Building Dreams
Creating Opportunities

HOME
MORTGAGE
BANK
Mortgages | Investments

ANNUAL REPORT 2018

HOME MORTGAGE BANK

Mortgages | Investments

Mission Statement

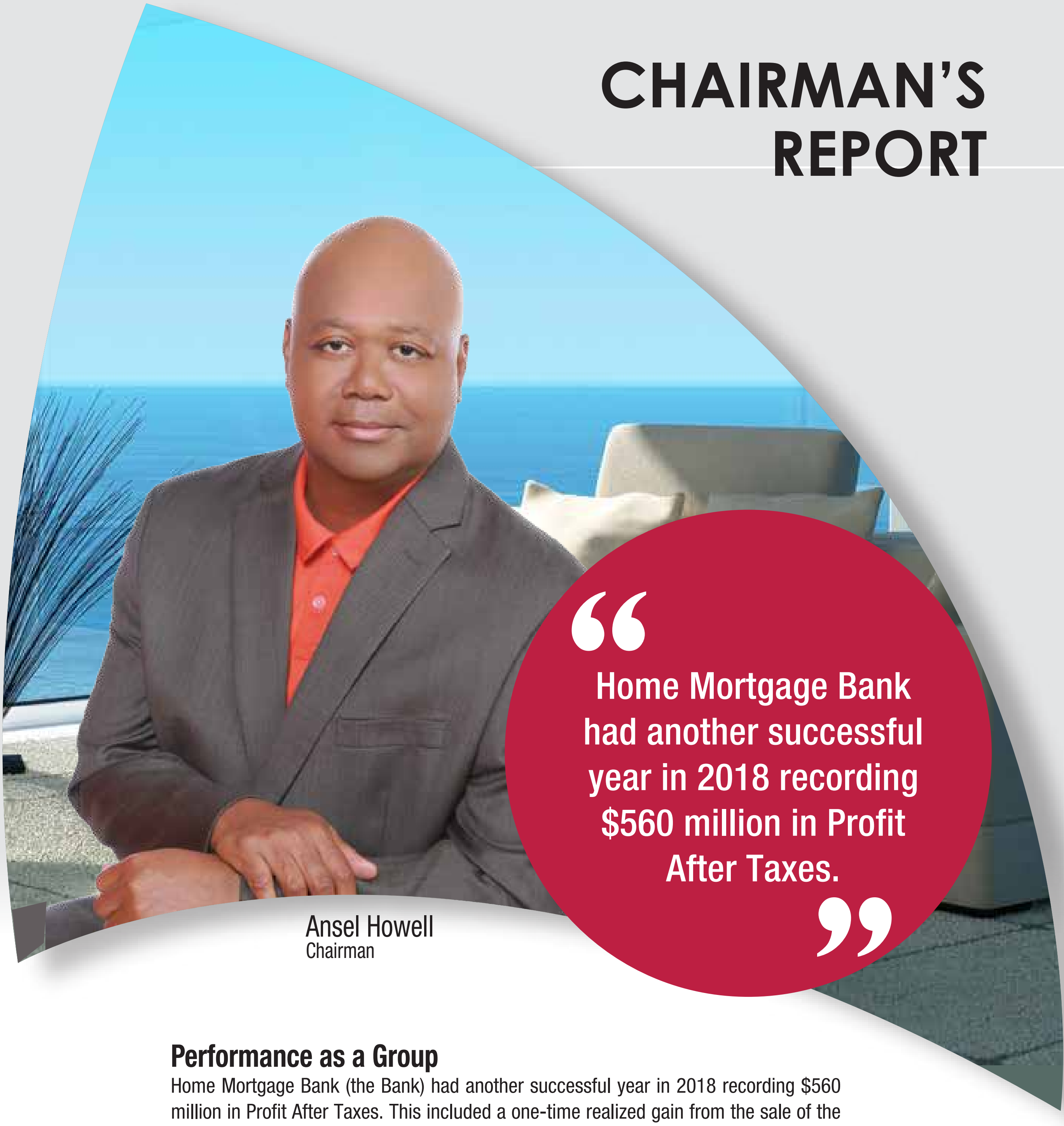
Home Mortgage Bank was created through legislation and enacted by the Parliament of Trinidad and Tobago by way of the Home Mortgage Bank Act, Chap. 79:08

The Purpose of the Bank is as follows:

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

CONTENTS

CHAIRMAN'S REPORT



“Home Mortgage Bank had another successful year in 2018 recording $560 million in Profit After Taxes.”

Ansel Howell
Chairman

Performance as a Group

Home Mortgage Bank (the Bank) had another successful year in 2018 recording $560 million in Profit After Taxes. This included a one-time realized gain from the sale of the equity portfolio valued at $471 million. Excluding this one-time gain, Profit After Taxes increased by 20% year on year. The Bank's Total Liabilities fell by 3.4% and retained earnings increased by 35% when compared to financial year ending December 2017.

In keeping with the Bank's mandate outlined within the HMB Act and its strategic re-alignment, 2018 saw the Bank transition from the primary mortgage market to commercial mortgages, project financing and public/private sector partnership developments.

The Bank's investment arm focused solely on expanding and diversifying its portfolio, with the planned introduction of new products in 2019.

International and Regional Economies

The International Monetary Fund's (IMF) April 2019 World Economic Outlook projected a global growth to slow from of 3.6% in 2018 to 3.3% in 2019, representing a 0.3% decline. According to the report, economic growth is expected to return to 3.6% in 2020. The increase can be attributed to the policy stimulus in China, improvements in global financial market sentiment, a decrease in temporary drags within Europe and economic stabilization in emerging markets.

The growth within the European market slowed considerably, as the forecasted Gross Domestic Product (GDP) for 2019 is projected at 1.2% down from 2.2% in 2018 and 1.8% in 2020[1]. The decline can be attributed to several factors across countries, which includes a weakening of consumer and business incentives, Brexit uncertainty and the increase in public debt.

The United States GDP is declining steadily from 2.9% in 2018 to 2.3% in 2019 and 1.9% in 2020[2]. The trade tensions and tariff hikes between the United States and China are one of several reasons for the decline. A December 2018 agreement between both countries resulted in a hold on tariff hikes, however, the possibility of tensions resurfacing exist. Despite the steady decline, the United States economy is growing faster than other advanced western industrial economies.

Regionally, the IMF projected an upward movement of 1.4% growth within Latin America and Caribbean economies for 2019 and 2.4% in 2020[3]. The steady increase in economic growth can be attributed to robust tourism from the United States, reconstruction from the devastating hurricanes of 2017 and higher commodity production in some commodity exporters.

The Venezuelan economic and humanitarian crisis continues to affect growth within the region. Venezuela's GDP is expected to decline further in 2019 as the country continues to grapple with hyperinflation and migration.

