owned enterprises debt securities	56,178	46,405
- Corporate debt securities	53,660	52,488
	109,838	98,893
Fair value through OCI:		
- Government bonds and state owned enterprises debt securities	64,297	36,547
- Corporate debt securities	51,164	56,732
- Equity securities	24,738	-
	140,199	93,279
Fair value through profit or loss:		
- Equity securities	-	16,993
Impairment loss allowance	(193)	-
Accrued interest	2,092	1,522
	251,936	210,687

Movement in impairment loss allowance:

	2018	2017
Balance at January 1	-	-
Net remeasurement of impairment loss allowance	165	-
Specific provision made during the year (Note 24)	28	-
Balance at December 31	193	-

Bond redemption funds

Bond redemption funds of $70,035 thousand (2017: $68,030 thousand) secure the floating rate debt instrument (Note 18) and are invested in local securities issued by the Government of the Republic of Trinidad and Tobago and deposit certificates issued by local commercial banks and other various investments. These funds are managed by the various Trustees for the several Bond Issues and are to be used exclusively for the redemption of specific bonds.

Investment securities totalling $12.97 million (2017: $20.04 million) are pledged to secure the repurchase agreements (see Note 18). Interest rates on these repos range from 2.80% to 4.00% in 2018 (2017: 2.10% to 4.00%).

	2018 $'000	2017 $'000

10. Loans and Advances to Customers

	2018 $'000	2017 $'000
Principal	152,581	147,195
Impairment loss allowance	(538)	(521)
	152,043	146,674
Accrued interest	783	791
	152,826	147,465
Movement in impairment loss allowance:		
Balance at beginning of year	521	14,519
Net remeasurement of impairment loss allowance	16	-
Specific provisions made during the year (Note 24)	1	-
Provisions no longer required (Note 24)	-	(13,998)
Balance at end of year	538	521

11. Related Party Balances and Transactions

(a) Identity of related parties

A party is related to the Company if:

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

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

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

11. Related Party Balances and Transactions (continued)

(a) *Identity of related parties*

A party is related to the Company if (continued)

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

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

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

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

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

	2018 $'000	2017 $'000
(b) Related party balances		
Due from related parties:		
Caribbean Microfinance Trinidad & Tobago Limited	-	3
DevCap Fund Management Limited (a)	2,725	2,725
	2,725	2,728
Impairment loss allowance	(1,525)	(1,525)
	1,200	1,203

These amounts are unsecured and repayable as disclosed below:

(a) Funds advanced to DevCap Fund Management Limited will be repaid from the sale of property held as security by the Company. A partial provision exists.

Due to related parties:		
CDN Management Services Limited*	(34)	(34)

*These amounts are included within "other liabilities".

11. Related Party Balances and Transactions (continued)

(b) Related party balances (continued)

	2018 $'000	2017 $'000
Movement in impairment loss allowance:		
Balance at beginning of year	1,525	2,027
Provisions no longer required (Note 24)	-	(502)
Balance at end of year	1,525	1,525

(c) Related party transactions

A number of transactions have been entered into with related parties in the normal course of business. These transactions were conducted at market rates and on commercial terms and conditions.

Related party transactions include but are not limited to the following:
- Pension plan payments
- Foreign exchange transactions

	2018 $'000	2017 $'000
Income and expenses:		
Other income		
Significant shareholders	2,077	1,099
Directors, key management personnel and their immediate relatives	10	2
Expenses		
Significant shareholders	(1,112)	(1,639)
Directors, key management personnel and their immediate relatives	(11)	-

(d) Transactions with key management personnel

	2018 $'000	2017 $'000
Key management personnel compensation:		
Salaries and other short-term benefits	4,896	5,566

	2018 $'000	2017 $'000
12. Computer Software		
Opening net book amount at January 1	652	109
Additions	225	569
Amortisation charge	(77)	(26)
Closing net book amount at December 31	800	652

13. Furniture and Equipment

	Furniture and Equipment $'000	Total $'000
Year ended December 31, 2018		
Opening net book amount	444	444
Additions	143	143
Depreciation charge	(158)	(158)
Closing net book amount	429	429
At December 31, 2018		
Cost/valuation	7,390	7,390
Additions	143	143
Accumulated depreciation	(7,104)	(7,104)
Closing net book amount	429	429
Year ended December 31, 2017		
Opening net book amount	575	575
Additions	364	364
Depreciation charge	(495)	(495)
Closing net book amount	444	444
At December 31, 2017		
Cost/valuation	7,026	7,026
Additions	364	364
Accumulated depreciation	(6,946)	(6,946)
Closing net book amount	444	444

