PORTFOLIO CREDIT MANAGEMENT LIMITED

Financial Statements

31 December 2018

(Expressed in Trinidad and Tobago Dollars)

PORTFOLIO CREDIT MANAGEMENT LIMITED

Contents **Page**

Chairman's Report	1
Statement of Management's Responsibilities	2
Independent Auditor's Report	3 - 5
Statement of Financial Position	6
Statement of Comprehensive Income	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes to the Financial Statements	10 – 43

Chairman's Report

At inception on the 30 December 2011, the Company financed the acquisition of a loan portfolio by the issuance of bonds of equivalent value in the aggregate sum of $2.68 billion. During 2018, the Company continued the pursuit of its remit to manage the loan portfolio and the related contractual cash flows so as to service the payment obligations associated with the bonds issued.

Effective 1 January 2018 and in keeping with International Financial Reporting Standards (IFRS) 9, the Company applied the forward-looking Expected Credit Loss (ECL) impairment model which replaced the historic incurred loss model under IAS 39. The implementation of IFRS 9 had no impact on the Company's Financial Statements as at January 01, 2018 and for the period ended 31 December 2018.

In order to address an under-impairment of the Company's loan collateral reported in prior years, the corresponding figures for 2017 and 2016 were restated in the 2018 Statement of Financial Position. The net effect of the restatement was an increase in the Company's net loss by $26.71 million to $30.47 million.

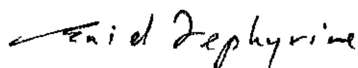
The Company's net loans were reduced to $143.92 million, down from $173.27 million one year earlier. This represented a reduction of $29.35 million or 16.94 percent. Bonds outstanding remained relatively unchanged at $656.97 million.

One loan facility with a maturity date that extended beyond the life of the Company of December 2021 was re-negotiated and repaid in full. Another facility that matured during the year was also repaid in full. Consequently, the number of loan facilities outstanding was reduced to eight (8) down from ten (10) one year earlier.

As two of the Company's loans were fully repaid during the period, interest income declined by $2.82 million. The consequential impact of the reduction in the Company's net loans by $29.35 million to $143.92 million with no material change in bonds outstanding was an increase in the accumulated loss from $320.19 million to $350.66 million.

Going forward, the Company has implemented strategies to address the accumulated loss of $350.66 million. In this regard, on 30 July 2019, the Company succeeded in reducing its debt securities in issue from $656.97 million as at 31 December 2018 to $187.12 million, a decline of $469.85 million or 71.5 percent. As such, the Company has enhanced its position to complete its remit before the end of December 2021.

I wish to convey sincere thanks and appreciation to the Directors and employees of the Company for their continued support and diligence during this period.



Enid Zephyrine
Chairman

8 November 2019

PORTFOLIO CREDIT MANAGEMENT LIMITED

Statement of Management's Responsibilities

Management is responsible for the following:

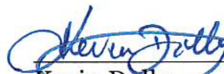
- Preparing and fairly presenting the accompanying financial statements of Portfolio Credit Management Limited (the "Company") which comprise the statement of financial position as at 31 December 2018 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information;
- Ensuring that the Company keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of the Company's assets, detection/prevention of fraud, and the achievement of the Company's operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that complies with laws and regulations, including the Companies Act; and
- Using reasonable and prudent judgement in the determination of estimates.

In preparing these 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 a going concern for the next twelve months from the reporting date; or up to the date the accompanying financial statements have been authorised for issue, if later.

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

David Thompson
President and Chief Operating Officer/Secretary
8 November 2019



Kevin Dolly
Senior Manager
8 November 2019

Independent Auditor's Report

To the shareholder of
Portfolio Credit Management Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Portfolio Credit Management Limited (the Company) as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Emphasis of Matter - restated comparative information

We draw attention to Note 2.1 to the financial statements, which explains that certain comparative information for the year ended 31 December 2017 has been restated. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the Chairman's report but does not include the financial statements and our auditor's 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.

PricewaterhouseCoopers, PO Box 550, 11-13 Victoria Avenue, Port of Spain, Trinidad, West Indies
T: (868) 299 0700, F: (868) 623 6025, www.pwc.com/tt

Independent Auditor's Report (Continued)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

Other matter

The financial statements of the Company for the year ended 31 December 2017 were audited by another firm of auditors whose report, dated 16 April 2018, expressed an unmodified opinion on those financial statements.

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 International Financial Reporting Standards, 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.

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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.

Auditor's 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 auditor's 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 auditor's 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.

PricewaterhouseCoopers

Port of Spain
Trinidad, West Indies
11 November 2019

PORTFOLIO CREDIT MANAGEMENT LIMITED

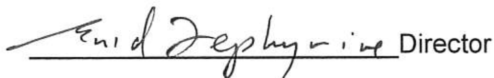
Statement of Financial Position

(Expressed in Trinidad and Tobago Dollars)

	Notes		As at 31 December	
			Restated	Restated
		2018	2017	2016
		$	$	$
Assets				
Cash and cash equivalents	5	163,688,631	162,660,357	128,169,804
Tax recoverable		8,442	12,665	--
Receivables	6	163,123	241,159	194,853
Loans to customers	7	143,918,940	173,269,226	210,417,215
Total assets		307,779,136	336,183,407	338,781,872
Liabilities and equity				
Due to related party	8	1,202,607	580,633	705,746
Accrued expenses		224,250	224,250	313,500
Tax payable		84	--	--
Accrued interest payable	9	45,695	45,595	45,500
Debt securities in issue	9	656,968,017	655,525,897	654,148,957
Total liabilities		658,440,653	656,376,375	655,213,703
Shareholder's equity				
Share capital	10	1	1	1
Accumulated deficit		(350,661,518)	(320,192,969)	(316,431,832)
Total shareholder's equity		(350,661,517)	(320,192,968)	(316,431,831)
Total equity and liabilities		307,779,136	336,183,407	338,781,872

The notes on pages 10 to 43 are an integral part of these financial statements.

On 8 November 2019, the Board of Directors of Portfolio Credit Management Limited authorised these financial statements for issue.

 Director

Director

Statement of Comprehensive Income

(Expressed in Trinidad and Tobago Dollars)

	Note	Year ended 31 December 2018 $	Restated 2017 $
Interest income – loans to customers		1,003,745	3,800,228
Interest expense		(10,263,057)	(10,240,022)
Net interest expense		(9,259,312)	(6,439,794)
Interest on deposits		1,717,570	1,438,103
Credit impairment net of recoveries		(17,913,284)	5,644,511
Net operating (loss)/profit		(25,455,026)	642,820
Operating expenses	11	(4,989,032)	(4,356,812)
Loss before taxation		(30,444,058)	(3,713,992)
Taxation	12	(24,491)	(47,145)
Loss for the year		(30,468,549)	(3,761,137)

The notes on pages 10 to 43 are an integral part of these financial statements.