Domestic Economy

The economy of Trinidad and Tobago (T&T) is recovering slowly following a contraction within the energy sector. While the output of gas rose, the growth was small relative to previous years. In contrast within the non-energy sectors; the construction industry reported a decline, while the financial and distribution reported marginal growth.

The IMF projected an upward movement of 1.4% growth within Latin America and Caribbean economies for 2019 and 2.4% in 2020

[1] *IMF-World Economic Outlook, April 2019*
[2] *IMF-World Economic Outlook, April 2019*
[3] *IMF-World Economic Outlook, April 2019*

According to the IMF, Trinidad and Tobago can expect a GDP of 0.0% in 2019 which demonstrated a slight decrease from 0.3% in 2018. Despite the decline, the economy has been improving when compared to previous years, which recorded negative economic growth. Fiscal consolidation can be attributed to the economic growth; however, the shortage of foreign exchange reserves continues to hinder the full potential of the economy.

CAPITAL MARKETS

Bond Market

In 2018, the primary bond market saw eighteen (18) bond issues raising a total of $12.9 billion[4]. The Bank issued two (2) bonds out of the market total, with a value of $377 million. The Government of Trinidad and Tobago was the dominant player issuing eight (8) bonds valued at $4.7 billion. The market also saw the successful issue of the National Investment Fund (NIF) Bonds with the value of $4 billion. These issues continue to show the depth and diversity of the local market.

Stock Market

The local stock market as measured by the Trinidad and Tobago Composite Index (TTCI) advanced by 36.13 points or 2.85% for 2018[5]. All T&T Index declined by 23.58 points or 1.36%, Cross Listed Index advanced by 13.19 points or 12.17% and Small & Medium Enterprise (SME) index advanced by 100 points[6]. Trading according to the Trinidad and Tobago Stock Exchange Year End 2018 report, resulted in thirty-three (33) stocks of which thirteen (13) advanced, nineteen (19) declined and one (1) traded firm.

Based on the year end review published by WISE trading activity on the first tier market for the financial year 2018 resulted in approximately 72.33 million shares changing hands compared to 2017 in which approximately 84.55 million shares traded, a decrease of 14.45%.

2018 and Beyond

The Bank's Strategic Plan 2017-2020 continued to take effect in 2018. The Bank restructured its internal operations; ensuring a more flexible, efficient and lean structure. Our strategic alliance with the Trinidad and Tobago Mortgage Finance Company Limited (TTMF) developed further as we continue to leverage our strengths and share resources.

Looking ahead the Board remains committed to ensuring the continued sustainability and profitability of the Bank, whilst increasing shareholders' value. The Bank will continue to expand on its products and plans to reintroduce the Collateralized Mortgage Obligations (CMOs) to the local market in 2019.

In closing, I would like to welcome Mrs. Niala Persad-Poliah, Mr. Feyaad Khan and Mr. Richard Roper who joined the Board of Directors in 2018. Special thanks and well wishes to former directors: Mr. Walton Hilton-Clarke, Mr. Keston Nancoo and the late Mr. Ruthven A. Boyer Jaggassar. To my fellow directors, management, staff and customers, thank you for your continued commitment, dedication and support.

Ansel Howell
Chairman

4 Central Bank of Trinidad and Tobago, Economic Bulletin January 2019 and July 2018
5 Trinidad and Tobago Stock Exchange, Yearly Written Report for Year ending 31 December 2018
6 Trinidad and Tobago Stock Exchange, Yearly Written Report for Year ending 31 December 2018

Board Of Directors

Ansel Howell
Chairman

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

Marilyn Gordon
Deputy Chairman

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

Board Of Directors

Inez B. Sinanan
Director

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

Ermine De Bique Meade
Director

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

Board Of Directors

Suresh Dan
Director

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

Niala Persad-Poliah
Director

Niala Persad-Poliah is the Executive Director of the National Insurance Board of Trinidad and Tobago (NIBTT) and is the principal lead of operations and strategic direction of the organisation. She is charged with the responsibility for the execution of the decisions of the Board and implementation of policies, responsible for the overall accountability and management of the country's National Insurance Fund. Mrs. Persad-Poliah is an Attorney at Law by profession and also holds a Masters of Law (LL.M.) in Corporate and Commercial Law from the University of the West Indies. She possesses over twenty-one (21) years' experience as an Attorney-at-law and sixteen (16) years' experience at senior executive leadership and also currently serves as a member of the Board of Directors of the National Insurance Property Development Company Limited (NIPDEC) and the Trinidad and Tobago Mortgage Finance Company Limited (TTMF).

Board Of Directors

Richard Roper
Director

Mr. Roper served as a highly reliable bank professional, with an exceptional client service record and extraordinary depth in finance, mortgage and credit experience over almost four decades in the local banking industry. He possessed significant experience with financial management concepts to a wide variety of professional and non-professional audiences. He was also adept at working independently or as part of cross-disciplined teams with a strong desire to transfer experience and knowledge to state enterprises and young professionals through coaching. Mr. Roper holds a Certificate in Leadership Effectiveness, Teamworking and Teambuilding.

Feyaad A. Khan
Director

Mr. Feyaad Khan is an Actuary by profession. He is a Fellow of the Society of Actuaries, a Chartered Enterprise Risk Analyst and Graduate of the University of Waterloo. Mr. Khan serves on the Leadership Council of the Society of Actuaries' Social Insurance and Public Finance Section. Mr. Khan brings over fifteen (15) years of leadership experience from the Insurance and Banking Sectors and is currently the Chief Operating Officer at the National Insurance Board of Trinidad and Tobago (NIBTT). He is also a former part-time senior lecturer at the University of the West Indies and has spoken on financial and social security matters at several local and international forums. Mr. Khan is a past member of the Board of Directors of the National Insurance Property Development Company Limited (NIPDEC) and currently chairs the Asset, Liability and Risk Management Committee of Home Mortgage Bank.

Board Of Directors

Sylvan N. Wilson
Director

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

Directors' Report

The Directors have pleasure in submitting their Report and the Audited Consolidated Financial Statements for the year ended 31st December, 2018

FINANCIAL RESULTS

	$ 000's
Net Profit before taxation	573,649
Taxation	(13,549)
Net Profit for the year	560,100
Retained earnings at the beginning of the year	633,624
	1,193,724
Less :	
The transfer to mortgage risk reserve	(3,822)
Less:	
ECL Transition	(2,609)
Less :	
Dividends paid	(211,118)
Retained earnings at the end of the year	976,175

LIQUIDITY

The Bank continues to maintain a positive liquidity position to meet its current and future business needs, with a Cash & Cash equivalent figure of $29,6 million representing 0.9% of total assets at the end of financial year.