	2018 $'000	2017 $'000
14. Other Assets		
Other receivables and prepayments	1,029	13,844
Provision for impairment (Note 24)	-	(124)
	1,029	13,720

15. Post-employment Benefits

The Company contributes to a defined benefit pension plan (the Plan), which entitles a retired employee to receive an annual pension payment. The Plan is funded by the Company and certain employees, the assets of the Plan being managed separately by the Trustee. The funding requirements are based on the pension fund's actuarial measurement performed by an independent qualified actuary.

The Plan exposes the Company to actuarial risks such as longevity risk, currency risk, interest rate risk and market risk.

The Company is not expected to contribute to the Plan in 2019.

	2018 $'000	2017 $'000
(i) The amounts recognised in the statement of financial position are as follows:		
Present value of obligation	(29,442)	(29,116)
Fair value of plan assets	52,914	54,759
Asset in the statement of financial position	23,472	25,643

15. Post-employment Benefits (continued)

	2018 $'000	2017 $'000
(ii) Movement of amounts recognised in the statement of financial position:		
Asset recognised in the statement of financial position at January 1	25,643	25,885
Income recognised in profit or loss	554	663
Actuarial loss recognised in OCI	(2,725)	(905)
Asset in the statement of financial position	23,472	25,643
(iii) Changes in the fair value of plan assets		
Opening fair value of plan assets	54,759	54,789
Expected return on plan assets	2,692	2,697
Benefits paid	(1,826)	(1,681)
Actuarial loss on plan assets	(2,711)	(1,046)
Closing fair value of plan assets	52,914	54,759
(iv) Changes in the present value of the obligation		
Opening present value of obligation	29,116	28,904
Current service cost	451	429
Interest cost	1,428	1,419
Benefits paid	(1,826)	(1,681)
Expenses	259	186
Actuarial loss (gains)	14	(141)
Closing fair value of obligation	29,442	29,116
(v) The amounts recognised in profit or loss are as follows:		
Current service cost	451	429
Interest cost	1,428	1,419
Expected return on plan assets	(2,692)	(2,697)
Expenses	259	186
Total included in employee costs (Note 25)	(554)	(663)
Expected return on plan assets	2,692	2,697
Actuarial loss on plan assets	(2,711)	(1,046)
Actual return on plan assets	(19)	1,651

	2018	2017
	$'000	$'000

15. Post-employment Benefits (continued)

(vi) ***Actuarial loss recognised in other comprehensive income***

	2018 $'000	2017 $'000
Fair value of plan assets	(2,711)	(1,046)
Present value of obligation	(14)	141
	(2,725)	(905)

(vii) ***The principal actuarial assumptions used were:***

There are no asset/liability matching strategies used by the Plan.

	2018	2017
Discount rate	5.00%	5.00%
Future salary increases	5.00%	5.00%
Expected return on plan assets	3.00%	3.00%
Post retirement mortality		
Group annuitants mortality table 1994		
Pre-retirement mortality, withdrawal from service	Nil	Nil
Future pension increases	Nil	Nil
Proportion of employees opting for early retirement	Nil	Nil

The overall expected rate of return is the weighted average of the expected returns of the expected various categories of plan assets held.

(viii) ***Asset allocation:***

	2018	2017
The major categories of the plan assets are:		
Local equities	30%	34%
Government securities	23%	23%
Mutual Funds	2%	2%
Other	45%	41%
	100%	100%

15. Post-employment Benefits (continued)

	2018 $'000	2017 $'000
(viii) Asset allocation (continued)		
Actual return on Plan assets	(19)	1,651

All equities have quoted prices in active markets. The fair value of Government and other securities are calculated by discounting expected future proceeds using a constructed yield curve.

(ix) Sensitivity of present value of defined benefit obligation:

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	1% increase ($'000)	1% decrease ($'000)
Discount rate	(3,572)	4,464
Salary growth	512	(440)

The weighted average duration of the obligation is 15 years.

