

Financial Statements of

PORTFOLIO CREDIT MANAGEMENT LIMITED

December 31, 2016

Chairman's Report

On behalf of the Board of Directors, I am pleased to report that the company remained steadfast in its remit of managing and liquidating a portfolio of troubled assets by the further reduction in its loan portfolio to \$545.12 million by December 31, 2016, down from \$658.47 million at the beginning of the year, a reduction of \$113.35 million or 17.21 percent. Nevertheless, the company's capacity to service its outstanding liabilities amounted to negative \$236.89 million, up from \$214.05 million one year earlier. The increase was largely due to a write-off during the year of \$13.60 million.


The proceeds from the company's loan recovery strategies were primarily utilized to reduce PCML's bonds outstanding to \$654.15 million, down from \$794.52 million at the beginning of the year, a reduction of \$140.37 million or 17.67 percent. This brought the cumulative principal bond repayments to \$2.02 billion, a reduction of seventy-six (76) percent of the bonds outstanding of \$2.67 billion at inception in December 31, 2011.

At the end of December 31, 2016, the company's cash balance stood at \$128.17 million. This adequately positioned the company to fully discharge all future interest and operating expenses for the remaining term of the company from its internal resources.

The company's outstanding net loans stood at \$289.96 million as at the end of December 31, 2016. The major single contributor to this position is the exposure to Dellis Cay, which accounts for \$195.36 million or 67 percent of the outstanding net loans of \$289.96 million.

The company remains optimistic that this exposure and all others would be liquidated before the remaining four -year life of the company which ends on December 31, 2021.

The Board recognizes the consistent and significant contribution of the company's management and staff towards the realization of the foregoing milestones.


Enid Zephyrine
Chairman

March 15, 2017



KPMG
Chartered Accountants

69-71 Edward Street
P.O. Box 1328
Port of Spain
Trinidad and Tobago, W.I.

Tel.: (868) 623-1081
Fax: (868) 623-1084
Email: kpmg@kpmg.co.tt
Web: www.kpmg.com/tt

Independent Auditor's Report
To the Members of Portfolio Credit Management Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Portfolio Credit Management Limited ("the Company"), which comprise the statement of financial position as at December 31, 2016, the statements of 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.

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.



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

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 judgment and maintain professional skepticism throughout the audit. We also:

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



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

- 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
March 15, 2017

PORTFOLIO CREDIT MANAGEMENT LIMITED

Statement of Financial Position

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

	Notes	2016	2015
		\$	\$
ASSETS			
Cash and cash equivalents	3	128,169,804	210,293,332
Accounts receivable	4	-	899,878
Taxation receivable		-	2,836
Interest receivable - deposits		35,549	66,090
Interest receivable net of provision	5	159,304	217,870
Loans less allowance for losses	6	<u>289,955,066</u>	<u>374,829,597</u>
Total Assets		<u>418,319,723</u>	<u>586,309,603</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Accounts payable	7	705,746	5,566,780
Accrued expenses		313,500	224,250
Other payables		-	1,933
Interest payable - Bonds payable	8	45,500	49,766
Bonds payable	8	<u>654,148,957</u>	<u>794,518,228</u>
Total liabilities		<u>655,213,703</u>	<u>800,360,957</u>
EQUITY			
Issued and fully paid-up capital	9	1	1
Accumulated loss	11	<u>(236,893,981)</u>	<u>(214,051,355)</u>
Total equity		<u>(236,893,980)</u>	<u>(214,051,354)</u>
Total Liabilities and Equity		<u>418,319,723</u>	<u>586,309,603</u>

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

On March 15, 2017, the Board of Directors of Portfolio Credit Management Limited authorised these financial statements for issue.

