Financial Statements of

DEVELOPMENT FINANCE LIMITED

December 31, 2016
(Expressed in Thousands Trinidad and Tobago Dollars)

DEVELOPMENT FINANCE LIMITED

December 31, 2016

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Development Finance Limited

Statement of Management's Responsibilities

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, 2016, the statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of 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 comply with laws and regulations, including the Companies Act; and

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

In preparing these audited 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 in a going concern for the next twelve months from the reporting date, or from 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 as of February 24, 2017.

Duane Hinkson
Chief Executive Officer

February 24, 2017

Stacey Bachoo
Chief Accountant

February 24, 2017

KPMG
Chartered Accountants
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Port of Spain
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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, 2016, the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the 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. The other information comprises the information included in the Company's annual report but does not include the financial statements and our auditors' report thereon.

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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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.

KPMG

Chartered Accountants

Port of Spain
Trinidad and Tobago
February 24, 2017

DEVELOPMENT FINANCE LIMITED

Statement of Financial Position

December 31, 2016
(Expressed in Trinidad and Tobago Dollars)

	Notes	2016	2015
		$'000	$'000
ASSETS			
Cash and cash equivalents	7	83,760	72,652
Investment securities	8	217,034	207,755
Loans and advances to customers	9	133,481	119,393
Due from related parties	10	1,206	1,206
Computer software	11	109	85
Property and equipment	13	575	692
Other assets	14	3,424	1,983
Retirement benefit asset	15	25,885	26,014
Total assets		465,474	429,780
EQUITY AND LIABILITIES			
Equity			
Stated capital	16	136,639	136,639
Reserves	17	23,065	21,275
Retained earnings		13,408	2,308
Total equity		173,112	160,222
Liabilities			
Debt securities	18	233,500	248,728
Customers' deposits	19	52,872	18,752
Other liabilities		5,990	2,078
Total liabilities		292,362	269,558
Total equity and liabilities		465,474	429,780

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

These financial statements have been approved for issue by the Board of Directors on February 24, 2017 and signed on its behalf by:

Director ______________ Director ______________

DEVELOPMENT FINANCE LIMITED

Statement of Profit or Loss

Year ended December 31, 2016
(Expressed in Trinidad and Tobago Dollars)

	Notes	2016	2015
		$'000	$'000
Interest income	20	23,198	19,406
Interest expense	21	(10,977)	(9,696)
Net interest income		12,221	9,710
Other income	22	13,273	4,509
Revenue		25,494	14,219
Reversal of impairment loss allowance	23	439	15,716
Recoveries		27	270
General overheads and corporate expenses	24	(12,545)	(10,015)
Profit before taxation		13,415	20,190
Taxation	25	(112)	(40)
Profit for the year		13,303	20,150

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

DEVELOPMENT FINANCE LIMITED

Statement of Other Comprehensive Income

Year ended December 31, 2016
(Expressed in Trinidad and Tobago Dollars)

	Note	2016	2015
		$'000	$'000
Profit for the year		13,303	20,150
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit asset	15	(808)	(3,598)
Items that are or may be reclassified subsequently to profit or loss			
Unrealised gains on revaluation of available-for-sale investments		395	425
Other comprehensive income		(413)	(3,173)
Total comprehensive income for the year		12,890	16,977

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

DEVELOPMENT FINANCE LIMITED

Statement of Changes in Equity

Year ended December 31, 2016
(Expressed in Trinidad and Tobago Dollars)

	Ordinary Shares	Preference Shares	Statutory Reserves	Revaluation Reserve	Contingency for General Banking Risks	Retained Earnings (Accumulated Deficit)	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at December 31, 2015							
Balance at January 1, 2015	**90,039**	**46,600**	**18,235**	**19,014**	**600**	**(30,420)**	**144,068**
Transfer from Revaluation Reserve	-	-	-	(19,014)	-	18,191	(823)
Transfer to Statutory Reserve	-	-	2,015	-	-	(2,015)	-
	90,039	46,600	20,250	-	600	(14,244)	143,245
Profit for the year	-	-	-	-	-	20,150	20,150
Other comprehensive income	-	-	-	425	-	(3,598)	(3,173)
Total comprehensive income	-	-	-	425	-	16,552	16,977
Balance at December 31, 2015	**90,039**	**46,600**	**20,250**	**425**	**600**	**2,308**	**160,222**
Balance at December 31, 2016							
Balance at January 1, 2016	**90,039**	**46,600**	**20,250**	**425**	**600**	**2,308**	**160,222**
Transfer to General Banking Risk Reserve	-	-	-	-	65	(65)	-
Transfer to Statutory Reserve	-	-	1,330	-	-	(1,330)	-
	90,039	46,600	21,580	425	665	913	160,222
Profit for the year	-	-	-	-	-	13,303	13,303
Other comprehensive income	-	-	-	395	-	(808)	(413)
Total comprehensive income	-	-	-	395	-	12,495	12,890
Balance at December 31, 2016	**90,039**	**46,600**	**21,580**	**820**	**665**	**13,408**	**173,112**