DIVIDENDS

Dividends of $13.19 per share was paid during the year (2017 – $1.96).

DIRECTORS' INTEREST

None of the Directors holds shares in the Bank.

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

AUDITORS

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

BY ORDER OF THE BOARD

Patricia Ilkhtchoui
Corporate Secretary

Management Discussion and Analysis

Brent Mc Fee
CEO (Ag.)

FINANCIAL PERFORMANCE

In 2017, Home Mortgage Bank (the Bank) executed a Memorandum of Understanding with Trinidad and Tobago Mortgage Finance Company Limited (TTMF) and embarked upon a restructuring and realignment exercise. This resulted in an exit from the primary mortgage market in 2018.

The Bank sold its equity portfolio and recorded a realized gain of $471 million. The sale was a one-off transaction and contributed to a total profit after tax of $560 million in 2018. For comparative purposes, the discussion and analysis commentary and the figures therein were adjusted to exclude this one-off gain on the sale of the equity portfolio.

The Bank recorded profit after tax of $88.9 million for the year ended December 31, 2018. This represents a year on year increase of 20% driven by strong growth in Net Interest Income and the recovery of an impairment on an asset held with CLICO Investment Bank Limited. For the year 2018 the Bank's Total Assets declined by 3.37% as a special dividend was paid to the shareholder on the sale of the equity portfolio.

Overall, for the year 2018 the Bank showed improved profitability as both Return on Assets (ROA) and Return on Equity (ROE) increased by 24%. ROA and ROE was measured at 2.8% and 8.6% respectively.

Disposal of the equity portfolio and increased purchases of the secondary mortgages were planned actions of the Bank's Strategic Plan.

MORTGAGE PORTFOLIO

The Bank successfully completed the restructuring of its mortgage operations, that resulted in the exit from the primary mortgage market in favour of commercial mortgage lending and secondary mortgages.

Throughout the entire process, the customers' experience was of paramount importance and every effort was made to ensure a smooth transition. The Bank upheld its commitment to all residential mortgage loan applicants in the pipeline at the point of transition. All primary mortgage applications in progress are expected to be fully disbursed in 2019.

Management Discussion and Analysis

The Bank financed two (2) land development projects that brought to the market seventy-nine (79) residential lots with all statutory approvals in place. Recently, approvals have been finalized for two (2) new projects which are expected to bring to market an additional ninety-six (96) residential lots and thirty-two (32) townhouses.

Additionally, the Bank purchased $904 million in secondary mortgages from the TTMF in 2018, which compares with $251 million in 2017.

INVESTMENTS AND FUNDING ACTIVITIES

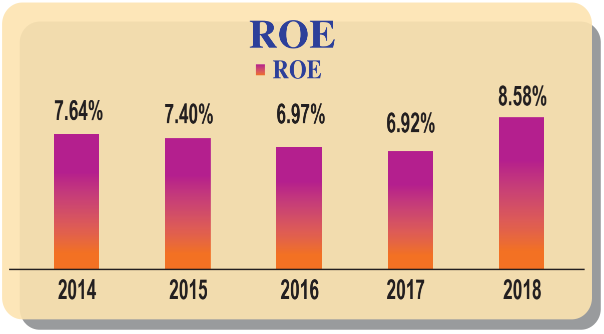
The local fixed income market showed significant depth in 2018 raising $12.9 billion via eighteen (18) issues according to the Central Bank Economic Bulletin (July 2018 & January 2019). The Bank successfully issued its 84th and 85th Bonds for a total value of $377 million. Over the year, varying structures were utilized to improve the bonds' marketability, ranging from floating and fixed rate arrangements to bullet and amortizing principal repayments. The Bank also exercised its provisions under the HMB Act to issue Tax-Exempt Bonds to investors requiring such tax benefits. The high level of investors' interest resulted in the bond being oversubscribed and demonstrated continued confidence in the Bank's capital market activities.

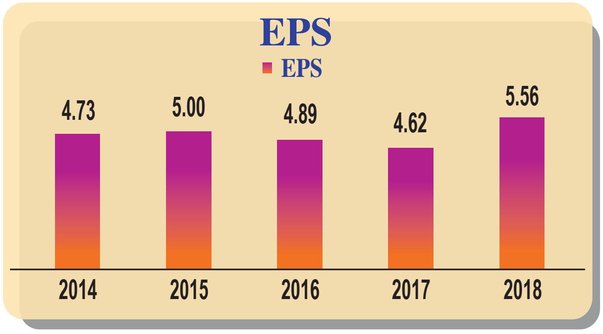
ASSET BACKED SECURITIES

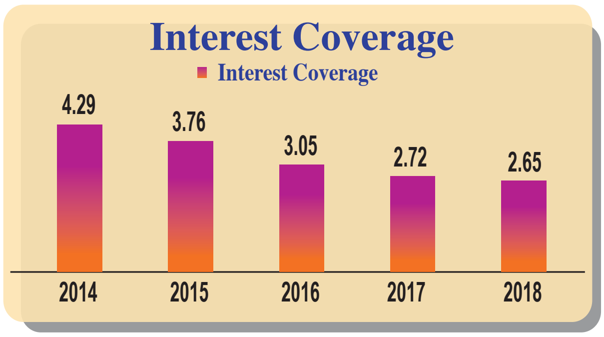
Asset backed securities represent a key funding source for the Bank. As at December 31, 2018 the MPF held $530M in assets under management. The Fund offered an interest rate of 1.50% to unitholders. The development and growth of mortgage backed securities have been identified as a strategic objective for the Bank. To meet this objective the Bank will be re-introducing Collateralized Mortgage Obligations (CMOs) to the local market in 2019.

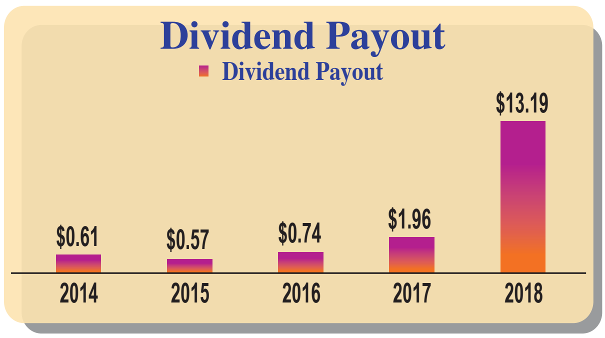
RISK MANAGEMENT

The Bank's Enterprise Risk Management (ERM) Framework was fully implemented in 2018. The process commenced in 2017, with the Board's approval of the ERM Policy, and continued in 2018 with an Enterprise Business Risk Assessment conducted by the management team.