 Director

 Director

PORTFOLIO CREDIT MANAGEMENT LIMITED

Statement of Comprehensive Income

Year ended December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

	Notes	2016	2015
		\$	\$
NET INTEREST AND OTHER INCOME			
Interest income		2,212,619	19,346,967
Interest expense on bond issued		<u>(11,484,754)</u>	<u>(14,481,631)</u>
Net interest (loss) income		(9,272,135)	4,865,336
Interest on deposits		1,843,644	1,703,707
Impairment gain on loans and interest receivables net of recoveries		<u>1,106,479</u>	<u>102,306,071</u>
Net interest and other (loss) income		(6,322,012)	108,875,114
OPERATING EXPENSES	10	<u>(16,484,060)</u>	<u>(7,038,820)</u>
(Loss) profit before taxation		(22,806,072)	101,836,294
Taxation	14	<u>(36,554)</u>	<u>(63,152)</u>
Net (loss) profit for the year	11	<u>(22,842,626)</u>	<u>101,773,142</u>

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

PORTFOLIO CREDIT MANAGEMENT LIMITED

Statement of Changes in Equity

Year ended December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

	Share Capital	Accumulated Deficit	Total
	\$	\$	\$
<i>Year ended December 31, 2015</i>			
Balance as at December 31, 2014	1	(315,824,497)	(315,824,496)
Net profit for the year	-	101,773,142	101,773,142
Balance as at December 31, 2015	<u>1</u>	<u>(214,051,355)</u>	<u>(214,051,354)</u>
<i>Year ended December 31, 2016</i>			
Balance as at December 31, 2015	1	(214,051,355)	(214,051,354)
Net loss for the year	-	(22,842,626)	(22,842,626)
Balance as at December 31, 2016	<u>1</u>	<u>(236,893,981)</u>	<u>(236,893,980)</u>

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

PORTFOLIO CREDIT MANAGEMENT LIMITED

Statement of Cash Flows

Year ended December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

	2016	2015
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) income before taxation	(22,806,072)	101,836,294
Adjustments for:		
Impairment gain on loans and interest receivables	(1,106,479)	(102,306,071)
Cash flows before changes in operating activities	(23,912,551)	(469,777)
Change in loans	85,981,010	184,507,059
Change in interest receivable	89,107	4,480,889
Change in interest payable	(4,266)	(8,498)
Change in accrued expenses and other payables	87,317	500
Change in accounts receivable	899,878	(11,223)
Change in accounts payable	(4,861,034)	2,673,625
	58,279,461	191,172,575
Taxation paid	(33,718)	(63,203)
Net cash from operating activities	58,245,743	191,109,372
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bonds	(140,369,271)	(189,982,533)
Net cash used in financing activities	(140,369,271)	(189,982,533)
Net (decrease) increase in cash equivalents	(82,123,528)	1,126,839
CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	210,293,332	209,166,493
CASH EQUIVALENTS AT THE END OF THE YEAR	128,169,804	210,293,332

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

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

1. General Information

Portfolio Credit Management Limited (the Company or PCML), formerly UTC Services Limited, originally UTC Merchant Bank Limited, was incorporated in Trinidad and Tobago under the Companies Act 1995 on June 12, 2006. The Company was dormant since incorporation and was activated on December 1, 2011 to acquire the assets of the Merchant Banking Department of the Trinidad and Tobago Unit Trust Corporation (TTUTC). PCML is wholly owned by the Government of the Republic of Trinidad and Tobago.

PCML remit is to prudently manage and liquidate a credit portfolio in order to service the payment obligations associated with the issuance of bonds to investors over a period of approximately ten (10) years from the date of acquisition.

The financial statements were authorised for issue by the Board of Directors on March 15, 2017.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of the financial statements have been applied consistently to all periods presented in the financial statements and are set out below:

a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

The financial statements are prepared under the historical cost convention.

b) Presentation and functional currency

The presentation and functional currency of the financial statements is Trinidad and Tobago Dollars.

c) Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the accounting policies and reported amounts of assets, liabilities, income and expenses. The actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

2. Significant Accounting Policies (continued)

c) Use of judgments and estimates (continued)

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are included in Note 2(g) Loan loss provision.

d) Foreign currency

Foreign currency transactions are translated at the rate of exchange at the transaction date. Foreign currency monetary assets and liabilities are translated at the average of the mid buying and selling rates of exchange at the reporting date. Resulting translation differences and profits and losses from trading activities are included in the statement of comprehensive income.

e) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, deposits with banks and short-term highly liquid investments with maturities of three months or less when purchased. The carrying value approximates the fair value due to its highly liquid nature and the fact that it is readily converted to known amounts of cash in hand and is subject to insignificant risk of change in value.

f) Financial assets - loans and receivables

Financial assets represent the loans to customers to which the Company became a contractual party on execution of the transfer of assets. The assets were owned by TTUTC and managed by its Merchant Banking Department prior to November 30, 2011. On transfer, the Company became entitled to all the contractual cash flows of the financial instruments and assumed all the associated risks.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at cost and subsequently measured at amortised cost less impairment losses. Loans and receivables are reported in the statement of financial position as loans less allowances for losses. Interest on loans is included in the statement of comprehensive income under interest income.

The loan portfolio balances may be classified into three (3) categories, namely:

- i. **Performing loans** - These are loans where there has been no material breach of the terms of the loan agreement. Principal and interest payments are being received on time and all contractual terms of the loan agreement are being generally observed by the borrower.

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

2. Significant Accounting Policies (continued)

f) Financial assets - loans and receivables (continued)

ii. **Watch list loans** - These are loans in imminent risk of default.

iii. **Non-performing loans** - These are loans that in respect of which principal and/or interest is outstanding for more than ninety (90) days.

The Company also established an allowance for loan losses, a valuation reserve created and maintained by charges to the operating income. This allowance for loan losses is an estimate of the uncollectible amounts that is used to reduce the book value of loans to the amount that is expected to be collected.

Derecognition of financial assets

Financial assets are derecognised when the contractual right to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred.

g) Loan loss provision

The Company assesses whether there is objective evidence that a financial asset or group of assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- 1) Significant financial difficulty of the issuer or obligor;
- 2) Delinquency in contractual payments of principal or interest;
- 3) Cash flow difficulties experienced by the borrower;
- 4) Breach of loan covenants or conditions;
- 5) Initiation of bankruptcy proceedings;
- 6) Deterioration of the borrower's competitive position;
- 7) Deterioration in the value of collateral; and
- 8) Downgrading below investment grade level, where appropriate.

The Company classifies a loan as impaired where the principal and interest is past due for more than 90 days, has been placed in stop accrual or is in workout status. These are non-performing credits for which a loan loss provision is recommended to the Board.

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

2. Significant Accounting Policies (continued)

g) Loan loss provision (continued)

The estimated period between a loss occurring and its identification is determined by management for each identified asset. In general, the periods used vary between three (3) months and twelve (12) months; in exceptional cases, longer periods are warranted.

The estimates used by management for the allowance for loan losses is based on assumptions on the recoverable amount at the end of the respective periods with due regards to the estimated realizable value of the collateral held as well as the probability of default by the Issuer/Guarantor.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed. If in a subsequent period, the amount of loan loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the amount of the reversal is recognised in the statement of comprehensive income in impairment loss on loans net of recoveries.

A provision for interest receivable is established to address interest receivable acquired as at November 30, 2011 which remains in stop accrual.

The carrying amount of the interest receivable on loans and advances is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income.

All assets will be tested for impairment to inform reporting periods ended March 31, June 30, September 30 and December 31 and the write-off of any provision requires the prior approval of the Board.

h) Stop accrual assets

Assets with principal and/or interest outstanding for more than 90 days will be placed in nonaccrual as at the last date a payment was received and classified as non performing assets. These assets will be assessed at every financial reporting period and if not regularized will be tested for impairment.

Interest accrued on non-performing loans is to be reversed for the period in which it was previously accrued and remains unpaid in accordance with the Prudential Criteria Regulations, 1994 of the Central Bank of Trinidad and Tobago as a matter of best practice and prudence and cease further interest accrual whilst the asset is classified as non-performing.

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

2. Significant Accounting Policies (continued)

h) Stop accrual assets (continued)

Cash flows received subsequent to the asset being classified as nonperforming are to be applied to principal outstanding first, then to interest outstanding and then penalty interest, until the loan is regularised and/or restructured.

i) Accrued and other payables

Accrued and other payables are stated at amortised cost.

j) Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

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 offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: loans and borrowings, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

k) Taxation

Income tax expense comprises current tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly to equity or in other comprehensive income.