PORTFOLIO CREDIT MANAGEMENT LIMITED

Statement of Changes in Equity

(Expressed in Trinidad and Tobago Dollars)

	Notes	Share capital $	Accumulated deficit $	Total shareholder's equity $
Year ended 31 December 2017				
Balance as at 1 January 2017 as previously reported		1	(236,893,981)	(236,893,980)
Restatement	16	--	(79,537,851)	(79,537,851)
Balance as at 1 January 2017 - restated		1	(316,431,832)	(316,431,831)
Total comprehensive loss for the year – restated		--	(3,761,137)	(3,761,137)
Balance as at 31 December 2017 - restated		1	(320,192,969)	(320,192,968)
Year ended 31 December 2018				
Balance at 31 December 2017 as previously reported		1	(246,254,348)	(246,254,347)
Restatement	16	--	(73,938,621)	(73,938,621)
Balance as at 31 December 2017 - restated		1	(320,192,969)	(320,192,968)
Net impact of adopting IFRS 9	2.a(iii)	--	--	--
Balance as at 1 January 2018 - restated		1	(320,192,969)	(320,192,968)
Total comprehensive loss for the year		--	(30,468,549)	(30,468,549)
Balance as at 31 December 2018		1	(350,661,518)	(350,661,517)

The notes on pages 10 to 43 are an integral part of these financial statements.

PORTFOLIO CREDIT MANAGEMENT LIMITED

Statement of Cash Flows

(Expressed in Trinidad and Tobago Dollars)

	Note	Year ended 31 December 2018 $	Restated 2017 $
Cash flows from operating activities			
Loss for the year before taxation		(30,444,058)	(3,713,992)
Adjustments for:			
- Credit impairment losses/(gains)		17,913,284	(5,644,511)
- Exchange loss on translation of bonds		1,442,119	1,376,940
		(11,088,655)	(7,981,563)
Change in loans		11,437,002	42,792,500
Change in interest receivable		78,036	(46,307)
Change in interest payable		99	96
Change in accrued expenses and other payables		--	(89,250)
Change in accounts payable		621,974	(125,113)
		1,048,456	34,550,363
Taxes paid		(20,182)	(59,810)
Net cash from operating activities		1,028,274	34,490,553
Net increase in cash and cash equivalents		1,028,274	34,490,553
Cash and cash equivalents at the beginning of the year		162,660,357	128,169,804
Cash and cash equivalents at the end of the year		163,688,631	162,660,357

The notes on pages 10 to 43 are an integral part of these financial statements.

1 General information

Portfolio Credit Management Limited (the "Company"), formerly UTC Services Limited, originally UTC Merchant Bank Limited, was incorporated in Trinidad and Tobago on 12 June 2006 under the Companies Act 1995. The Company remained dormant until 1 December 2011 when it was activated to acquire the assets of the Merchant Banking Department of the Trinidad and Tobago Unit Trust Corporation (the "Corporation").

The Company financed the acquisition of the loan portfolio by the issuance of bonds on 30 December 2011. The Company manages the loan portfolio, and the related contractual cash flows, so as to service the payment obligations associated with the bonds issued.

The Company is wholly owned by the Government of the Republic of Trinidad and Tobago.

The registered office of the Company is 2nd Floor, Trinidad and Tobago Unit Trust Building, Endeavour Road, Chaguanas.

2 Significant accounting policies

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

a. *Basis of preparation*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on a historical cost basis.

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

(i) *New standards, amendments and interpretations adopted by the Company*

The Company has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2018:

- IFRS 9 *Financial Instruments*

  IFRS 9 contains a new classification and measurement approach for financial assets that is based on the business model in which assets are managed and the contractual cash flow characteristics of the assets.

  IFRS 9 replaced the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost (AC), contract assets and debt investments measured at fair vaue through other comprehensive income (FVOCI), most loan commitments, financial guarantee contracts and lease receivables.

2 **Significant accounting policies (continued)**

a. *Basis of preparation (continued)*

(i) *New and amended standards adopted by the Company (continued)*

Entities are required to recognise expected credit losses for twelve months:

i. on initial recognition of the financial instrument (or the date on which the commitment or guarantee was entered into); and
ii. as long as there is no significant increase in credit risk subsequent to initial recognition of the asset.

Where there has been a significant increase in credit risk – either on an individual financial asset or on a group of financial assets – entities are required to recognise the lifetime expected credit loss associated with the financial asset or group of financial assets.

Lifetime expected credit losses include all possible default events over the expected life of the financial asset, whereas twelve month expected losses are the credit losses that are possible within the twelve months after the reporting date.

IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

- IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 replaces all existing revenue requirements in (IAS 11 Construction contracts, IAS 18 - Revenue, IFRIS 13 - Customer Loyalty Programmes, IFRS 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of assets from customers and SIC 31 Revenue – Barter transactions Involving Advertising Services and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement on disposal of certain non-financial assets including property, equipment and intangible assets.

IFRS 15 does not apply to financial instruments and other contractual rights or obligations within the Scope of IFRS 9. Management expects that the impact on the Company's financial statements and performance will be minimal.

2 **Significant accounting policies (continued)**

a. *Basis of preparation (continued)*

(i) *New and amended standards adopted by the Company (continued)*

- Annual Improvements 2014-2016 cycle

  The annual improvements process of the IASB deals with non-urgent but necessary clarifications and amendments to IFRS. The following amendments are effective on 1 January 2018.

Standard/Interpretation	Amendment	Effective date
IFRS 1, 'First-time adoption of International Financial Reporting Standards'	The amendment deletes the short-term exemptions covering the transition provisions of IFRS 7, IAS 19 and IFRS 10	Annual periods starting on or after 1 January 2018
IAS 28, 'Investments in Associates and Joint Ventures'	Clarification that measuring investees at FVPL is an investment-by-investment choice – effective 1 January 2018	Should be applied retrospectively for annual periods beginning on or after 1 January 2018

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration.

  This interpretation clarifies how to determine the date of a transaction when applying IAS 21 – The Effects of Changes in Foreign Exchange Rates. The Interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The date of the transaction determines the exchange rate to be used on initial recognition of the related asset, expense or income.

  The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate to be used on initial recognition of the related item, should be the date on which an entity recognises the non-monetary asset or liability from the advance consideration. Where there are multiple payments or receipts in advance of recognising the related item, the entity should determine the date of the transaction for each payment or receipt.

The Company had to change its accounting policies and make certain retroactive adjustments on adoption of IFRS 9 (see *a. iii. Changes in accounting policies* below). Other standards, amendments and interpretations which are effective for the financial year beginning 1 January 2018 do not have a material impact on the Company.

2 **Significant accounting policies (continued)**

a. *Basis of preparation (continued)*

(ii) *New standards, amendments and interpretations issued but not as yet effective for the financial year beginning 1 January 2018 and not early adopted by the Company*

The following standards and interpretations have been published and are mandatory for accounting periods beginning on or after 1 January 2019 and have not been early adopted by the Company.

- IFRS 16 *Leases*

  IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial performance by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and the financial liability to pay rentals are recognised. The only exceptions are short-term and low value leases.

  The new standard will primarily affect the service contract with the Corporation as that contract has a lease component.

  Management expects that the impact on the Company's financial statements and performance will be minimal. The Company will apply the standard from the mandatory adoption date of 1 January 2019. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. The right-of-use asset for the property lease will be measured on transition as if the new rules had always been applied. Some additional disclosures in the financial statements will be required also from next year.