(x) Experience history:

Amounts for the current period are as follows:

	2018 $'000	2017 $'000	2016 $'000	2015 $'000	2014 $'000
Defined benefit obligation	(29,442)	(29,116)	(28,904)	(28,470)	(28,124)
Plan assets	52,914	54,759	54,789	54,484	56,695
Surplus	23,472	25,643	25,885	26,014	28,571
Experience adjustments on Plan liabilities (gains) loss	14	(141)	291	63	(946)
Remeasurement gain	-	-	-	-	-
Net experience adjustments on Plan liabilities (gains) loss	14	(141)	291	63	(946)
Experience adjustments on Plan assets (loss) gain	(2,711)	(1,046)	(517)	(3,535)	(750)

	2018 $'000	2017 $'000
16. Stated Capital		
Authorised		
Unlimited number of ordinary shares of no par value		
Issued and fully paid		
60,300,393 ordinary shares of no par value	90,039	90,039
266,000 non-redeemable, non-cumulative, non-voting - 5% preference shares	26,600	26,600
200,000 non-cumulative, non-voting, convertible preference shares	20,000	20,000
	136,639	136,639

Schedule Item (4d) of the Company's Articles of Incorporation states that the 266,000 non-cumulative, non-voting preference shares will not, on a winding up of or other repayment of capital, entitle the holders to have the assets of the Company available for distribution among the preference shareholders.

The 200,000 non-cumulative, non-voting convertible preference shares carry a fixed non-cumulative preferential dividend at an interest rate of 5% per annum. This payment ranks after the non-redeemable preference shares but in priority to the Company's ordinary shares in the declaration of dividends.

On a winding up, the holders of these preference shares are entitled to receive their share of the assets of the Company available for distribution among shareholders in preference to ordinary shareholders and will be entitled to the repayment of their capital payment in priority to ordinary shareholders.

These preference shares are at the original subscription price of $20 million plus any accrued dividends. The option to redeem or convert can be exercised at any time at the sole discretion of the holders at a price of $1.00 per ordinary share.

17. Reserves

Statutory reserve

The Financial Institutions Act (2008) requires a financial institution to transfer annually a minimum of 10% of its net profit after taxation to a statutory reserve account until the balance on this reserve is equal to the paid up capital of the financial institution. The reserve is not available for distribution.

Contingency for general banking risks

The contingency for general banking risks is based on a minimum of 0.5% of the year-end loan portfolio allocated to SME portfolio risk.

Revaluation reserve

The revaluation reserve includes the unrealized gain on revaluation of available-for-sale investments.

18. Borrowings

	2018 $'000	2017 $'000
Short-term borrowings	8,359	10,580
Long-term borrowings (a)	141,626	152,864
	149,985	163,444
Repurchase agreements (b)	12,343	20,046
	162,328	183,490
Accrued interest	1,061	866
	163,389	184,356

The Company's borrowings are mainly long term and are measured at amortised cost. Borrowings are covered by various forms of loan agreements. These include Trust Deeds related to bond issues on capital markets and finance contracts with international institutions. The Company has complied with all terms and conditions of all borrowings and all payments have been made as contracted. The finance contracts with international institutions include operational benchmarks related to the purposes of the loan based on projections and assumptions. Changes in market conditions and implementation issues beyond the control of the Company may delay the achievement of such benchmarks and deadlines.

18. Borrowings (continued)

(a) *Long-term borrowings*

	Interest Rate %	2018 $,000	2017 $'000
TT$ Floating Rate Bonds	5.33-6.44	105,000	105,000
Euro Fixed Rate Loan	3.00	-	2,061
US$ Floating Rate Bonds	4.50-6.25	36,626	45,803
		141,626	152,864

(b) *Repurchase agreement*

The securities sold under the repurchase agreements are included in the financial instruments disclosed in Note 9. Interest rates on these repos range from 2.80% to 4.00% in 2018 (2017: 2.10% to 4.00%).