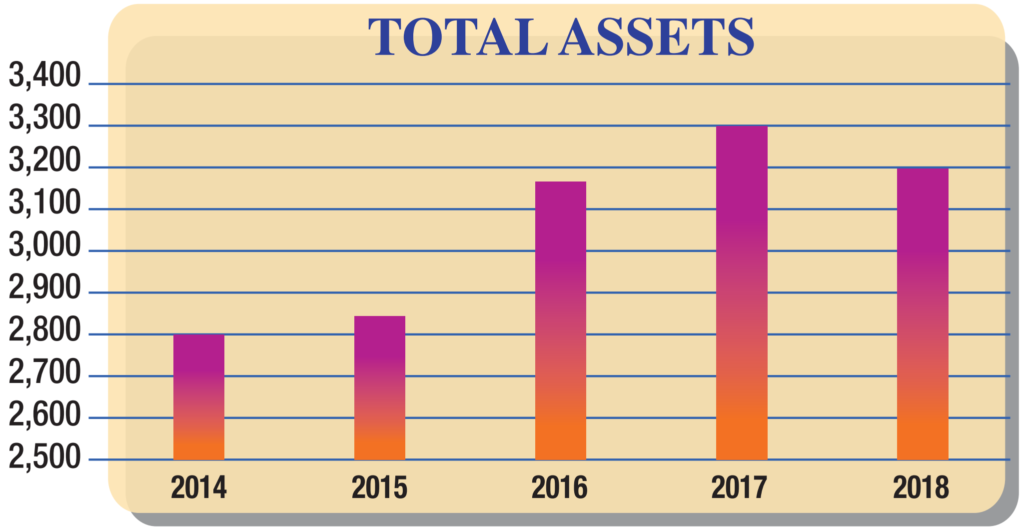








Management Discussion and Analysis



HUMAN RESOURCES

With the implementation of the 2017-2020 Strategic Plan and the realignment of business units, change management initiatives were executed to prepare employees for the transition to the new model. A skills assessment exercise was undertaken to leverage available skills, identify skill gaps and source necessary capabilities along with developmental programmes to close the gaps.

During the year, the Bank also supported the advancement of internal governance and accountability with the implementation of our Performance Management and Compensation Policies, creating a closer link between compensation and performance. The new performance management framework also allowed for a more structured approach to development initiatives and facilitated the alignment of training activities with organizational priorities for greater organizational efficiency.

Our Employee Satisfaction Survey identified several areas for creating a better workplace environment and action plans have been developed to assist in improving these areas. In 2018 the Bank's long service award function was held jointly with TTMF. This facilitated both companies in building closer relationships amongst employees. The aim is to create a workplace environment that nurtures employee development, satisfaction and productivity.

OUTLOOK

Looking ahead, 2019 will be another challenging year for the Bank, as we continue to implement the Strategic Plan 2017–2020. Our optimism remains high as we continually seek ways to improve our service and processes.

The Bank relocated its office to the National Insurance Board Trinidad and Tobago (NIBTT) Head Office, Second Floor, 14-19 Queen's Park East, Port-of-Spain, effective March 11th, 2019. This will improve our efficiency and effectiveness in serving our customers and stakeholders while continuously building shareholder's value.

Our Strategic Alliance with TTMF continues to mature as we build on developing synergies, levering our strengths and becoming a united force within the market.

In closing, I would like to thank the Board of Directors for their direction and support and the Management and staff for their commitment and dedication in continuously cultivating the growth of the Bank.

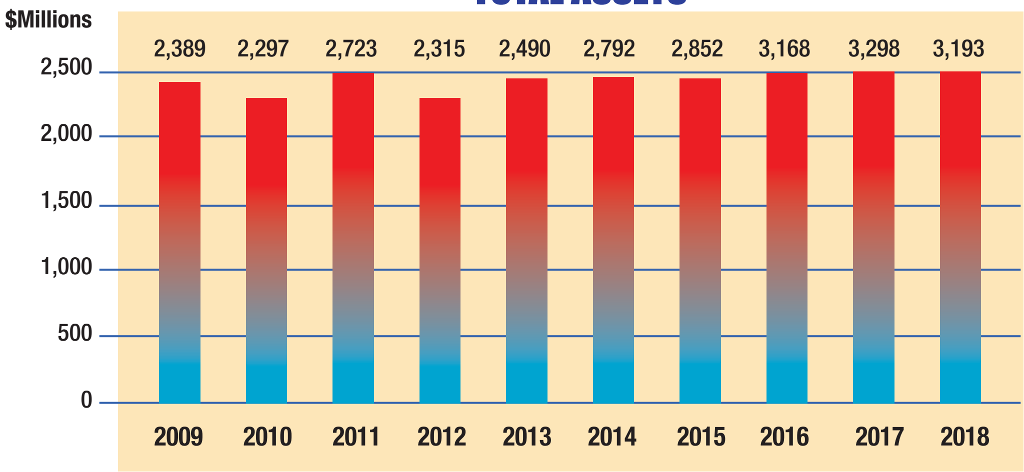
Brent Mc Fee
CEO (Ag.)

FIVE YEAR REVIEW

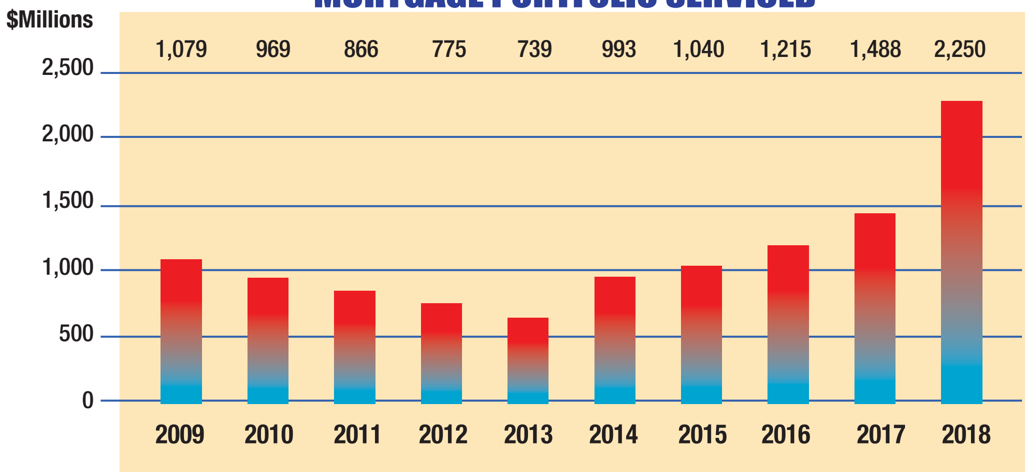
December 31st,	2018 $'000	Restated 2017 $'000	Restated 2016 $'000	Restated 2015 $'000	Restated 2014 $'000
Balance Sheet					
Loans & Advances	2,278,700	1,528,050	1,250,769	1,058,027	1,016,837
Investment Securities	791,340	1,680,611	1,822,138	1,700,059	1,681,974
Total Assets	3,192,623	3,298,311	3,167,853	2,852,408	2,792,427
Funding Liabilities	2,113,678	2,032,445	1,815,876	1,575,598	1,617,103
Total Liabilities	2,156,060	2,230,197	2,046,138	1,771,149	1,802,082
Share Capital	16,000	16,000	16,000	16,000	16,000
Retained Earnings	976,175	633,624	592,476	527,142	458,093
Income Statement					
Income	168,150	156,530	140,145	132,477	126,059
Profit before Taxation	102,514	84,149	83,579	86,119	83,257
Net Income	**88,965**	**73,869**	**78,202**	**80,020**	**75,650**
Operating Expenses	28,094	23,661	21,325	19,034	16,338
Earnings per share	$5.56	$4.62	$4.89	$5.00	$4.73