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

DEVELOPMENT FINANCE LIMITED

Statement of Cash Flows

Year ended December 31, 2016
(Expressed in Trinidad and Tobago Dollars)

	Note	2016	2015
		$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		13,303	20,150
Adjustments for non-cash items in operating activities	26	(23,388)	(35,160)
Cash flows before changes in operating assets		(10,085)	(15,010)
Change in loans and advances to customer		(12,459)	(12,741)
Change in related party balances		-	(61)
Change in other assets		(1,441)	24,795
Change in other liabilities		3,913	(560)
Taxation expense		112	40
		(9,875)	11,473
Interest received		21,776	18,055
Interest paid		(8,992)	(8,118)
Taxation paid		(112)	(40)
		12,672	9,897
Net cash (used in) from operating activities		(7,288)	6,360
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities		(3,390)	(18,887)
Proceeds from sale of investment securities		4,986	91
Proceeds from sale of property and equipment		-	26,856
Additions to property and equipment and computer software		(106)	(413)
Net cash from investing activities		1,490	7,647
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in customers' deposits		33,616	12,321
Repayment of debt securities		(16,710)	(16,760)
Net cash from (used in) financing activities		16,906	(4,439)
Net increase in cash and cash equivalents		11,108	9,568
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		72,652	63,084
CASH AND CASH EQUIVALENTS AT END OF YEAR		83,760	72,652

The accompanying notes 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 as a private limited liability company 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.

(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).
- Investments in equity securities are stated at fair value through profit or loss.
- Available-for-sale financial assets are measured at fair value.

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 described in Note 5.

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.

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

(a) Foreign currency (continued)

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.

(b) Financial instruments

Financial instruments comprise balances with related parties, cash and cash equivalents, investment securities, loans and advances to customers, staff loans, EIB 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

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

- loans 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.

- ***Loans and receivables***

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money or services directly to a debtor with no intention of trading the receivable.

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

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

(ii) Classification (continued)

Financial assets (continued)

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

  'Held-to-maturity investments' are non-derivative assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

  Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

  - sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
  - sales or reclassifications after the Company has collected substantially all of the asset's original principal; and
  - sales or reclassifications that are attributable to non-recurring isolated events beyond the Company's control that could not have been reasonably anticipated.

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

  Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

- ***Fair value through profit or loss***

  The Company designates the equity securities at fair value, with fair value changes recognised immediately in profit or loss.

3. Significant Accounting Policies (continued)

(b) Financial instruments (continued)

(ii) Classification (continued)

Financial liabilities

The Company classifies its financial liabilities, including loan commitments, as measured at amortised cost or fair value through profit or loss.

(iii) Derecognition

Financial assets

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

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

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

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

is recognised in profit or loss.

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

Financial liabilities

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

3. Significant Accounting Policies (continued)

(b) Financial instruments (continued)

(iv) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

(v) Amortised cost measurement

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

(vi) Fair value measurement

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

3. Significant Accounting Policies (continued)

(b) Financial instruments (continued)

(vi) Fair value measurement (continued)

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

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

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

(vii) Identification and measurement of impairment

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. 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. (See Note 3(d)(ii): Classification of impaired loans).

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a Company of assets such as adverse changes in the payment status of borrowers or issuers in the Company, or economic conditions that correlate with defaults in the Company.

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

   (b) Financial instruments (continued)

   (vii) Identification and measurement of impairment (continued)

   In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In general, the Company considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

   The Company considers evidence of impairment for loans and advances and held-to-maturity investment securities at a specific asset level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment.

   Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on assets measured at amortised cost are recognised in profit or loss and reflected in an allowance account against loans and advances and/or investment securities.

   When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

   The Company writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Board of Directors determines that there is no realistic prospect of recovery.

   (viii) 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 12 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.

3. Significant Accounting Policies (continued)

(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.

(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.

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

(d) ***Loans and advances to customers*** (continued)

(ii) Classification of impaired loans (continued)

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.

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.

3. Significant Accounting Policies (continued)

(d) Loans and advances to customers (continued)

(iii) Loans with re-negotiated terms (continued)

- 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.