- Amendments to IFRS 9 – *Financial Instruments – Prepayment features with Negative Compensation*

  The amendments permit more assets to be measured at cost than under the previous version of IFRS 9 and clarifies the accounting for the modification of a financial liability. In particular:

  - The first amendment allows entities to measure at cost some pre-payable financial assets (loans and debt instruments) with negative compensation. (Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest.) To qualify for cost measurement under the amendment, the negative compensation must be 'reasonable compensation for early termination of the contract' and the financial instrument must be held in a business model that holds financial assets solely to collect principal and interest.

2 **Significant accounting policies (continued)**

a. *Basis of preparation (continued)*

(ii) *New standards, amendments and interpretations issued but not as yet effective for the financial year beginning 1 January 2018 and not early adopted by the Company (continued)*

- Amendments to IFRS 9 – *Financial Instruments – Prepayment features with Negative Compensation (continued)*

  - The second amendment to IFRS 9 clarifies that where a financial liability is modified and the modification does not result in derecognition of the financial liability, the gain or loss as a result of the modification must be recognised immediately in profit or loss.

  The amendments are mandatory from 1 January 2019 and must be applied retrospectively. Management expects that the impact on the Company's financial statements and performance will be minimal.

There are no other standards that are not effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(iii) *Changes in accounting policies*

IFRS 15 – Revenue from Contracts with Customers

The Company adopted IFRS 15 from 1 January 2018. The Company's main streams of income are interest income on loans and deposits which are within the scope of IFRS 9. IFRS 15 does not apply to financial instruments and other contractual rights or obligations within the scope of IFRS 9. Adoption of IFRS 15 had no impact on the financial statements as substantially all the Company's revenue arises from financial instruments within the scope of IFRS 9.

IFRS 9 – Financial Instruments

The Company adopted IFRS 9 – *Financial Instruments* on 1 January 2018. IFRS 9 replaced IAS 39 – *Financial Instruments: Recognition and Measurement*. The Company did not adopt any portion of IFRS 9 in earlier periods.

The adoption of IFRS 9 resulted in changes in the Company's accounting policies. The changes in accounting policies resulted in changes to the amounts previously recognised in the Company's financial statements (*see a. iii (c) – Reconciliation of impairment allowance balances on transition from IAS 39 to IFRS 9*).

IFRS 9 has been applied retrospectively. As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Consequently, for note disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period.

The adoption of IFRS 9 has resulted in changes in the Company's accounting policies for:

i. Classification and measurement of financial assets; and
ii. Impairment of financial assets.

2 **Significant accounting policies (continued)**

a. *Basis of preparation (continued)*

(iii) *Changes in accounting policies (continued)*

IFRS 9 – Financial Instruments (continued)

(a) *Classification and measurement of financial instruments*

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39		**IFRS 9**	
	Measurement category	**Carrying amount $**	**Measurement category**	**Carrying amount $**
Financial assets				
Cash and cash equivalents	Amortised cost(Loans and Receivables)	162,660,357	Amortised cost	162,660,357
Receivables	Amortised cost/(Loans and Receivables)	241,159	Amortised cost	241,159
Loans	Amortised cost/(Loans and Receivables)	173,269,226	Amortised cost	173,269,226

There were no changes in the classification and measurement of financial liabilities.

(b) *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9*

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 Carrying amount 31/12/2017 as Restated $	**Reclassifications $**	**Remeasurements $**	**IFRS 9 carrying amount 1/1/2018 $**
Amortised cost				
Cash and cash equivalents	162,660,357	--	--	162,660,357
Receivables	241,159	--	--	241,159
Loans	173,269,226	--	--	173,269,226

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

a. *Basis of preparation (continued)*

(iii) *Changes in accounting policies (continued)*

IFRS 9 – Financial Instruments (continued)

(c) *Reconciliation of impairment allowance balance from IAS 39 to IFRS 9*

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Measurement Category	Impairment Allowance - IAS 39 31/12/2017 $	Reclassification $	Remeasurement $	Impairment Allowance - IFRS 9 1/1/2018 $
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Cash and Cash equivalents	--	--	--	--
Loans	(329,235,566)	--	--	(329,235,566)
Receivables	(47,147,743)	--	--	(47,147,743)
Total	**(376,383,309)**	--	--	**(376,383,309)**

b. *Presentation and functional currency*

The presentation and functional currency of the Company is Trinidad and Tobago dollars.

c. *Financial Assets under IFRS 9 – from 1 January 2018*

(i) *Classification and measurement of financial assets under IFRS 9*

The classification requirements for debt instruments are described below.
Debt instruments are those that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds.

Classification and measurement of securities under IFRS 9, is driven by the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A debt instrument is measured at AC if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at FVOCI if the objective of the business model is to hold the financial assets both to collect contractual cash flows representing SPPI and to sell. All other debt instruments must be recognised at FVPL. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

From 1 January 2018, the Company has applied IFRS 9 and classified its financial assets for measurement purposes as at AC as the Company's business model for managing all its financial assets is to hold the financial assets to collect contractual cash flows; and the contractual cash flows of the Company's financial assets represent solely payments of principal and interest.

2 **Significant accounting policies (continued)**

c. *Financial Assets under IFRS 9 – from 1 January 2018 (continued)*

(i) *Classification and measurement of financial assets under IFRS 9 (continued)*

The Company's business model reflects how it manages the assets in order to generate cash flows. The Company re-classifies its financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Measurement methods – Amortised cost

Amortised cost (AC) is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability to the gross carrying amount of a financial asset (i.e. its AC before any impairment allowance) or to the AC of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums, discounts and fees and points paid or received that are integral to the effective interest rate such as origination fees.
Where the Company revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

(ii) *Initial recognition and subsequent measurement*

Financial assets are recognised when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Company measures its financial asset or liabilities at their fair value plus or minus, in the case of a financial assets or liability not at FVPL, transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset or liability. Transaction costs of financial assets and financial liabilities carried at FVPL are expensed in profit or loss.

Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for debt instruments measured at AC.

On initial recognition, the Company's receivables, other than interest receivables, are recognised at the transaction price net of transaction costs as the Company's receivables, other than interest receivables, have no significant financial component.

On initial recognition, the Company's interest and other receivables are measured at AC using a simplified approach whereby the lifetime ECL is recognised immediately.

2 **Significant accounting policies (continued)**

c. *Financial Assets under IFRS 9 – from 1 January 2018 (continued)*

(ii) *IFRS 9 Impairment of financial assets*

From 1 January 2018, the Company assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at AC. The impairment methodology applied depends on whether there has been a significant increase in credit risk.
For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(iii) *Modification of loans*

The company sometimes renegotiates or otherwise modifies the contractual cash flows of loans. When this happens, the Company assesses whether or not the new terms are substantially different to the original terms. The Company does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to repay.
- Whether any substantial new terms are introduced, such as profit share/equity based returns that substantially affects the risk profile of the loan
- Significant extension of the loan term when the borrower is not in financial difficulty
- Significant change in interest rate
- Change in the currency in which the loan is denominated
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Company derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of recognition is consequently considered to be the date of the initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Company also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

2 Significant accounting policies (continued)

c. *Financial Assets under IFRS 9 – from 1 January 2018 (continued)*

(iv) *Modification of loans (continued)*

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

There have been no modifications to the Company's loan assets.