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

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

2. Significant Accounting Policies (continued)

l) Interest income and expense

Interest income and interest expense are recognised in the statement of comprehensive income for all interest bearing instruments on an accrual basis, using the effective interest method.

m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2016, but are not mandatory and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements except for:

- 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 through 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 entities in the same line of business exchange non-monetary assets to facilitate sales to other parties.

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.

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

2. Significant Accounting Policies (continued)

m) New standards and interpretations not yet adopted (continued)

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.

	<u>2016</u>	<u>2015</u>
	\$	\$
3. Cash and Cash Equivalents		
TTUTC - TT\$ Income Fund	47,250,790	86,307,750
TTUTC - US\$ Income Fund (US\$11,878,022)	80,127,953	122,806,326
First Citizens Bank Limited - Business Chequeing	340	100
First Citizens Bank Limited - US Dollar (US\$117,175)	790,721	749,663
Morgan Stanley US\$ Account (US\$ NIL)	-	429,493
	<u>128,169,804</u>	<u>210,293,332</u>

4. Accounts Receivable

This amount represents funds collected on behalf of the Company by TTUTC. The outstanding balance was received during the month of December 2016.

5. Interest Receivable

Interest receivable represents interest acquired as at November 30, 2011, of which non-performing loans remain in stop accrual.

Interest receivable on loans and advances net of provision

	<u>December 2016</u>		
	<u>Interest</u>		<u>Net Interest</u>
	<u>Receivable</u>	<u>Provision</u>	<u>Receivable</u>
	\$	\$	\$
Performing	9,892	-	9,892
Watch List	149,412	-	149,412
Non Performing	54,509,018	(54,509,018)	-
	<u>54,668,322</u>	<u>(54,509,018)</u>	<u>159,304</u>

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

5. Interest Receivable (continued)

	December 2015		
	Interest Receivable	Provision	Net Interest Receivable
	\$	\$	\$
Performing	35,456	-	35,456
Watch List	182,414	-	182,414
Non Performing	54,521,802	(54,521,802)	-
	<u>54,739,672</u>	<u>(54,521,802)</u>	<u>217,870</u>

6. Loans

The loans transferred as at November 30, 2011 represent the principal balance outstanding (i.e. the principal amounts contractually due) on loans formerly within the asset portfolio of the TTUTC's Merchant Banking Department.

Loans less allowance for losses

	December 2016		
	Principal	Allowance for Loan Losses	Net Loans
	\$	\$	\$
Performing	4,268,605	-	4,268,605
Watch List	37,339,111	-	37,339,111
Non Performing	503,510,165	(255,162,815)	248,347,350
	<u>545,117,881</u>	<u>(255,162,815)</u>	<u>289,955,066</u>

	December 2015		
	Principal	Allowance for Loan Losses	Net Loans
	\$	\$	\$
Performing	6,124,119	-	6,124,119
Watch List	47,766,399	-	47,766,399
Non Performing	604,577,611	(283,638,532)	320,939,079
	<u>658,468,129</u>	<u>(283,638,532)</u>	<u>374,829,597</u>

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

7. Accounts Payable

This balance represents amounts to be reimbursed to TTUTC for salaries and administrative expenses incurred in accordance with the Service Agreement established between the two entities.

In addition to these reimbursable expenses, a service fee of 1% of the sum of all the reimbursable expenses is charged on the expenses incurred.

	<u>2016</u>	<u>2015</u>
	\$	\$
Accounts payable	<u>705,746</u>	<u>5,566,780</u>

8. Bonds Payable

The Ministry of Finance and the Economy has advised the Trinidad and Tobago Unit Trust Corporation that PCML, a wholly state owned Government Enterprise, undertakes to service the bonds in accordance with the terms set out in the Trust Deed Agreement and that the Ministry of Finance is aware of the said terms, and will ensure that PCML meets its financial obligations under the terms and conditions outlined in the Trust Deed.