(iv) Specific provision for loan losses

All loans are carried at amortised cost and where required are reduced to that amount by specific provisions for loan losses. Impaired loans are assessed annually at net realisable value discounted to present value based on the contracted loan rate and the expected receipts of regular and terminal cash flows. Statutory and other regulatory or probable loan loss or operational risk requirements, if any, which exceed the amount of specific provisions, are dealt with in the contingency for general banking risks.

(e) Investment securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss or available-for-sale.

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.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Company becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

3. Significant Accounting Policies (continued)

(f) Property and equipment

Land and buildings are shown at fair value less subsequent depreciation for buildings. The fair value is based on periodic valuations by external independent valuers at least every 5 years, or earlier, if there is an indication of significant changes in market value. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property 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.

Leasehold land is shown at cost. The initial term of the lease was 199 years.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the profit and loss. Revaluation surpluses are transferred directly to retained earnings upon derecognition of the respective asset.

Land is not depreciated. Depreciation on other assets is computed on the reducing balance method over the estimated useful lives of the related assets at the following rates:

Building	-	2%
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 reducing balance 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.

3. Significant Accounting Policies (continued)

(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

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.

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.

(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.

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

(j) ***Employee benefits*** (continued)

(i) *Defined benefit plans* (continued)

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.

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.

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

(j) ***Employee benefits*** (continued)

(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 $210 thousand (2015: $ 71 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.

(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.

3. Significant Accounting Policies (continued)

(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.

(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 standards or amendments and forthcoming requirements

(i) New and amended standards adopted by the Company

The following standards have been adopted by the Company for the first time for the financial year beginning on or after January 1, 2016:

- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Company is not currently subjected to significant levies so the impact on the Company is not material.

- Amendments to IAS 36, 'Impairment of Assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

3. Significant Accounting Policies (continued)

(p) New standards or amendments and forthcoming requirements (continued)

(ii) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, although they are not mandatory until a later period, and have not been applied in preparing these financial statements. Those that may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

- IFRS 9, *Financial Instruments,* which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

  Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value though profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

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

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

3. Significant Accounting Policies (continued)

(p) New standards or amendments and forthcoming requirements (continued)

(ii) New standards and interpretations not yet adopted

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

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

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

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

- 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. Companies 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. Finance lease accounting will be based on IAS 17 lease accounting, with recognition of net investment in lease comprising lease receivable and residual asset. Operating lease accounting will be based on IAS 17 operating lease accounting.

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

  The Company does not have any leases so the impact on the Company is not material.

3. Significant Accounting Policies (continued)

(p) New standards or amendments and forthcoming requirements (continued)

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(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.

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

Risk management framework (continued)

(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).

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.

4. Financial Risk Management (continued)

Risk management framework (continued)

(ii) Credit risk management (continued)

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

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.

- DFL 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. Loans that are re-scheduled or re-structured are not impaired loans.

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 DFL 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.

	2016		2015	
	$'000	**%**	**$'000**	**%**
Manufacturing	14,786	11	7,179	6
Distribution	23,969	18	11,919	10
Tourism	20,972	16	26,883	23
Real estate	35,935	27	36,323	30
Industrial and commercial services	37,819	28	37,089	31
Total outstanding	133,481		119,393	

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, 2016				
Trinidad and Tobago	395,366	85	247,975	85
Eastern Caribbean	18,905	4	9,170	3
Guyana and Suriname	14,477	3	-	-
European Union	15,367	3	35,217	12
Other	21,359	5	-	-
Total	465,474		292,362	
As at December 31, 2015				
Trinidad and Tobago	322,241	75	211,514	79
Eastern Caribbean	29,219	7	11,968	4
Guyana and Suriname	15,644	4	-	-
European Union	27,310	6	46,075	17
Other	35,366	8	1	-
Total	429,780		269,558	

4. Financial Risk Management (continued)

(ii) *Credit risk management* (continued)

(c) Geographical concentrations of assets and liabilities (continued)

Sectoral analysis of loan commitments

	2016 $'000	2015 $'000
Industrial and commercial services	6,300	4,914
Total outstanding	6,300	4,914

(d) Credit quality analysis

	Loans and Advances to Customers		Investment Securities	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Carrying amount	133,481	119,393	217,034	207,755
Individually impaired				
Gross amount	15,419	44,450	-	-
Allowance for impairment	(14,519)	(21,070)	-	-
Carrying amount	900	23,380	-	-
Past due but not impaired				
Carrying amount	54,138	28,457	-	-
Past due comprises:				
30-60 days	24,232	21,955	-	-
60-90 days	-	107	-	-
90-180 days	7,551	1,500	-	-
180 days +	22,355	4,895	-	-
Carrying amount	54,138	28,457	-	-
Neither past due nor impaired				
Carrying amount	78,443	67,556	217,034	207,755

Maximum credit exposure

All loans and advances to customers and investment securities held-to-maturity are measured at amortised cost.