(v) *Derecognition other than on a modification*

The Company's policy under IFRS 9 remains the same as it was under IAS 39. Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either:

i. the Company transfers all of the risks and rewards of ownership; or
ii. the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

(vi) *Write-off of loans*

The Company's policy under IFRS 9 remains the same as it was under IAS 39. The Company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

i. ceasing enforcement activity; and
ii. where the Company's method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovery in full.

Subsequent recoveries on written-off loans are credited to Other income.

d. *Financial assets under IAS 39 up to 31 December 2017*

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policies which are summarised below.

(i) *Classification and measurement of financial assets under IAS 39*

Prior to 1 January 2018, the Company classified its financial assets for measurement purposes as Loans and Receivables.

2 **Significant accounting policies (continued)**

d. *Financial assets under IAS 39 up to 31 December 2017 (continued)*

(ii) *Initial recognition and subsequent measurement*

Subsequent to initial recognition, loans and receivables were carried at AC using the effective interest method. See Measurement methods – amortised cost above.

(iii) *IAS 39 Impairment of financial assets*

Prior to 1 January 2018, the Company assessed whether there was objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was deemed impaired if, and only if, there was objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

The criteria used by the Company to determine whether there was objective evidence that a financial asset was impaired included:

i. significant financial difficulty of the issuer or obligor;
ii. breach of contract, such as default or delinquency in contractual payments of principal or interest;
iii. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that would not otherwise be considered;
iv. breach of loan covenants or conditions
v. initiation of bankruptcy proceedings
vi. deterioration of the borrower's competitive position;
vii. cash flow difficulties experienced by the borrower; and
non-payment by the borrower of principal or interest due over a period of 90 days or more.

For loans and receivables, the amount of the impairment loss was measured as the difference between:

(i) the asset's (or group of assets') carrying amount; and
(ii) the estimated future cash flows (excluding expected credit losses that have not been incurred).

The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss.

In estimating the future cash flows, Management made various assumptions on the recoverable amount of each financial asset at the reporting date including the amount realisable from the collateral securing the financial asset.

The period in which an impairment loss was recognised was determined by Management on an asset-by-asset basis.

2 Significant accounting policies (continued)

e. *Financial liabilities*

The Company's policy with respect to financial liabilities did not change on adoption of IFRS 9.

Initial recognition and measurement

Financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at AC.

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expired).

f. *Revenue recognition*

Interest income

From 1 January 2018, interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets. Where financial assets are credit impaired (i.e. Stage 3), interest revenue is calculated by applying the effective interest rate to their AC (i.e. net of the expected credit loss provision).

Where interest payments are overdue by 90 days or more a provision is made for 100% of the interest payments outstanding.

Cash flows received subsequent to an asset being classified as credit impaired (i.e. classified as stage 3), are applied first to principal, then to interest outstanding and then to penalty and interest until the loan is regularized and /or modified (see above Modification of loans).

Prior to 1 January 2018, interest income was recognised on performing financial assets and watch list loans on an accrual basis, using the effective interest rate method. No interest income was accrued on non-performing loans.

Interest expense

There was no change in the Company's policy for recognising interest expense on adoption of IFRS 9. The Company recognises interest expense on all interest-bearing debt in issue using the effective interest rate method.

g. *Foreign currency transactions and balances*

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses 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 the statement of profit or loss.

2 Significant accounting policies (continued)

h. *Offsetting financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the assets and settle the liabilities simultaneously.

i. *Fair value*

The Company measures the fair value of its assets and liabilities at each reporting date. The fair values are disclosed at Note 4 (iv).
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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

i. in the principal market for the asset or liability; or
ii. in the absence of a principal market, in the most advantageous market for the asset or liability.

j. *Taxation*

The Company is subject to Corporation and other taxes in Trinidad and Tobago. Tax expense is recognised in the statement of profit or loss. Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates at the reporting date.

k. *Cash and cash equivalents*

Cash and cash equivalents include cash in hand, deposits with banks and units in highly liquid mutual funds with fixed redemption prices.

l. *Comparative data*

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information (see *a.iii. Changes in accounting policies*). Due to an accounting error, the comparatives for 2017 and 2016 have been restated. The Company presented three statements of financial positions, two of each of the other primary statements and related notes. The statements of financial position were presented as at the current period, the end of the previous period (which is the same as the beginning of the current period), and the beginning of the earliest comparative period. The impact of the restatement is summarised in Note 16.

2 **Significant accounting policies (continued)**

m. *Going Concern*

For the period ended 31 December 2018, the Company recorded a loss of $30,468,549 (2017: loss of $3,761,137) and at that date the Company's total liabilities exceeded its assets by $350,661,517 (2017: $320,192,968). While there are indicators that may cast significant doubt on the Company's ability to continue as a going concern, there are mitigating factors available which suggest that there is no material uncertainty. The largest loan (US$69m) is not expected to be recovered within twelve months from the reporting date and the Company has sufficient cash to meet its short-term obligations.

Any shortfall in PCML meeting its obligations is guaranteed by the Government of the Republic of Trinidad and Tobago (GORTT) up to a maximum of the US$ equivalent of TT$100m. As such, PCML has received confirmation from the Ministry of Finance (formerly Ministry of Finance and the Economy) which states:

"We wish to confirm that the Ministry of Finance and the Economy is fully aware of the operations and financial position of Portfolio Credit Management Limited (PCML), a wholly-owned state enterprise.

The Directors and the Board of PCML may therefore continue to conduct the Company's affairs and manage the Company's operations including the sanctioning and signature of its financial statements on the basis that PCML has the support and backing of the Ministry of Finance and the Economy as it may require to meet its financial obligations from time to time."

3 Significant accounting judgements, estimates and assumptions

The Company bases its estimates on parameters available when the financial statements are prepared. Existing circumstances and assumptions about future developments may change. Such changes are reflected in the assumptions when they occur. The key assumptions concerning the future and of uncertainty at the reporting date that have a significant risk of causing a material adjustment within the next financial year are described below.

a. *Measurement of the expected credit loss allowance*

Entities are required to recognise 12-month ECL on initial recognition of the financial asset (or when the commitment or guarantee is entered into); and in all subsequent reporting periods during which the financial asset is held - as long as there is no significant deterioration in credit risk. Such assets are categorised as at Stage 1 of the impairment process.

If there has been a significant increase in the credit risk (SICR) of a financial asset, on an individual or collective basis, entities are required to recognise lifetime ECL. If such financial assets are not in default nor considered credit impaired they are categorised as at Stage 2 of the impairment process. Refer to Note 4(i)(c) for information on SICR.

Lifetime ECL represents all possible default events over the expected life of a financial asset, whereas 12-month ECL represents the portion of ECL that results from default events that are possible within 12 months of the reporting date.