	<u>December 2016</u>		
	<u>Original</u>	<u>Current</u>	<u>Interest</u>
	<u>Principal Value</u>	<u>Principal Value</u>	<u>Payable</u>
	\$	\$	\$
Secured Series A1 2021	167,475,898	6,156,298	306
Secured Series A2 2021	439,613,569	34,542,509	7,921
Secured Series B1 2021	510,545,966	98,365,566	6,942
Secured Series B2 2021	1,461,055,174	408,841,407	25,461
Secured and Guaranteed Series B4	99,999,995	106,243,177	4,870
	<u>2,678,690,602</u>	<u>654,148,957</u>	<u>45,500</u>

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

*(Expressed in Trinidad and Tobago Dollars)***8. Bonds Payable (continued)**

	<u>December 2015</u>		
	<u>Original</u>	<u>Current</u>	<u>Interest</u>
	<u>Principal Value</u>	<u>Principal Value</u>	<u>Payable</u>
	\$	\$	\$
Secured Series A1 2021	167,475,898	9,156,298	387
Secured Series A2 2021	439,613,569	77,808,884	9,598
Secured Series B1 2021	510,545,966	178,865,566	9,147
Secured Series B2 2021	1,461,055,174	427,583,300	26,000
Secured and Guaranteed Series B4	99,999,995	101,104,180	4,634
	<u>2,678,690,602</u>	<u>794,518,228</u>	<u>49,766</u>

- a) Secured Series A1 2021 – TT\$167 million bond, issued on December 30, 2011, is a secured bond with a tenor of ten (10) years, carrying an effective floating rate of interest for 2016 as follows:

1st Period (January to June) – 1.00%
2nd Period (July to December) – 1.00%

Interest is payable semi-annually in arrears. The remaining principal balance will be repaid at maturity.

- b) Secured Series A2 2021 - US\$69 million bond, issued on December 30, 2011, is a secured bond with a tenor of ten (10) years, carrying an effective floating rate of interest for 2016 as follows:

1st Period (January to June) – 1.65%
2nd Period (July to December) – 1.65%

Interest is payable semi-annually in arrears. The remaining principal balance will be repaid at maturity.

- c) Secured Series B1 2021 - TT\$510 million bond, issued on December 30, 2011, is a secured bond with a tenor of ten (10) years, carrying an effective floating rate of interest for 2016 as follows:

1st Period (January to June) – 1.00%
2nd Period (July to December) – 1.00%

Interest is payable semi-annually in arrears. The remaining principal balance will be repaid at maturity.

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

8. Bonds Payable (continued)

- d) Secured Series B2 2021 - US\$230 million bond, issued on December 30, 2011, is a secured bond with a tenor of ten (10) years, carrying an effective floating rate of interest for 2016 as follows:

1st Period (January to June) – 1.65%

2nd Period (July to December) – 1.65%

Interest is payable semi-annually in arrears. The remaining principal balance will be repaid at maturity.

- e) Secured and Guaranteed Series B4 2021 - US\$15.7 million bond, issued on December 30, 2011, is a secured bond with a tenor of ten (10) years, carrying an effective floating rate of interest for 2016 as follows:

1st Period (January to June) – 1.65%

2nd Period (July to December) – 1.65%

Interest is payable semi-annually in arrears. The remaining principal balance will be repaid at maturity.

Both the TT Dollar and US Dollar Prime lending rates will be determined by the arithmetic average of the interest quotations from the Reference Bank provided by the Central Bank of Trinidad and Tobago.

The initial Reference Banks are Citibank (Trinidad & Tobago) Limited, Republic Bank Limited, Scotiabank Trinidad and Tobago Limited and RBC Royal Bank (Trinidad and Tobago) Limited.

9. Share Capital

The Articles of Incorporation authorise the Company to issue one class of shares of an unlimited number designated as ordinary shares. On December 30, 2011, the Minister of Finance (Corporation Sole) became the registered owner of one fully paid up ordinary share in the Company.