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

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Maximum credit exposure (continued)

The maximum exposure to credit risk in the Company (loans plus commitments) at December 31, 2016 without taking account of any collateral held or other credit enhancements was $439 million (2015: $403 million).

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

Loans that were neither past due nor impaired as at December 31, 2016 amounted to 59% of the total portfolio (2015: 56%).

Loans past due but not impaired as at December 31, 2016 amounted to 41% of the total portfolio (2015: 24%).

In addition to the above, the Company had entered into lending commitments of $6.3 million (2015: $4.9 million) with counterparties.

The Company has issued $289 thousand in financial guarantee contracts in respect of debtors. The maximum amount payable by the Company, assuming all guarantees are called on, is $289 thousand (2015: NIL).

Impaired loans and investment debt securities

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.

4. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Past due but not impaired loans and investment debt securities

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.

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)

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 2016, there were no loans with renegotiated terms or a loan which was re-scheduled or restructured (2015: NIL).

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.

Allowances for impairment

The Company establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan and investment debt security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and, for assets measured at amortised cost. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

Write-off policy

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

The Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

4. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Write-off policy (continued)

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2016 (2015: no collateral held).

An estimate made at the time of borrowing of the fair value of collateral and other security enhancements held against loans and advances to customers is $366 million (2015: $434 million).

Details of financial and non-financial assets obtained by the Company during the year by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements and held at the year ended December 31, 2016 is NIL (2015: NIL).

The Company's policy is to pursue timely realisation of the collateral in an orderly manner. The Company generally does not use the non-cash collateral for its own operations.

(e) Offsetting financial assets and liabilities

There were no financial assets and liabilities offset during the year (2015: NIL).

(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.

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

(iii) Operational risk (continued)

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.

(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.

4. Financial Risk Management (continued)

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

(a) Interest rate risk (continued)

Interest rate management (continued)

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).

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:

2016

	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	83,760	-	-	-	83,760
Investment securities	34,228	126,305	18,583	37,918	217,034
Loans and advances to customers	3,873	80,001	1,674	47,933	133,481
Due from related parties	-	1,206	-	-	1,206
Other assets	-	1,956	-	1,468	3,424
	121,861	209,468	20,257	87,319	438,905
Liabilities					
Debt securities	-	229,878	3,622	-	233,500
Customers' deposits	-	38,451	14,403	18	52,872
Other liabilities	-	5,990	-	-	5,990
	-	274,319	18,025	18	292,362
Net gap	121,861	(64,851)	2,232	87,301	146,543
Cumulative gap	121,861	57,010	59,242	146,543	-

4. Financial Risk Management (continued)

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

(a) Interest rate risk (continued)

Interest rate management (continued)

2015

	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	72,652	-	-	-	72,652
Investment securities	-	43,795	86,437	77,523	207,755
Loans and advances to customers	1,939	65,461	1,939	50,054	119,393
Due from related parties	-	1,206	-	-	1,206
Other assets	-	463	-	1,520	1,983
	74,591	110,925	88,376	129,097	402,989
Liabilities					
Debt securities	-	233,848	14,880	-	248,728
Customers' deposits	-	16,972	1,780	-	18,752
Other liabilities	-	2,078	-	-	2,078
	-	252,898	16,660	-	269,558
Net gap	74,591	(141,973)	71,716	129,097	133,431
Cumulative gap	74,591	(67,382)	4,334	133,431	-

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 2016	Effect on PBT 2015	Effect on equity 2016	Effect on equity 2015
	$'000	$'000	$'000	$'000
Increase of 1%	(43)	(60)	Nil	Nil
Decrease of 1%	43	60	Nil	Nil

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, 2016

	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	83,760	83,760	83,760	-	-	-
Investment securities	217,034	248,203	133,821	36,968	77,414	-
Loans and advances to customers	133,481	198,572	24,012	75,171	42,966	56,423
Due from related parties	1,206	1,206	1,206	-	-	-
Other assets	3,424	3,424	3,424	-	-	-
Debt securities	(233,500)	(250,166)	(157,272)	(92,894)	-	-
Customers' deposits	(52,872)	(53,367)	(38,402)	(14,944)	(21)	-
Other liabilities	(5,990)	(5,990)	(5,990)	-	-	-
Net gap	146,543	225,642	44,559	4,301	120,359	56,423