If a financial asset is considered in default and credit impaired, it is categorised by the Company as at Stage 3 in the impairment process (see Note 4.(i))

The estimation of the ECL under IFRS 9 for financial assets measured at cost is an area that requires the use of significant judgment by Management. The estimates are the output of models driven by inputs, changes in which can result in different levels of allowance. The inputs into the ECL model under IFRS 9 that are considered accounting judgements and estimates include:

i. determination of associations/correlations between macro-economic scenarios and probabilities of default (PD), Exposure at Default (EAD), and Loss given Default (LGD);
ii. The estimation of the amount and timing of future cash flows and collateral values when determining impairment losses (see 3.b below);
iii. The internal credit rating model for assigning credit risk to corporate facilities;
iv. The criteria for assessing if there has been a significant increase in credit risk and if so the computation of allowances for financial assets that should be measured on a life time expected credit loss basis; and
v. The inclusion of overlay adjustments based on judgement and future expectations.

3 Significant accounting judgements, estimates and assumptions (continued)

b. *Discounting of loan collateral*

The present value of the loan collateral assets depends on a number of assumptions that are driven by several factors.

The assumptions used in determining the present value are the discount rate, collateral value and discount period. The discount rate is determined to be the original effective interest rate of the loan. The collateral values are based on external valuations from a panel of valuators or bid proposals received for the properties. The discount period is based on the type of property as follows:

i. Specialised property; and
ii. Non-specialised property

Specialised property: This relates to a regional property. The Company estimates the time for disposal by taking into account the location of the property, the frequency of offers received over the years and assignment of real estate agents. A realtor with significant experience and an expert in listing these types of properties, was hired during 2019 to assist in selling the property. Based on this, management's judgment is that the property would be sold within three years from the balance sheet date.

Non-specialised property: This relates to all properties located within Trinidad and Tobago. The Company estimates the time for disposal by taking into account current market conditions, competitors, past recoveries, past offers and assignment of real estate agents. Historically the recovery through negotiation has proven to take years. A higher end of five years was determined based on past recovery. Additionally, management does not anticipate a sale of property within two years based on current market conditions. Management's judgment is that an average of the higher range and lower range is the best estimate for discounting the cash flows. Three years from the balance sheet date was utilised for non-specialised properties.

4 Financial risk measurement

General

The Company has established a comprehensive framework for managing risks. The Company's basic principles of risk management include:

i. Managing risk within the risk management policies and procedures approved by the Board; and

ii. Assessing risk initially and then consistently monitoring those risks through their life cycle.

The Board of Directors has ultimate responsibility for the management of the Company's risks. The Company's activities are primarily related to financial instruments. The main risks arising from the Company's financial instruments are:

i. Credit risk;
ii. Liquidity risk;
iii. Market risk;
   - Interest rate risk and
   - Foreign currency risk

(i) *Credit Risk*

Credit risk is the risk of suffering financial loss should any of the Company's counterparties fail to fulfill their contractual obligations to the Company. Credit risk is the Company's single largest risk and arises mainly from the Company's loans and receivables.

(a) *Maximum exposure to credit risk*

The estimation of credit exposure for risk management is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Company's maximum credit exposure is shown in the table below.

	2018 **$**	**2017** **$**
Cash and cash equivalents	163,688,631	162,660,357
Receivables	163,123	241,159
Loans (see analyses below)	143,918,940	173,269,226
Total	307,770,694	336,170,742

Cash and cash equivalents

The Company limits its credit exposure on its holdings of cash and cash equivalents by establishing banking relationships with reputable counterparties.

4 **Financial risk measurement (continued)**

(i) *Credit Risk (continued)*

(a) *Maximum exposure to credit risk (continued)*

Loans

The Company's loan portfolio consists principally of Corporate loans across diverse industries in in the Caribbean region. The Company categorises its loans into three categories based on the borrower's adherence to its loan covenants, namely: performing, under-performing and non-performing loans. No Expected Credit Loss (ECL) or impairment allowance is recognised on performing loans as the net present value of the collateral held by the Company as security for the loans is in excess of the outstanding balances.

The table below analyses the Company's maximum credit exposure from loans at 31 December 2018 by performance category and stage in the impairment process.

Loan category	Stage in ECL Model	Principal outstanding $	Impairment allowance $	Carrying Value 2018 $	Value of Collateral Held $
Performing loans	Stage 1	17,178,010	--	17,178,010	115,175,554
Under performing	Stage 2	--	--	--	--
Non-performing loans	Stage 3	474,726,826	(347,985,896)	126,740,930	163,259,198
Total		491,904,836	(347,985,896)	143,918,940	278,434,752

There were no transfers between Stages 1, Stage 2 or Stage 3 during the year (see Note 7).

The table below analyses the Company's maximum credit exposure from loans at 31 December 2017 by performance category.

Loan category	Status	Principal outstanding $	Impairment allowance (restated) $	Carrying Value 2017 $	Value of Collateral Held $
Performing loans	Not impaired	28,678,138	--	28,678,138	115,175,554
Under performing		--	--	--	--
Non-performing loans	Impaired	473,826,654	(329,235,566)	144,591,088	163,259,198
Total		502,504,792	(329,235,566)	173,269,226	278,434,752

(b) *Expected credit loss measurement*

The Company measures credit risk for each financial instrument in its loan portfolio using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition as outlined below:

4 Financial risk measurement (continued)

(i) *Credit risk (continued)*

(b) *Expected credit loss measurement (continued)*

- A financial instrument that is not credit impaired on initial recognition is classified as 'Stage 1' and has its credit risk continuously monitored.
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not deemed to be credit impaired. (See below for a description of how the Company determines when a significant increase in credit risk has occurred). At the reporting date the Company had no assets in Stage 2.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3' (see below for a description of how the Company defines credit-impaired and default).
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 and 3 have their ECL measured based on expected credit losses on a lifetime basis. See below for a description of the assumptions and estimation techniques used in measuring the ECL.

(c) *Significant increase in credit risk (SICR)*

The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative have been met.

Quantitative criteria:

The remaining Lifetime PD at the reporting date has increased compared to the residual Lifetime PD expected at the reporting date when the exposure was first recognised.

Qualitative criteria

- Significant adverse changes in business, financial and /or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans

Backstop criteria

A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk, if the borrower is more than 30 days past due on its contractual payments.

4 Financial risk measurement (continued)

(i) *Credit risk (continued)*

(c) *Significant increase in credit risk (SICR) (continued)*

Management undertook SICR assessments for each of the loans in the Company's portfolio at 1 January 2018 and 31 December 2018 and estimated the probability of default of each of the loans at 100% except for two performing loans whose probability of default was estimated at 0% at both 1 January 2018 and at 31 December 2018.