19. Customers' Deposits

	2018 $'000	2017 $'000
Customers' deposits	171,200	79,521
Accrued interest	1,462	636
	172,662	80,157
Sectoral analysis		
Corporate	85,439	29,957
Individuals	85,761	49,564
	171,200	79,521

20. 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:

	FVTPL	FVOCI Debt	FVOCI Equity	Amortised Cost	Total
	$'000	$'000	$'000	$'000	$'000
2018					
Assets					
Cash and cash equivalents	-	-	-	106,278	106,278
Deposit with Central Bank	-	-	-	10,020	10,020
Investment securities	-	115,461	24,738	109,645	249,844
Loans and advances to customers	-	-	-	152,043	152,043
Due from related parties	-	-	-	1,200	1,200
Total financial assets	-	115,461	24,738	379,186	519,385
Liabilities					
Borrowings	-	-	-	162,328	162,328
Customers' deposits	-	-	-	171,200	171,200
Total financial liabilities	-	-	-	333,528	333,528
2017					
Assets					
Cash and cash equivalents	-	-	-	78,800	78,800
Deposit with Central Bank	-	-	-	4,920	4,920
Investment securities	16,993	93,279	-	98,893	209,165
Loans and advances to customers	-	-	-	146,674	146,674
Due from related parties	-	-	-	1,203	1,203
Total financial assets	16,993	93,279	-	330,490	440,762
Liabilities					
Borrowings	-	-	-	183,490	183,490
Customers' deposits	-	-	-	79,521	79,521
Total financial liabilities	-	-	-	263,011	263,011

21. Interest Income

	2018 $	2017 $
Loans and cash advances to customers	11,214	16,094
Investment securities	12,337	11,557
Other investment income	-	316
	23,551	27,967

22. Interest Expense

	2018 $	2017 $
Borrowings	8,994	9,550
Customers' deposits	3,477	1,351
Repurchase agreements	966	99
	13,437	11,000

23. Other Income

	2018 $	2017 $
Net foreign exchange translation gains (loss)	283	(104)
Profit from trading in foreign exchange	11,274	5,772
Fee income	516	553
(Loss) gain on securities trading	(1,473)	1,470
Other income	309	1,582
Fair value losses on equity securities at FVTPL	-	(189)
	10,909	9,084

	2018 $'000	2017 $'000

24. Reversal of Impairment Loss Allowance

	2018 $'000	2017 $'000
Loans		
Specific provisions made during the year (Note 10)	1	-
Provisions no longer required (Note 10)	-	(13,998)
	1	(13,998)
Other assets		
Specific provisions made during the year (Note 14)	-	124
Provisions no longer required (Note 14)	(124)	-
Related Party		
Provisions no longer required (Note 11)	-	(502)
Investments		
Specific provisions made during the year (Note 9)	28	-
Net credit for the year	(95)	(14,376)

25. General Overheads and Corporate Expenses

	2018 $'000	2017 $'000
Included in general overheads and corporate expenses are the following:		
Corporate marketing and business development	820	733
Regulatory and professional fees and expenses	2,568	2,622
Assurance, business process improvement and compliance	124	121
Accommodation and communication	1,036	1,012
General corporate and ICT expenses	864	608
Employee costs:		
- Personnel	6,968	8,726
- Defined benefit pension fund income (Note 15)	(554)	(663)
Depreciation and amortisation	234	521
	12,060	13,680

	2018 $'000	2017 $'000
26. Taxation		
Green Fund Levy	(104)	(175)

	2018 $'000	2017 $'000
27. Adjustments for Non-Cash Items in Operating Activities		
Depreciation and amortisation	235	521
Unrealised losses on available-for-sale investments	(5,941)	(78)
Reversal of impairment loss allowance (Note 24)	(95)	(14,376)
Post-employment benefit income (Note 15)	(554)	(663)
Net foreign exchange translation losses (gains) (Note 23)	(283)	104
Interest income (Note 21)	(23,551)	(27,967)
Interest expense (Note 22)	13,437	11,000
	(16,752)	(31,459)

The comparatives have been adjusted to conform with changes in presentation in the current year.

28. Contingent Liabilities

During 2018, the Company has not entered into any customs bonds on behalf of its clients neither had it provided any contract performance bonds on a fully secured basis with mortgages on properties and other assets (2017: NIL).

The Company has established a reserve fund for the repayment of any shortfall in principal upon redemption at maturity to the Securitised Industrial Bondholders (SIBs) equivalent to ten percent (10%) of the amount in issue at maturity. Interest on the reserve fund will accrue for the benefit of the Company and will be paid to the Company annually.

The Trustee of the reserve fund shall pay over to the Company any surplus remaining in the reserve fund after redemption of the Bonds.

29. Events after the Reporting Date

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

30. Earnings per Share

	2018	2017
Basic and diluted earnings per share ($)	0.07¢	0.34¢
Number of shares ('000) (Note 16)	136,639	136,639