* 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, 2015

	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	72,652	72,652	72,652	-	-	-
Investment securities	207,755	284,307	19,658	176,562	55,556	32,531
Loans and advances to customers	119,393	192,219	19,860	55,971	77,551	38,837
Due from related parties	1,206	1,206	1,206	-	-	-
Other assets	1,983	1,983	1,983	-	-	-
Debt securities	(248,728)	(275,154)	(20,561)	(237,982)	(16,611)	-
Customers' deposits	(18,752)	(18,929)	(17,148)	(1,781)	-	-
Other liabilities	(2,078)	(2,078)	(2,078)	-	-	-
Net gap	133,431	256,206	75,572	(7,230)	116,496	71,368

* 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:

	2016					
	TT $'000	US $'000	EURO $'000	GBP $'000	GUY $'000	Total $'000
Assets	335,642	127,135	-	1,959	738	465,474
Liabilities	(218,955)	(69,787)	(3,620)	-	-	(292,362)
Net assets	116,687	57,348	(3,620)	1,959	738	173,112

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

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

(c) Foreign currency risk (continued)

	2015					
	TT $'000	**US $'000**	**EURO $'000**	**GBP $'000**	**GUY $'000**	**Total $'000**
Assets	248,322	178,282	-	2,381	795	429,780
Liabilities	(186,545)	(77,500)	(5,513)	-	-	(269,558)
Net assets	61,777	100,782	(5,513)	2,381	795	160,222

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**	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Increase of 1%	956	1,207	Nil	Nil
Decrease of 1%	(957)	(1,220)	Nil	Nil

(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, 2016. The Company has complied with all the externally imposed capital requirements to which it is subject.

	2016 $'000	2015 $'000
Total risk adjusted assets	295,511	270,369
Total core capital	159,953	143,071
Allowable supplementary capital	13,159	17,151
Qualifying capital	173,112	160,222
Capital ratios		
- Core capital to total risk adjusted assets	54.13%	52.92%
- Total qualifying capital to total risk adjusted	58.58%	59.26%

5. Use of Accounting Estimates and Judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgements

Judgements made by management in the application of IFRS that have significant effect on the financial statements are discussed below:

Financial asset and financial liability classification

The Company's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

5. Use of Accounting Estimates and Judgements (continued)

Judgements (continued)

Financial asset and financial liability classification (continued)

In classifying financial assets or financial liabilities as "fair value through profit or loss", the Company has determined that it meets the description of trading assets and liabilities set out in accounting policy 3(b)(ii).

In designating financial assets or financial liabilities as available-for-sale, the Company has determined that it has met the criteria for this classification set out in accounting policy 3(b)(ii).

In classifying financial assets as held-to-maturity, the Company has determined that it has both the positive intention and ability to hold the assets until maturity date as required by accounting policy 3(b)(ii).

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the next financial year to amounts reported as at and for the year ended December 31, 2016 is included below:

(a) Allowances for credit losses

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

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

5. Use of Accounting Estimates and Judgements (continued)

Assumptions and estimation uncertainties (continued)

(b) Determining fair values

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

(c) Measurement of defined benefit obligations

The key actuarial assumptions which underpin the fair value of the Company's defined benefit obligations are described in Note 15.

6. 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)(vi).

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.

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.

6. Fair Value of Financial Instruments (continued)

(a) Valuation models (continued)

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, 2016				
Equity securities	3,667	-	-	3,667
Bonds	8,929	27,687	-	36,616
	12,596	27,687	-	40,283
As at December 31, 2015				
Equity securities	3,726	-	-	3,726
Bonds	19,350	-	-	19,350
	23,076	-	-	23,076

(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.

6. Fair Value of Financial Instruments (continued)

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

	Level 1	Level 2	Level 3	Fair Value	Total Carrying Amount
	$'000	$'000	$'000	$'000	$'000
As at December 31, 2016					
Assets					
Investment securities	177,581	-	-	177,581	175,835
Loans and advances to customers	-	-	129,301	129,301	133,481
Liabilities					
Debt securities	(233,500)	-	-	(233,500)	(233,500)
Customers' deposits	(52,872)	-	-	(52,872)	(52,872)
As at December 31, 2015					
Assets					
Investment securities	182,622	-	-	182,622	182,971
Loans and advances to customers	-	-	147,509	147,509	119,393
Liabilities					
Debt securities	-	(248,728)	-	(248,728)	(248,728)
Customers' deposits	(18,752)	-	-	(18,752)	(18,752)

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.