(d) *Definition of default and credit impaired*

A financial asset is considered in default or credit impaired when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments;

Qualitative criteria

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of the borrower's financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy

The criteria have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Company's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

(e) *Measuring ECL – explanation of inputs, assumptions and estimation techniques*

The Expected Credit Loss (ECL) is measured on either a 12 month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) defined as follows:

4 **Financial risk measurement (continued)**

(i) *Credit risk (continued)*

(e) *Measuring ECL – explanation of inputs, assumptions and estimation techniques (continued)*

- The PD represents the likelihood of a borrower defaulting on its financial obligations (as per the "Definition of default and credit-impaired" above). Either over the next 12 months or over the remaining life (Lifetime PD) of the obligation.
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months or over the remaining lifetime (Lifetime EAD). Where recovery of collateral forms part of the EAD calculation the legal and other costs of recovery are deducted from the expected recovery from the collateral.
- LGD represents the Company's expectation of the extent of the loss on a defaulted exposure. LGD on the loans in the Company's portfolio varies with the estimate of the amount recoverable on the collateral and is expressed as a percentage loss per unit of exposure at the time of default. LGD is calculated on a 12 moth or lifetime basis, where 12-month LGD is the percentage loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These three components are multiplied and discounted to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by projecting a maturity profile for each exposure. The maturity profile looks at how defaults develop for each exposure from the point of initial recognition throughout the lifetime of the loans. The projection is based on both historical data and forward-looking information.

The 12-month and lifetime EADs are determined based on the expected payment profile for each loan based on contractual repayments owed, the borrower's repayment history and forward-looking information available to management.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post-default. These vary as follows:

- For secured products, this is primarily based on collateral type, projected collateral values, time to repossession and projected recovery costs.
- For unsecured products recoveries have been projected at zero.

(f) *Sensitivity analysis*

The most significant assumption affecting the ECL allowance is the recovery value projected for secured loans. Set out below are the changes to the ECL as at 31 December 2018 that would result from reasonably possible changes in the projected recoveries from collateral.

% Change in discounted value of collateral	Decline by 25%	Increase by 10%
Change in ECL as at 31 December 2018	(TT$31.7 mn)	TT$12.7 mn

4 **Financial risk measurement (continued)**

(i) *Credit risk (continued)*

The Company employs a range of policies and practices to mitigate credit risk. The most common of these is the accepting of collateral for funds advanced. The Company closely monitors collateral held for financial assets considered credit-impaired as it becomes more likely that the Company will take possession of collateral to mitigate potential credit losses.

The Company's loans are analyzed by geographical location in the table below.

Territory	2018 $	2017 $
Turks and Caicos	119,838,807	128,776,891
Trinidad and Tobago	23,855,250	44,254,560
St. Kitts Nevis	224,883	237,775
Total	143,918,940	173,269,226

(ii) *Liquidity risk*

Liquidity risk is the risk that the Company either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can access these only at excessive cost.

The Company's liquidity management focuses on ensuring that the Company has sufficient resources to meet all its obligations as they become due under both normal and stressed conditions without incurring excessive cost or risking its reputation. The Company aims to maintain its cash and cash equivalents at levels in excess of its expected cash outflows.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December. These balances include interest to be paid over the remaining life of the liabilities.

	31 December 2018			
	Carrying amount	**Contractual Cash flows**	**Up to one year**	**Two to five years**
	$	**$**	**$**	**$**
Accounts payable	1,202,607	1,202,607	1,202,607	--
Accrued expenses	224,250	224,250	224,250	--
Accrued Interest payable	45,695	30,481,740	10,160,580	20,321,160
Debt securities in issue	656,968,017	656,968,017	--	656,968,017
	658,440,569	**688,876,614**	**11,587,437**	**677,289,177**

	31 December 2017			
	Carrying amount	**Contractual Cash flows**	**Up to one year**	**Two to five years**
	$	**$**	**$**	**$**
Accounts payable	580,633	580,633	580,633	--
Accrued expenses	224,250	224,250	224,250	--
Accrued Interest payable	45,595	40,547,141	10,136,785	30,410,356
Debt securities in issue	655,525,897	655,525,897	--	655,525,897
	656,376,375	**696,877,921**	**10,941668**	**685,936,253**

4 **Financial risk measurement (continued)**

(iii) *Market risk*

Market risk is the risk that the fair value or future value of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

(a) *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

Management regularly reviews the relationship between the Company's assets and liabilities. The primary tool in use is interest rate sensitivity analysis.

An interest rate sensitivity analysis was performed to determine the impact on net profit of a reasonably possible change in the interest rate prevailing at 31 December with all other variables held constant. The principal impact on net profit is the effect of changes in interest rates on the floating rates of the Company's financial assets and liabilities.

		Impact on the profit or loss account	
	Change in basis points	**2018 $**	**2017 $**
Increase interest on floating rate loans			
Performing floating rate loan	+/- 25	42,383	52,003
Less: increased interest on Debt in issue			
Series A1 maturing 2021	+/- 25	15,391	15,391
Series A2 maturing 2021	+/- 25	86,799	86,573
Series B1 maturing 2021	+/- 25	245,914	245,914
Series B2 maturing 2021	+/- 25	1,027,346	1,024,664
Series B4	+/- 25	266,970	266,273
Total	+ / -	+ /- 1,600,037	+ / -1,586,812

(b) *Foreign currency risk*

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to currency risk on interest earned on loans to customers denominated in foreign currency, loans to customers denominated in foreign currency and debt in issue denominated in foreign currency. The only foreign currency to which the Company is exposed is US dollars.

4 Financial risk measurement (continued)

(iii) Market risk (continued)

(c) *Foreign currency risk (continued)*

The tables below summarize the Company's foreign currency exposure and related sensitivity analysis.

	As at 31 December 2018		
	TT$	**TT$ equivalents of US$ financial instruments**	**Total**
Monetary assets			
Cash and cash equivalents	86,137,506	77,551,125	163,688,631
Receivables	96,789	225	97,014
Loans	23,270,621	120,648,319	143,918,940
Monetary liabilities			
Accrued interest payable			
Debt in issue	(104,521,864)	(552,446,153)	(656,968,017)
Net currency risk exposure	4,983,052	(354,246,484)	(349,263,432)
Reasonably possible change in currency rate		1%	
Effect on profit before tax		3,542,465	

	As at 31 December 2017		
	TT$	**TT$ equivalents of US$ financial instruments**	**Total**
Monetary assets			
Cash and cash equivalents	81,245,036	81,415,321	162,660,357
Receivables	170,616	8,254	178,870
Loans	39,688,834	133,580,392	173,269,226
Monetary liabilities			
Accrued interest payable			
Debt in issue	(104,521,864)	(551,004,033)	(655,525,897)
Net currency risk exposure	16,582,622	(336,000,066)	(319,417,444)
Reasonably possible change in currency rate	--	1%	--
Effect on profit before tax	--	3,360,001	--

4 **Financial risk measurement (continued)**

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

The following table summarises the carrying amounts and fair value of the financial instruments presented on the statement of financial position at an amount other than their fair value.

	Carrying value		Fair value	
	2018 $	2017 $	2018 $	2017 $
Financial assets				
Cash and cash equivalents	163,688,631	162,660,357	163,688,631	162,660,357
Interest receivable	163,123	241,159	163,123	241,159
Loans	143,918,940	173,269,226	143,918,940	173,269,226
	307,770,694	336,170,742	307,770,694	336,170,742
Financial liabilities				
Accounts payable	1,202,607	580,633	1,202,607	580,633
Interest payable	45,695	45,595	45,695	45,595
Debt in issue	656,968,017	655,525,897	656,968,017	655,525,897
	658,216,319	656,152,125	658,216,319	656,152,125

Financial instruments where carrying value is equal to fair value

Due to their short-term maturity, the carrying value of certain financial instruments is assumed to approximate their fair values. These include: cash and cash equivalents, interest receivable on loans, accounts payable and interest payable.