TEN YEAR REVIEW

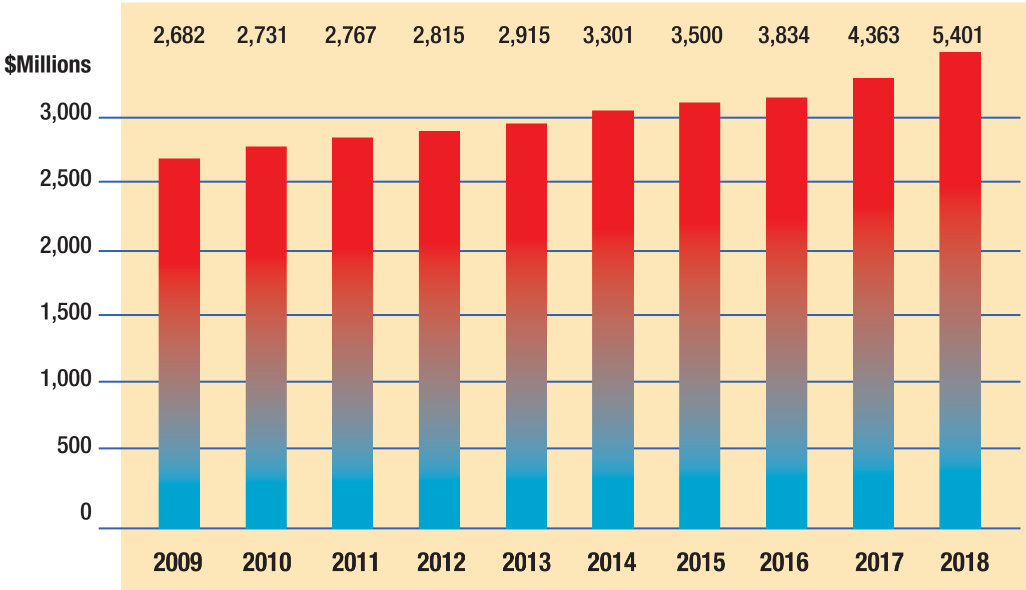
TOTAL ASSETS



MORTGAGE PORTFOLIO SERVICED

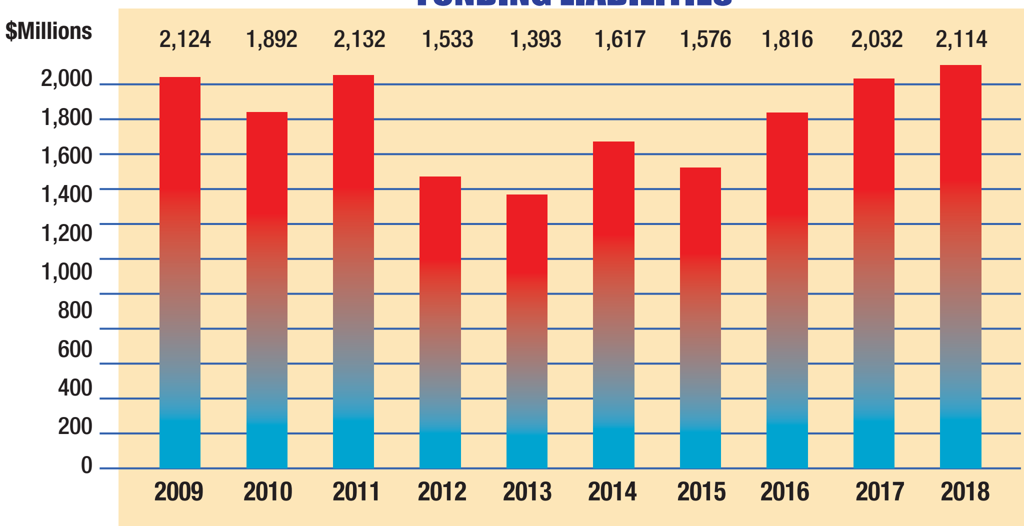


ACCUMULATED VALUE OF MORTGAGES PURCHASED

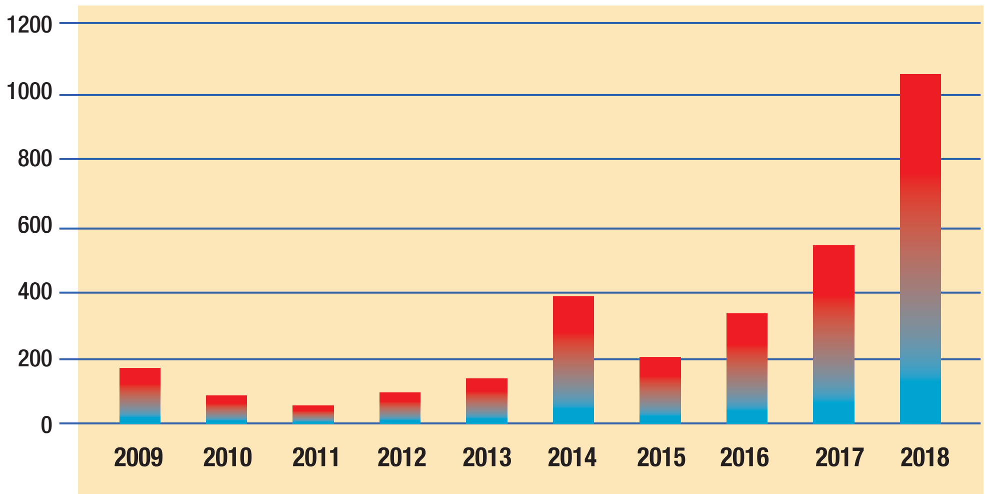


TEN YEAR REVIEW

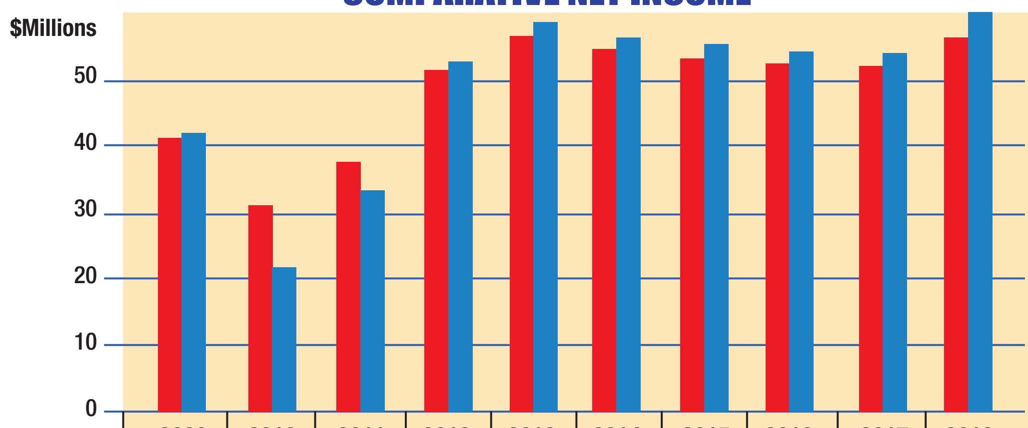
FUNDING LIABILITIES



MORTGAGES PURCHASED



COMPARATIVE NET INCOME



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
PROFIT BEFORE TAXATION	42	22	33	53	91	83	86	84	84	103
PROFIT AFTER TAXATION	41	31	37	52	80	76	80	78	74	89

Corporate Governance

CHANGES ON THE BOARD OF DIRECTORS

Resignations - Mr. Ruthven Jaggassar, one of the Ministry of Finance Representatives on the Board, resigned on January 15, 2018. Mr. Walton Hilton-Clarke, and Mr. Keston Nancoo appointed to the Board by the sole shareholder, The National Insurance Board of Trinidad and Tobago (NIBTT), resigned on April 09, 2018 and April 16, 2018, respectively.

Appointments - Mr. Richard Roper was appointed to the Board by the Honourable Minister of Finance, as one of the Ministry of Finance Representatives, effective March 21, 2018 in lieu of Mr. Jaggassar. Mrs Niala Persad-Poliah and Mr. Feyaad Khan were appointed to the Board by the sole shareholder, NIBTT, effective April 16, 2018 in lieu of Mr. Hilton-Clarke and Mr. Nancoo, respectively.

CHANGES IN MANAGEMENT

Mr. Rawle Ramlogan, Chief Executive Officer who proceeded on leave effective March 12, 2018, opted for early retirement effective April 30, 2018 and Mr. Mark Wight, Manager, Finance and Treasury was appointed as Acting CEO. Mr. Brent Mc Fee was subsequently appointed Acting CEO effective February 11, 2019.

MANAGEMENT

The Bank's management structure comprises:

- *Brent Mc Fee – Acting CEO effective February 11, 2019*
- *Mark Wight - Manager, Finance and Treasury*
- *Osmond Prevatt - Manager, Fund Management and Capital Markets*
- *Sita Mangal - Manager, Mortgages*
- *Indira Geeban - Manager, Risk Management*
- *Cheryl - Ann Neptune – Manager, Human Resources and Administration*
- *Patricia Ilkhtchoui - Corporate Secretary.*

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

BOARD-APPOINTED COMMITTEES

There are five (5) Board-appointed Committees, namely, the Audit Committee, the Human Resources and Remuneration Committee, the Asset, Liability and Risk Management Committee, the Tenders Committee and the Management Risk Committee.

Audit Committee

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

- *Inez Sinanan – Chairman*
- *Marilyn Gordon*
- *Suresh Dan*
- *Niala Persad-Poliah*

Human Resources and Remuneration Committee

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

- *Sylvan Wilson- Chairman*
- *Ermine De Bique-Meade*
- *Richard Roper*

Asset, Liability and Risk Management Committee

The Committee meets monthly, to review financial statements and disclosure matters, the system of internal control, risk management, compliance, credit and treasury. Members of the Committee are:

- *Feyaad Khan - Chairman*
- *Ansel Howell*
- *Sylvan Wilson*
- *Chief Executive Officer – Ex officio Member*

Corporate Governance

Tenders Committee

The Committee meets as required, to review, evaluate, and make recommendations on procurement of Specialized Professional Services and products, general services and/or the acquisition of assets for amounts in excess of TT$250,000 or as may be determined from time to time which must be recommended to the Board. Members of the Committee are:

- *Mr. Richard Roper – Chairman*
- *Mr. Suresh Dan*
- *Chief Executive Officer – Ex officio Member*

Management Risk Committee (A Management Committee)

The establishment of this Committee was approved by the Board, comprising all Managers of the Bank, and chaired by the Chief Executive Officer. The Committee which met monthly up to July 2018, subsequently met quarterly going forward, and is responsible for the establishment of an appropriate risk management framework for the effective identification, assessment and management of risk. The primary objective is to assist the Board in discharging it responsibilities to exercise due care, diligence and skill in relation to business operations and to advise on any matter of financial or regulatory significance. This Management Committee reports to the Audit Committee through the Manager, Risk Management.

Managers

Patricia Ilkhtchoui

Sita Mangal

Osmond Prevatt

Managers

Mark Wight

Indira Geeban

Cheryl-Ann Neptune

Team Members

Left to Right (standing): Usha Gajadhar, Kerilynn Phillip, Marc Trestrail & Avion Alves-Rollock

Left to Right (sitting): Israel Khan, Vishwadai Moonsammy Sunil Teeluck

Left to Right (Standing): Amichai Drayton, Andel Ramdath, Adwin Cox & Brent Bhagaloo

Left to Right (sitting):
Teemoi Chaitan, Vicki Bruce, Parbatie Chin Cheong

Left to Right (Standing):
Keishelle Strachan, Nigel Gibson, Gillian Torries, Natalie Hector

Left to Right (sitting):
Avian Harris-Khan, C. Allison John-Baptiste

Financial Statements

Statement of Management Responsibilities
HOME MORTGAGE BANK

Management is responsible for the following:

- Preparing and fairly presenting the accompanying consolidated financial statements of Home Mortgage Bank (the Bank) and its subsidiaries (collectively, the Group), which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information;

- Ensuring that the Group keeps proper accounting records;

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

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

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

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

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

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

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

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

Brent Mc Fee
Chief Executive Officer (Ag.)