7. Cash and Cash Equivalents

	2016 $'000	2015 $'000
Cash and balances with banks:		
- Local currency	67,009	18,476
- Foreign currency	16,751	54,176
	83,760	72,652

Included in these balances are amounts deposited with the Central Bank of $3,620 thousand (2015: $1,067 thousand).

8. Investment Securities

	2016 $'000	2015 $'000
Held-to-maturity (a)	175,835	182,971
Available-for-sale (b)	36,616	19,350
At fair value through profit or loss (c)	3,667	3,726
	216,118	206,047
Accrued interest	916	1,708
	217,034	207,755

(a) Held-to-maturity

	2016 $'000	2015 $'000
Government bonds	26,459	13,098
State-owned entities securities	14,431	17,513
Corporate bonds	134,945	152,360
	175,835	182,971

Movement in impairment loss allowance:

	2016 $'000	2015 $'000
Balance at January 1	-	-
Written off	(1,697)	-
Specific provision made during the year (Note 23)	1,697	-
Balance at December 31	-	-

8. Investment Securities (continued)

(a) Held-to-maturity (continued)

Bond redemption funds

Bond redemption funds of $126,348 thousands (2015: $119,150 thousands) secure the floating rate bonds (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.

	2016 $'000	2015 $'000
(b) Available-for-sale		
Government bonds	-	5,543
State-owned entities securities	6,626	2,133
Corporate bonds	29,990	11,674
	36,616	19,350
(c) At fair value through profit or loss		
Equities	3,667	3,726

9. Loans and Advances to Customers

	2016	2015
Principal	147,494	140,162
Impairment loss allowance	(14,519)	(21,070)
	132,975	119,092
Accrued interest	506	301
	133,481	119,393
Movement in impairment loss allowance		
Balance at beginning of year	21,070	44,142
Write-offs	(4,693)	(7,078)
Specific provision made during the year (Note 23)	918	334
Provisions no longer required (Note 23)	(2,776)	(16,328)
Balance at end of year	14,519	21,070

There was no collective impairment during the year (2015: NIL).

10. 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;

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.

	2016 $'000	2015 $'000
(b) Related party balances		
Due from related parties	1,206	1,206
These amounts are analysed as follows:		
Due from		
CDN Management Services Limited (a)	508	508
DevCap Fund Management Limited (b)	2,725	2,725
	3,233	3,233
Impairment loss allowance	(2,027)	(2,027)
	1,206	1,206

10. Related Party Balances and Transactions (continued)

(b) Related party balances (continued)

	2016 $'000	2015 $'000
Movement in impairment loss allowance		
Balance at beginning and end of year	2,027	2,027

These amounts are unsecured and repayable as disclosed below:

(a) Funds advanced to CDN Management Services Limited will be repaid based on cash settlement of inter-company balances among other related parties. These amounts are deemed impaired and have been provided for.

(b) 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.

(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.

	2016 $'000	2015 $'000
Income and expenses:		
Other income		
Significant shareholders	694	13
Directors, key management personnel and their immediate relatives	17	-
Expenses		
Directors, key management personnel and their immediate relatives	(1,551)	(1,669)

10. Related Party Balances and Transactions (continued)

(d) Transactions with key management personnel

	2016 $'000	2015 $'000
(i) Key management personnel compensation:		
Salaries and other short-term benefits	3,985	4,024

(ii) Home mortgage loans:

Fully secured home mortgage loans provided under a Board approved programme available to all employees have remaining maturities ranging from one to thirty years. Interest rates charged on balances outstanding from related parties are at market rates.

	2016 $'000	2015 $'000
Loans outstanding at January 1	1,520	1,560
Loan repayments during the year	(52)	(40)
Loans outstanding at December 31 (Note 14)	1,468	1,520

These amounts are included within other assets.

No impairment losses have been recorded against balances outstanding during the period with key management personnel and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at year end.

11. Computer Software

	2016 $'000	2015 $'000
Opening net book amount at January 1	85	93
Additions	48	20
Amortisation charge	(24)	(28)
Closing net book amount at December 31	109	85