The fair value of loans and debt in issue is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

All assets and liabilities for which fair value is measured or disclosed are categorised within the fair value hierarchy, described below, based on the lowest level input that is significant to the fair value measurement as a whole.

Level 1

Included in level 1 are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market.

4 Financial risk measurement (continued)

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

Level 2

Included in the level 2 category are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable market transactions.

Level 3

Included in the level 3 category are financial assets and liabilities that are not quoted as there are no active markets to determine price. These financial instruments are held at cost, being the fair value of the consideration paid on acquisition. These assets are regularly assessed for impairment.

Where the Company's financial assets are not traded in an active market, the fair value is determined using discounted cash flow analysis, which requires considerable judgement in interpreting data and developing estimates. Accordingly, estimates contained herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated values.

There are no financial instruments subsequently measured and carried at fair value as at the end of the current and prior financial years.

Capital management
The capital of the Company is represented by the Company's assets. The Company's objective when managing capital is to safeguard its ability to continue as a going concern. The Board of Directors and Management monitor capital on the basis of the value of the assets of the Company.

5 Cash and cash equivalents

	2018 $	2017 $
Trinidad and Tobago Unit Trust Corporation (TTUTC) – TT$ Income Fund account	86,137,386	81,244,856
TTUTC – US$ Income Fund account	76,750,401	80,619,793
First Citizens Bank Limited (FCB) – Business chequing account	120	180
FCB – US Dollar account	800,724	795,528
	163,688,631	162,660,357

The TT$ Income Fund and the US$ Income Fund have fixed net asset values and are accessible on demand.

6 Receivables

Receivables consist of the following:

	2018 $	2017 $
Interest receivable - deposits	66,109	62,289
Interest receivable net of provision – loans and advances	97,014	178,870
	163,123	241,159

Interest receivable net of provision - loans and advances represent interest acquired on 30 November 2011 which consists of:

i. Interest receivable on performing loans; and
ii. Interest on non-performing loans.

Full provision has been made against interest receivable on non-performing loans as shown in the tables below.

	Interest receivable net of provision- loans and advances at 31.12.2018		
	Stage 1 (Performing) $	Stage 3 (Non-performing) $	Total $
Interest receivable at 31.12.18	97,014	47,262,155	47,359,169
ECL allowance at 31.12.18	--	(47,262,155)	(47,262,155)
	97,014	--	97,014

	Interest receivable net of provisions - loans and advances at 31.12.2017		
	Performing $	Non-performing $	Total $
Interest receivable 31.12.17	62,289	47,147,743	47,210,032
Impairment allowance at 31.12.17	--	(47,147,743)	(47,147,743)
	62,289	--	62,289

7 Loans to customers

Loans and advances represent the principal balances outstanding on loans. The outstanding balances are categorised as either:

i. Stage 1 – performing loans;
ii. Stage 2 – under performing loans; or
iii. Stage 3 – non-performing loans.

Provision has been made against the principal on non-performing loans based on the Company's ECL and impairment models as shown in the tables below. Details of the ECL and impairment models are provided in Note 2b and Note 4.

	Loans net of ECL allowances at 31.12.2018			
	Stage 1 $	**Stage 2 $**	**Stage 3 $**	**Total $**
Principal outstanding at 31.12.18	17,178,010	--	474,726,826	491,904,836
ECL allowance at 31.12.18	--	--	(347,985,896)	(347,985,896)
	17,178,010	--	126,740,930	143,918,940

	Loans net of Impairment allowances at 31.12.2017			
	Performing $	**Under performing $**	**Non-performing $**	**Total $**
Principal outstanding at 31.12.17	28,678,138		473,826,654	502,504,792
Restated loan loss allowance	--	--	(329,235,566)	(329,235,566)
	28,678,138	--	144,591,088	173,269,226

There were no transfers between Stages 1, Stage 2 or Stage 3 during the year. The reduction in principal outstanding arose from the receipt of repayments. The increase in Non-performing loans in 2018 represents revaluation of US$ denominated loans.

8 Related party transactions

An entity is considered related to a reporting entity *inter alia* if it provides key management personnel services to the reporting entity. The Corporation provides key management personnel services to the Company under a Services Agreement. The transactions between the Company and the Corporation, which were carried out on commercial terms, at market rates under the Services Agreement, are summarized below.

	2018 $	**2017 $**
Interest expense	10,263,057	10,240,022
Salaries and administrative expenses	2,955,311	2,333,365
Service fees	26,501	20,002
	13,244,869	12,593,389

The balance due by the Company to the Corporation at 31 December 2018 was $658,216,319 (2017: $656,152,126) as shown in the table below.

8 Related party transactions (continued)

	2018 $	2017 $
Salaries	833,322	211,377
Reimbursable expenses	363,215	363,215
Other administrative expenses	6,070	6,041
	1,202,607	580,633
Debt securities in issue (see Note 9)	656,968,017	655,525,897
Interest (see Note 9)	45,695	45,595
	658,216,319	656,152,125

The Company operates two mutual fund accounts with the Corporation. The balances on the accounts at 31 December are shown in the table below.

	2018 $	2017 $
Trinidad and Tobago Unit Trust Corporation – TT Dollar Income Fund	86,137,386	81,244,856
Trinidad and Tobago Unit Trust Corporation – US Dollar Income Fund	76,750,401	80,619,793
	162,887,787	161,864,649

A person who is a member of the key management of the reporting entity is a related party of the reporting entity. Key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the entity.
Key management personnel compensation comprises:

Short-term employee benefits	2018 $	2017 $
Directors	264,000	264,000
Senior management	1,502,452	880,506
	1,766,452	1,144,506

There were no amounts due from key management at 31 December 2018 (2017: NIL).

9 Debt in issue

On 30 December 2011, the Company issued bonds totaling approximately TT$2.7 billion to finance the acquisition of the debt portfolio of the Merchant Banking Department of the Corporation. The bonds are all repayable in full on 30 December 2021.

9 Debt in issue (continued)

The Company, in accordance with the provisions of the Trust Deed and Bond Agreements, has exercised its option to pre-pay portions of the bonds. The original borrowing, the prepayments to 31 December 2018 and 2017, together with the balances on those dates are shown in the tables below.