Date: March 30, 2019

Mark Wight
Manager Finance & Treasury

Date: March 30, 2019

Independent Auditors' Report
To the Shareholders of Home Mortgage Bank

Opinion

We have audited the consolidated financial statements of Home Mortgage Bank ("the Bank") and its subsidiaries (collectively, the Group), which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Trinidad and Tobago, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 33 to the financial statements which describes the effects of the restatement of the mortgage participation fund balances in the statement of financial position. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of financial assets

Description of the key audit matter

Loans and advances to customers and, investment securities amounted to $2,278 million and $791 million, respectively. Determining the impairment allowances on these assets requires management judgement due to the credit risks associated with each individual loan and investment.

For the purpose of impairment assessment, significant judgement and assumptions, including the credit risks of customers and debt issuers, the timing and amount of receipt of cash flows from these loans and advances and investments, are required for the identification of impairment events, the determination of the impairment allowance and, thus, the valuation of loans and advances to customers and, investment securities.

We identified management's assessment of the impairment of loans and advances to customers and investment securities as a key audit matter because of the inherent uncertainty and management judgement involved in determining impairment allowances and because of its significance to the financial results of the Group.

How the matter was addressed in our audit

Our audit procedures to assess the impairment of loans and advances to customers and, the measurement of investment securities included the following:

- critically assessing the design, implementation and operating effectiveness of key internal controls over the approval, recording and monitoring of loans and advances to customers;
- corroborating the reliability of management information;
- comparing the recorded balances and descriptions for investment securities in the Group's accounting records to independent confirmations responses received;
- evaluating the validity of the models used and assumptions adopted in the Group's calculation of impairment allowance by critically assessing input parameters involving subjective judgement, seeking collaborative evidence from external sources and comparing the historical losses against the Group's other internal records; and
- determining whether the disclosures in the consolidated financial statements reflected the Group's exposure to credit risk with reference to the requirements of applicable accounting standards.

KPMG

Other Information

Management is responsible for the other information. Other information consists of the information included in the Group's Annual Report but does not include the consolidated financial statements and our auditors' report thereon. The Group's 2018 Annual Report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Group's 2018 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

KPMG

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

KPMG

Chartered Accountants
Port of Spain
Trinidad and Tobago
March 30, 2019

Consolidated Statement of Financial Position

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

	Notes	2018	Restated 2017
		$'000	$'000
ASSETS			
Cash and cash equivalents	8	29,611	12,242
Investment securities	9	791,340	1,680,611
Loans and advances to customers	10	2,278,700	1,528,050
Other assets	11	46,324	21,965
Capitalised bond issue costs	12	513	721
Investment property	13	35,176	43,481
Taxation recoverable		2,494	2,494
Deferred tax asset	15	5,073	5,746
Property and equipment	14	3,392	3,001
Total assets		3,192,623	3,298,311
EQUITY AND LIABILITIES			
EQUITY			
Stated capital	16	16,000	16,000
Retained earnings		976,175	633,624
Revaluation reserve	17	33,275	411,199
Mortgage risk reserve	18	11,113	7,291
Total equity		1,036,563	1,068,114
LIABILITIES			
Other liabilities	19	27,909	21,266
Liability to Fund Holders	22	531,931	588,209
Short-term borrowings	20	143,000	110,000
Debt securities	21	1,438,747	1,334,236
Deferred tax liability	15	14,473	176,486
Total liabilities		2,156,060	2,230,197
Total equity and liabilities		3,192,623	3,298,311

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

These consolidated financial statements have been approved for issue by the Board of Directors on March 22, 2019 and signed on its behalf by:

Director ______________________ Director ______________________

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

	Notes	2018 $'000	Restated 2017 $'000
Income			
Interest income calculated using the effective interest method	24	153,913	121,200
Interest expense	24	(11,127)	(5,737)
Net interest income	24	142,786	115,463
Dividend income		28,269	42,005
Fee income		942	2
		171,997	157,470
Expenditure			
General and administrative expenses	25	28,094	23,661
Loss on sale of investment property	26	3,847	940
Finance costs		61,927	49,021
Charge to provision for impairment of loans and advances to customers	10	2,897	639
Provision on investment property	13	1,604	-
ECL provision in investment securities	4	547	-
Reversal of provision for impairment of investment property	13	(3,847)	(940)
		95,069	73,321
Net Income from operations		76,928	84,149
Other Income			
Capital gains realized on equities	9	471,135	-
Provision adjustment CIB investment	9	25,586	-
Profit before taxation		573,649	84,149
Taxation	27	(13,549)	(10,280)
Profit for the year		560,100	73,869

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income *(continued)*

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

	Notes	2018 $'000	Restated 2017 $'000
Profit for the year		560,100	73,869
Other comprehensive Income for the year			
Items that will not be reclassified to profit or loss			
Investment securities at FVOCI – net change in fair value		(68,757)	-
Related tax	15	20,627	-
		48,130	-
Items that are or may be reclassified to profit or loss			
Available-for-sale investments – net change in fair value		-	(137,412)
Related tax	15	-	41,223
Other comprehensive loss for the year, net of tax		-	(96,189)
Total comprehensive income for the year		511,970	(23,320)
Basic and diluted earnings per share ($)		35.05	4.61
Number of shares ('000)	16	16,000	16,000

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

Consolidated Statement of Changes in Equity

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

	Notes	Stated Capital $'000	Retained Earnings $'000	Revaluation Reserve $'000	Mortgage Risk Reserve $'000	Total Equity $'000
Balance at December 31, 2017						
Balance at January 1, 2017		16,000	592,475	507,388	5,852	1,121,715
Transfer to mortgage risk reserve	18	-	(1,439)	-	1,439	-
		16,000	591,036	507,388	7,291	1,121,715
Total comprehensive income						
Profit for the year		-	73,869	-	-	73,869
Other comprehensive income for the year		-	-	(96,189)	-	(96,189)
Total comprehensive income for the year		-	73,869	(96,189)	-	(22,320)
Transaction with owners of the Bank, recognised directly in equity						
Dividends		-	(31,281)	-	-	(31,281)
Balance at December 31, 2017		16,000	633,624	411,199	7,291	1,068,114

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

Consolidated Statement of Changes in Equity *(continued)*

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

	Notes	Stated Capital $'000	Retained Earnings $'000	Revaluation Reserve $'000	Mortgage Risk Reserve $'000	Total Equity $'000
Balance at December 31, 2018						
Balance at January 1, 2018		16,000	633,624	411,199	7,291	1,068,114
Transfer to mortgage risk reserve	18	-	(3,822)	-	3,822	-
		16,000	629,802	411,199	11,113	1,068,114
Total comprehensive income						
Profit for the year		-	560,100	-	-	560,100
Adjustments deferred tax		-	-	141,341	-	141,341
Gains realized from reserves			-	(471,135)	-	(471,135)
ECL Transition			(2,609)	-	-	(2,609)
Other comprehensive income for the year		-	-	(48,130)	-	(48,130)
Total comprehensive income for the year		16,000	1,187,293	33,275	11,113	1,247,681
Transaction with owners of the Bank, recognised directly in equity						
Dividends		-	(211,118)	-	-	(211,118)
Balance at December 31, 2018		16,000	976,175	33,275	11,113	1,036,563