12. 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
2016					
Assets					
Cash and cash equivalents	-	-	-	83,760	83,760
Investment securities	3,667	-	36,616	175,835	216,118
Loans and advances to customers	-	-	-	132,975	132,975
Due from related parties	-	-	-	1,206	1,206
Total financial assets	3,667	-	36,616	393,776	434,059
Liabilities					
Debt securities	-	-	-	232,019	232,019
Customers' deposits	-	-	-	52,368	52,368
Total financial liabilities	-	-	-	284,387	284,387
2015					
Assets					
Cash and cash equivalents	-	-	-	72,652	72,652
Investment securities	3,726	-	19,350	182,971	206,047
Loans and advances to customers	-	-	-	119,092	119,092
Due from related parties	-	-	-	1,206	1,206
Total financial assets	3,726	-	19,350	375,921	398,997
Liabilities					
Debt securities	-	-	-	247,249	247,249
Customers' deposits	-	-	-	18,654	18,654
Total financial liabilities	-	-	-	265,903	265,903

13. Property and Equipment

	Freehold/ Leasehold Land	Building	Furniture and Equipment	Total
	$'000	$'000	$'000	$'000
Year ended December 31, 2016				
Opening net book amount	-	-	692	692
Additions	-	-	58	58
Depreciation charge	-	-	(175)	(175)
Closing net book amount	-	-	575	575
At December 31, 2016				
Cost/valuation	-	-	6,968	6,968
Additions	-	-	58	58
Accumulated depreciation	-	-	(6,451)	(6,451)
Closing net book amount	-	-	575	575
Year ended December 31, 2015				
Opening net book amount	13,790	12,934	1,379	28,103
Additions	-	-	393	393
Disposal	(13,790)	(12,804)	(818)	(27,412)
Depreciation charge	-	(130)	(262)	(392)
Closing net book amount	-	-	692	692
At December 31, 2015				
Cost/valuation	13,790	15,523	8,477	37,790
Additions	-	-	393	393
Disposal	(13,790)	(12,804)	(1,902)	(28,496)
Accumulated depreciation	-	(2,719)	(6,276)	(8,995)
Closing net book amount	-	-	692	692

14. Other Assets

	2016 $'000	2015 $'000
Home mortgage loans (Note 10)	1,468	1,520
Other receivables and prepayments	1,956	741
	3,424	2,261
Provision for impairment (Note 23)	-	(278)
	3,424	1,983

15. Retirement Benefit Asset

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 2017.

	2016 $'000	2015 $'000
(i) The amounts recognised in the statement of financial position are as follows:		
Present value of obligation	(28,904)	(28,470)
Fair value of plan assets	54,789	54,484
Asset in the statement of financial position	25,885	26,014
(ii) Movement of amounts recognised in the statement of financial position:		
Asset recognised in the statement of financial position at January 1	26,014	28,571
Income recognised in profit or loss	679	1,041
Actuarial loss recognised in OCI	(808)	(3,598)
Asset in the statement of financial position	25,885	26,014

15. Retirement Benefit Asset (continued)

	2016 $'000	2015 $'000
(iii) Changes in the fair value of plan assets		
Opening fair value of plan assets	54,484	56,695
Expected return on plan assets	2,678	2,798
Benefits paid	(1,856)	(1,474)
Actuarial loss on plan assets	(517)	(3,535)
Closing fair value of plan assets	54,789	54,484
(iv) Changes in the present value of the obligation		
Opening present value of obligation	28,470	28,124
Current service cost	395	378
Interest cost	1,392	1,379
Benefits paid and expenses	(1,644)	(1,474)
Actuarial loss	291	63
Closing fair value of obligation	28,904	28,470
(v) The amounts recognised in profit or loss are as follows:		
Current service cost	395	378
Interest cost	1,392	1,379
Expected return on plan assets	(2,678)	(2,798)
Expenses	212	-
Total included in employee costs (Note 24)	(679)	(1,041)
Expected return on plan assets	2,678	2,798
Actuarial loss on plan assets	(517)	(3,535)
Actual return on plan assets	2,161	(737)

	2016 $'000	2015 $'000
15. Retirement Benefit Asset (continued)		
(vi) Actuarial loss recognised in other comprehensive income		
Fair value of plan assets	(517)	(3,535)
Present value of obligation	(291)	(63)
	(808)	(3,598)

(vii) The principal actuarial assumptions used were:

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

	2016	2015
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.

	2016	2015
(viii) Asset allocation:		
The major categories of the plan assets are:		
Local equities	34%	37%
Government securities	27%	27%
Mutual Funds	2%	4%
Other	37%	32%

15. Retirement Benefit Asset (continued)

	2016 $'000	2015 $'000
(viii) Asset allocation: (continued)		
Actual return on Plan assets	2,161	(737)

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	(3,601)	4,526
Salary growth	470	(402)

The weighted average duration of the obligation is 16 years.