	Debt in issue at 31 December 2018				
	Original Principal Value TT$	Less prepay-ments TT$	Foreign Exchange Adjustment TT$	Current Principal Value TT$	Interest Payable TT$
Secured					
Series A1 maturing 2021	167,475,898	(161,319,600)	--	6,156,298	306
Series A2 maturing 2021	439,613,569	(404,893,890)	--	34,719,679	7,962
Series B1 maturing 2021	510,545,966	(412,180,400)	--	98,365,566	6,942
Series B2 maturing 2021	1,461,055,174	(1,050,116,802)	--	410,938,372	25,591
Sub-total	2,578,690,607	(2,028,510,692)	--	550,179,915	40,801
Secured and guaranteed					
Series B4	99,999,995	--	6,788,107	106,788,102	4,894
Total	2,678,690,602	(2,028,510,692)	6,788,107	656,968,017	45,695

	Debt in issue at 31 December 2017				
	Original Principal Value TT$	Less prepay-ments TT$	Foreign Exchange Adjustment TT$	Current Principal Value TT$	Interest Payable TT$
Secured					
Series A1 maturing 2021	167,475,898	(161,319,600)	--	6,156,298	306
Series A2 maturing 2021	439,613,569	(404,984,523)	--	34,629,046	7,941
Series B1 maturing 2021	510,545,966	(412,180,400)	--	98,365,566	6,942
Series B2 maturing 2021	1,461,055,174	(1,051,189,527)	--	409,865,647	25,525
Sub-total	2,578,690,607	(2,029,674,050)	--	549,016,557	40,714
Securities and guaranteed					
Series B4	99,999,995	--	6,509,345	106,509,340	4,881
Total	2,678,690,602	(2,029,674,050)	6,509,345	655,525,897	45,595

Interest is payable semi-annually in arrears at floating rates. The floating rates of interest applicable in 2018 and 2017 are presented in the table below.

Series	Jan to June 2018 %	July to Dec 2018 %	Jan to June 2017 %	July to Dec 2017 %
Secured				
Series A1 maturing 2021	1.00	1.00	1.00	1.00
Series A2 maturing 2021	1.65	1.65	1.65	1.65
Series B1 maturing 2021	1.00	1.00	1.00	1.00
Series B2 maturing 2021	1.65	1.65	1.65	1.65
Securities and guaranteed				
Series B4	1.65	1.65	1.65	1.65

10 Share capital

The Company is authorised to issue one class of share of an unlimited number designated as ordinary shares. On 30 November 2011, the Company issued one ordinary share. The registered and beneficial owner of the one share in issue, which has been fully paid up, is the Minister of Finance (Corporation Sole).

11 Operating expenses

	2018 $	Restated 2017 $
Salaries and administrative expenses	2,955,311	2,333,365
Service fee	26,501	20,002
Consultancy fee	327,594	299,793
Audit fee	219,375	214,500
Board fees	264,000	264,000
Bank charges	2,508	5,025
Other operating expenses	268,908	380,379
Exchange translation loss	924,835	839,748
	4,989,032	4,356,812

12 Taxation expense

Tax loss	(30,444,058)	(3,713,992)
Corporation tax at 25%	--	--
Green fund levy	8,164	15,715
Business levy	16,327	31,430
Taxation expense	24,491	47,145

The Company has tax losses as at 31 December 2018 of $285,291,124 (2017: $254,847,137). No deferred tax asset has been recognised.

13 Contingent liabilities

The Company had no contingent liabilities as at 31 December 2018 (2017: Nil)

14 Capital commitments

The Company had no capital commitments at 31 December 2018 (2017: Nil).

15 Events after the reporting period

On 11 July 2019 the Company's sole bondholder – the Corporation – offered to reduce the amounts outstanding on the Company's Debt securities in issue in exchange for cash prepayments in the amounts of TT$80 million and US$11.54 million. The offer was accepted by the Company on 16 July 2019 and the payments made by the Company to the Bondholder on 30 July 2019. A summary of the impact of the transaction is provided in the tables below.

Bonds denominated in TT$	Nominal Value 29 July 2019 $	Prepayment 30 July 2019 $	Bond Forgiveness 30 July 2019 $	Outstanding Balance 31 July 2019 $
Series A1	6,156,298	(6,156,298)	--	--
Series B1	98,365,566	(73,843,702)	(24,521,864)	--
	104,521,864	(80,000,000)	(24,521,864)	--

Bonds denominated in US$	Nominal Value 29 July 2019 US$	Prepayment 30 July 2019 US$	Bond Forgiveness 30 July 2019 US$	Outstanding Balance 31 July 2019 US$
Series A2	5,120,519	(5,120,519)	--	--
Series B2	60,605,910	(6,419,481)	(42,338,877)	11,847,552
Series B4	15,749,296	--	--	15,749,296
	81,475,725	(11,540,000)	(42,338,877)	27,596,848

16 Restatement of financials

In previous years, the expected future cashflows assigned to the loan collateral for non-performing loans were not discounted in determining the loan loss provision as required by International Accounting Standards (IAS) 39. This has resulted in the present value of the cashflows being materially different from the future cash flows and an under-provision for non-performing loans.

The effect of the prior year adjustments is to restate amounts in the statement of financial position for the years ended 31 December 2017 and 31 December 2016 and the statement of comprehensive income for the year ended 31 December 2017.

16 Restatement of financials (continued)

The impact on the Company's Statement of financial position as at 31 December 2016 is provided in the tables below.

Statement of financial position	**Year ended 31 December 2016**		
	As Restated $	**As Previously reported $**	**Restatement $**
Assets			
Cash and cash equivalents	128,169,804	128,196,804	--
Receivables	194,853	194,853	--
Loans to customers	210,417,215	289,955,066	(79,537,851)
Total assets	338,781,872	418,319,723	(79,537,851)
Liabilities and equity			
Due to related party	705,746	705,746	--
Accrued expenses	313,500	313,500	--
Accrued interest payable	45,500	45,500	--
Debt securities in issue	654,148,957	654,148,957	--
Total liabilities	655,213,703	655,213,703	--
Shareholder's equity			
Share capital	1	1	--
Accumulated deficit	(316,431,832)	(236,893,981)	(79,537,851)
Total equity and liabilities	338,781,872	418,319,723	(79,537,851)

16 Restatement of financials (continued)

The impact on the Company's Statement of financial position and Statement of comprehensive income for the year ended 31 December 2017 is provided in the tables below.

Statement of financial position	**Year ended 31 December 2017**		
	As Restated $	**As Previously reported $**	**Restatement $**
Assets			
Cash and cash equivalents	162,660,357	162,660,357	--
Tax recoverable	12,665	12,665	--
Receivables	241,159	241,159	--
Loans to customers	173,269,226	247,207,847	(73,938,621)
Total assets	336,183,407	410,122,028	(73,938,621)
Liabilities and equity			
Due to related party	580,633	580,633	--
Accrued expenses	224,250	224,250	--
Accrued interest payable	45,595	45,595	--
Debt securities in issue	655,525,897	655,525,897	--
Total liabilities	656,376,375	656,376,375	--
Shareholder's equity			
Share capital	1	1	--
Accumulated deficit	(320,192,969)	(246,254,348)	(73,938,621)
Total equity and liabilities	336,183,407	410,122,028	(73,938,621)

Statement of comprehensive income	**Year ended 31 December 2017**		
	As Restated $	**As Previously reported $**	**Restatement $**
Interest income	3,800,228	3,800,228	--
Interest expense	(10,240,022)	(10,240,022)	--
Net interest expense	(6,439,794)	(6,439,794)	--
Interest on deposits	1,438,103	1,438,103	--
Credit impairment net of recoveries	5,644,511	(122,554)	5,767,065
Net operating profit/loss	642,820	(5,124,245)	5,767,065
Operating expenses	(4,356,812)	(4,188,977)	(167,835)
Loss before taxation	(3,713,992)	(9,313,222)	5,599,230
Taxation	(47,145)	(47,145)	--
Loss for the year	(3,761,137	(9,360,367)	5,599,230