	<u>2016</u>	<u>2015</u>
	\$	\$
<i>Authorised</i>		
An unlimited number of ordinary shares of no par value		
<i>Issued and fully paid</i>		
1 ordinary share of no par value	<u>1</u>	<u>1</u>

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

	<u>2016</u>	<u>2015</u>
	\$	\$
10. Non-Interest Expenses		
Salaries and administrative expenses	2,389,013	2,678,441
Service fee	16,345	14,528
Consultancy fees	764,534	1,562,499
Audit fees	224,250	224,250
Board fees	247,500	264,000
Bank charges	3,012	2,900
Other operating expenses	252,885	88,175
Exchange translation loss	<u>12,586,521</u>	<u>2,204,027</u>
Total operating expenses	<u>16,484,060</u>	<u>7,038,820</u>

11. Going Concern

These financial statements have been prepared on a going concern basis. For the period ended December 31, 2016, the Company recorded a loss of \$22,842,626 (2015: profit of \$101,773,142) and at that date the Company's total liabilities exceeded its assets by \$236,893,981 (2015: \$214,051,355). These conditions cast significant doubt on the Company's ability to continue as a going concern in regard to its ability to discharge all of its liabilities as they fall due.

The ability of the Company to service its liabilities is dependent on the financial backing and support of the Government of the Republic of Trinidad and Tobago (GORTT). As such, PCML has received confirmation from the 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.

12. Contingent Liability

The Company had no contingent liabilities as at December 31, 2016 (2015: Nil).

13. Capital Commitments

At December 31, 2016, the Company had no capital commitments (2015: Nil).

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

	<u>2016</u>	<u>2015</u>
	\$	\$
14. Taxation		
Carry forward losses	<u>242,260,731</u>	<u>219,454,659</u>

The tax losses are available indefinitely for offset against future taxable profits of the Company in which the tax losses arose. The deferred tax asset arising as a result of these losses has not been recognized at the reporting date.

	<u>2016</u>	<u>2015</u>
	\$	\$
Green Fund levy	12,228	21,051
Business levy	<u>24,326</u>	<u>42,101</u>
	<u>36,554</u>	<u>63,152</u>

The tax on profit before tax differs from the theoretical amount that would arise using the basic rate of tax as follows:

	<u>2016</u>	<u>2015</u>
	\$	\$
(Loss) profit before tax	<u>(22,806,072)</u>	<u>101,836,294</u>
Corporation tax at statutory rate of 25%	-	25,459,073
Tax losses utilized	-	(25,459,073)
Green Fund levy	12,228	21,051
Business levy	<u>24,326</u>	<u>42,101</u>
	<u>36,554</u>	<u>63,152</u>

15. Related Party Balances and Transactions

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:

	<u>2016</u>	<u>2015</u>
	\$	\$
Short-term employee benefits	<u>247,500</u>	<u>264,000</u>

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

16. Financial Risk Management

Overview

The Company has adopted risk management policies and has set appropriate limits and controls to manage and mitigate against financial risk. The Company has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risk

Credit risk

Credit Risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans to customers. The carrying amount of financial assets represents the maximum credit exposures.

Loans less allowance for loan loss

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk of the industry and country in which the customers operate.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of loans.

At December 31 the maximum net exposure to credit risk for loans by category:

	<u>2016</u>	<u>2015</u>
	\$	\$
Performing	4,268,605	6,124,119
Watch List	37,339,111	47,766,399
Non Performing	<u>248,347,350</u>	<u>320,939,079</u>
	<u>289,955,066</u>	<u>374,829,597</u>

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

16. Financial Risk Management (continued)

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. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities.

The contractual maturities of financial liabilities measured are at amortised cost:

	2016				
	Carrying amount	Contractual Cash flows	Up to one year	Two to five years	Over five years
	\$	\$	\$	\$	\$
Liabilities					
Accounts payable	705,746	705,746	705,746	-	-
Accrued expenses	313,500	313,500	313,500	-	-
Interest payable- bonds payable	45,500	45,500	45,500	-	-
Bonds payable	654,148,957	704,719,288	10,114,065	694,605,223	-
December 31, 2016	<u>655,213,703</u>	<u>705,784,034</u>	<u>11,178,811</u>	<u>694,605,223</u>	<u>-</u>