(x) Experience history:

Amounts for the current period are as follows:

	2016 $'000	2015 $'000	2014 $'000	2013 $'000	2012 $'000
Defined benefit obligation	(28,904)	(28,470)	(28,124)	(29,090)	(29,343)
Plan assets	54,789	54,484	56,695	56,161	51,560
Surplus	25,885	26,014	28,571	27,071	22,217
Experience adjustments on Plan liabilities gain (loss)	291	63	(946)	(1,039)	(2,452)
Remeasurement gain	-	-	-	-	5,521
Net experience adjustments on Plan liabilities gain (loss)	291	63	(946)	(1,039)	3,069
Experience adjustments on Plan assets (loss) gain	(517)	(3,535)	(750)	3,559	4,421

16. Stated Capital

	2016 $'000	2015 $'000
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. This is taken into account in the computation of net asset value per ordinary share.

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.

Movement in shares issued

	Ordinary Shares		Preference Shares	
	2016	2015	2016	2015
On issue at beginning and end of the reporting period	60,300,393	60,300,393	200,000	200,000

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. In the previous year it included the net change in the fair value of freehold/leasehold land and building less depreciation.

18. Debt Securities

	2016	2015
	$'000	$'000
Short-term borrowings	7,500	10,000
Long-term borrowings (a)	224,519	237,249
	232,019	247,249
Accrued interest	1,481	1,479
	233,500	248,728

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 borrower may delay the achievement of such benchmarks and deadlines.

18. Debt Securities (continued)

(a) Long-term borrowings

	Interest Rate %	2016 $'000	2015 $'000
TT$ Floating Rate Bonds	2.44-6.00	161,000	161,000
Euro Fixed Rate Loan	3.00	3,622	5,507
US$ Fixed Rate Loan	2.00	4,957	9,374
US$ Floating Rate Bonds	2.80-6.25	54,940	61,368
		224,519	237,249

19. Customers' Deposits

	2016	2015
Customers' deposits	52,368	18,654
Accrued interest	504	98
	52,872	18,752
Sectoral analysis		
Corporates	22,307	16,519
Individuals	30,061	2,135
	52,368	18,654

20. Interest Income

	2016	2015
Loans and cash advances to customers	9,511	6,542
Investment securities	13,557	12,864
Other investment income	130	-
	23,198	19,406

21. Interest Expense

	2016	2015
Debt securities	10,221	9,492
Customers' deposits	756	204
	10,977	9,696

		2016 $'000	2015 $'000
22.	**Other Income**		
	Net foreign exchange translation gains	1,747	822
	Profit from trading in foreign exchange	7,142	1,424
	Fee income	430	496
	Other income	2,237	1,305
	Brokerage fees	1,888	587
	Fair value losses on equity securities	(171)	(125)
		13,273	4,509
23.	**Reversal of Impairment Loss Allowance**		
	Loans		
	Specific provisions made during the year (Note 9)	918	334
	Provision no longer required (Note 9)	(2,776)	(16,328)
		(1,858)	(15,994)
	Other assets		
	Provisions no longer required (Note 14)	(278)	278
	Investments		
	Specific provisions made during the year (Note 8)	1,697	-
	Net credit for the year	(439)	(15,716)
24.	**General Overheads and Corporate Expenses**		
	Included in general overheads and corporate expenses are the following:		
	Corporate marketing and business development	108	51
	Regulatory and professional fees and expenses	2,094	2,075
	Assurance, business process improvement and compliance	121	119
	Accommodation and communication	1,557	982
	General corporate and ICT expenses	663	715
	Employee costs:		
	- Personnel	8,482	6,694
	- Defined benefit pension fund income (Note 15)	(679)	(1,041)
	Depreciation and amortisation	199	420
		12,545	10,015

	2016	2015
	$'000	$'000

25. Taxation

Green Fund Levy	(112)	(40)

26. Adjustments for Non-Cash Items in Operating Activities

Depreciation and amortisation	199	420
Gain on disposal of property and equipment	-	(263)
Unrealised losses on available-for-sale investments	395	425
Reversal of impairment loss allowance (Note 23)	(439)	(15,716)
Defined benefit pension fund income (Note 15)	(679)	(1,041)
Net foreign exchange translation gains (Note 22)	(1,747)	(822)
Interest income (Note 20)	(23,198)	(19,406)
Interest expense (Note 21)	10,977	9,696
	(14,492)	(26,707)
Net interest credited to bond redemption funds	(8,896)	(8,453)
	(23,388)	(35,160)

27. Contingent Liabilities

During 2016, 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 (2015: NIL).

The Company has issued $289 thousand in financial guarantee contracts in respect of debtors. The maximum amount payable by the Company, assuming all guarantees are called on, is $289 thousand (2015: 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.

28. 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.