	2015				
	Carrying amount	Contractual Cash flows	Up to one year	Two to five years	Over five years
	\$	\$	\$	\$	\$
Liabilities					
Accounts payable	5,566,780	5,566,780	5,566,780	-	-
Accrued expenses	224,250	224,250	224,250	-	-
Other payables	1,933	1,933	1,933	-	-
Interest payable- bonds payable	49,766	49,766	49,766	-	-
Bonds payable	794,518,228	865,842,680	11,887,409	47,549,635	806,405,637
December 31, 2015	<u>800,360,957</u>	<u>871,685,409</u>	<u>17,730,138</u>	<u>47,549,635</u>	<u>806,405,637</u>

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

16. Financial Risk Management (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Company is exposed to currency risk on revenue, purchases and borrowings that are denominated in a currency other than the respective functional currency of the Company, which is the Trinidad and Tobago dollar (TTD). The major foreign currency transactions are denominated in the United States Dollar (USD).

The Company ensures that the risk is kept to an acceptable level by monitoring their risk exposure and by maintaining funds in US dollars as a hedge against adverse fluctuations in exchange rates.

Exposure to currency risk:

The Company's exposure to foreign currency risk at the reporting date was as follows:

Year ended December 31, 2016

	<u>TTS</u>	<u>TTS Equivalent of US\$ Values</u>	<u>Total TTS</u>
Monetary Assets			
Cash and cash equivalents	47,251,130	80,918,674	128,169,804
Loans	81,442,443	208,512,623	289,955,066
	128,693,573	289,431,297	418,124,870
Monetary Liabilities			
Bonds payable	(104,521,864)	(549,627,093)	(654,148,957)
Net Exposure	<u>24,171,709</u>	<u>(260,195,796)</u>	<u>(236,024,087)</u>

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

16. Financial Risk Management (continued)

Market risk (continued)

Year ended December 31, 2015

	<u>TTS</u>	<u>TTS Equivalent of US\$ Values</u>	<u>Total TTS</u>
Monetary Assets			
Cash and cash equivalents	86,307,850	123,985,482	210,293,332
Loans	125,067,782	249,761,815	374,829,597
	211,375,632	373,747,297	585,122,929
Monetary Liabilities			
Bonds payable	(188,021,864)	(606,496,364)	(794,518,228)
Net Exposure	<u>23,353,768</u>	<u>(232,749,067)</u>	<u>(209,395,299)</u>

The exchange rate as at December 31, 2016 was USD1: TT\$6.7459 (2015: USD1: TT\$6.4196).

Sensitivity analysis:

A one percent weakening of the Trinidad and Tobago dollar against the USD at December 31, 2016 would have decreased profit by \$2,601,958 (2015: \$2,327,491). This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

16. Financial Risk Management (continued)

Fair value of financial assets and liabilities

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Carrying Value		Fair Value	
	2016	2015	2016	2015
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	128,169,804	210,293,332	128,169,804	210,293,332
Accounts receivable	-	899,878	-	899,878
Interest receivable	159,304	217,870	159,304	217,870
Loans	<u>289,955,066</u>	<u>374,829,597</u>	<u>289,955,066</u>	<u>374,829,597</u>
Financial Liabilities				
Accounts payable	705,746	5,566,780	705,746	5,566,780
Interest payable	45,500	49,766	45,500	49,766
Bonds payable	<u>654,148,957</u>	<u>794,518,228</u>	<u>389,357,381</u>	<u>474,829,466</u>

'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.

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

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

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

PORTFOLIO CREDIT MANAGEMENT LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Trinidad and Tobago Dollars)

16. Financial Risk Management (continued)

Fair value of financial assets and liabilities (continued)

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

The fair value of cash and cash equivalents, accounts receivable, interest receivable and accounts payable and interest payable are deemed to be equivalent to their respective carrying amounts because of their short-term nature.

The fair value of the loans are based on level 3 inputs and are roughly equivalent to the carrying amounts.

The fair value of the bonds payable are based on level 3 inputs as determined by the fair value of the assets attached to each series of the bonds at the respective measurement date.