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

Consolidated Statement of Cash Flows

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

	Note	2018	2017
		$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		573,649	84,149
Adjustments for:			
Charge to provision for impairment of loans and advances		2,897	639
Impairment loss on lands for development		1,604	-
Impairment loss on Investment Securities		547	-
(Gain) Loss on property and equipment		(260)	4
Depreciation		982	851
Capitalised interest on managed funds		7,992	8,820
Capital gains realised on equities		(471,135)	-
Net premium recognized on investments		(9,844)	(9,982)
Bond issue costs amortised	12	280	157
Operating profit before working capital changes		106,712	84,638
Changes in:			
- Other assets		(24,359)	(3,596)
- Other liabilities		7,592	5,036
Corporation taxes paid		(13,868)	(6,322)
Net cash from operating activities		76,077	79,756
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Issuance of new mortgages and loans		(1,038,941)	(530,425)
Proceeds from repayment on mortgages and loans		282,786	252,504
Purchase of property and equipment		(1,420)	(591)
Proceeds from sale of property and equipment		308	-
Proceeds from sale of maturity investments		14,630	14,099
Sale of instruments		815,180	-
Proceeds from sale of property		6,700	2,700
Proceeds from managed funds		164,703	250,639
Repayment of managed funds		(228,974)	(318,996)
Net cash used in investing activities		14,972	(330,070)

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

Consolidated Statement of Cash Flows *(continued)*

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

	2018 $'000	2017 $'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	822,000	325,000
Repayment of short-term borrowings	(789,000)	(342,000)
Proceeds from bonds issued	377,705	350,000
Redemption of bonds	(273,194)	(56,894)
Dividends paid	(211,118)	(31,281)
Bond issue costs incurred	(73)	(669)
Net cash (used in) from financing activities	(73,680)	244,156
Net increase (decrease) in cash and cash equivalents	17,369	(6,158)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,242	18,400
CASH AND CASH EQUIVALENTS AT END OF YEAR	29,611	12,242
Represented by:		
Cash at bank and on hand	19,278	11,980
Short-term deposits	10,333	262
	29,611	12,242
Supplemental information:		
Income received during the year	96,804	70,978
Interest paid during the year	28,269	42,005
Dividend received	(50,413)	(35,317)
Dividend paid	(211,118)	(31,281)

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

Notes to the Consolidated Financial Statements

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

1. General Information

Home Mortgage Bank (the 'Bank' or 'Parent') is incorporated in the Republic of Trinidad and Tobago under the Home Mortgage Bank Act 1985 and the subsequent amendments made to the Act through Act No. 17 of 2005 (the 'Amended Act'). Its principal activities are the trading of mortgages made by primary mortgage lenders, direct mortgage lending and the issue of bonds for investment in housing.

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

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

The principal activity of these subsidiaries is real estate development.

The Bank also performs the Trustee and Management function for the Mortgage Participation Fund. The Bank pledges assets via Trust and also provides a guarantee to the Investors for the principal amounts invested together with any related distribution due to be paid.

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

These consolidated financial statements were approved for issue by the Board of Directors on March 22, 2019.

2. Basis of Preparation

(a) *Basis of accounting*

These consolidated financial statements have been prepared in accordance with IFRS.

This is the first set of the Group's annual financial statements in which IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in Note 2 (e).

Notes to the Consolidated Financial Statements

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

2. **Basis of Preparation** (continued)

(b) ***Basis of measurement***

The consolidated financial statements have been prepared on a historical cost basis, except for the following material items.

Items	Measurement basis
Financial instruments at FVTPL	Fair value
Financial assets at FVOCI (applicable from January 1, 2018)	Fair value
Available-for-sale financial assets (applicable before January1, 2018)	Fair value
Investment property	Fair value
Liabilities for cash-settled share-based payment arrangements	Fair value

(c) ***Functional and presentation currency***

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

(d) ***Use of estimates and judgements***

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

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

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

Notes to the Consolidated Financial Statements

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

2. **Basis of Preparation** (continued)

(e) ***Changes in accounting policies***

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

Due to the transition method chosen by the Group in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

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

The effect of initially applying these standards is mainly attributed to the following:
- an increase in impairment losses recognised on financial assets
- additional disclosures related to IFRS 9
- additional disclosures related to IFRS 15

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

(i) **IFRS 9, *Financial Instruments***

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, *Financial Instruments*: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1, *Presentation of Financial Statements*, which require separate presentation in the statement of profit or loss and OCI of interest revenue calculated using the effective interest method. Previously, the Group disclosed this amount in the notes to the financial statements.

Additionally, the Group has adopted consequential amendments to IFRS 7, *Financial Instruments*: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

Notes to the Consolidated Financial Statements

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

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

2. Basis of Preparation (continued)

(e) Changes in accounting policies (continued)

(ii) IFRS 9, *Financial Instruments*

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see Note 3.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

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

For an explanation of how the Group classifies financial liabilities under IFRS 9, see Note 3.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see Note 3.

Notes to the Consolidated Financial Statements

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

2. Basis of Preparation (continued)

(e) Changes in accounting policies (continued)

(i) IFRS 9, *Financial Instruments* (continued)

Classification of financial assets and financial liabilities (continued)

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The Group used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and OCI.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application;

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 3c.

Notes to the Consolidated Financial Statements

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

3. **Significant Accounting Policies**

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

(a) *Basis of consolidation*

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

(i) Subsidiaries

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

The Group acts as fund manager to an investment fund. Determining whether the Group controls such an investment fund focusses on the assessment of the aggregate economic interest of the Group in the fund (comprising any carried interests and expected management fees) and the Participants' rights to remove the fund manager. For this fund, the Participants ability to remove the Group as fund manager is very limited and, the Group's aggregate economic interest, which includes remuneration, is significant. As a result, the Group has concluded that it acts as principal, and therefore has consolidated the fund.

(ii) Loss of control

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

(iii) Transactions eliminated on consolidation

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

Notes to the Consolidated Financial Statements

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

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

(b) Foreign currency

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

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

(c) Financial instruments

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

(i) Recognition and initial measurement

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets – Policy applicable from January 1, 2018.

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

Notes to the Consolidated Financial Statements

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

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

(c) Financial instruments (i-viii are new) (continued)

(ii) Classification (continued)

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI – see Note 9. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Group's management;

Notes to the Consolidated Financial Statements

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

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

(c) ***Financial instruments (i-viii are new)*** (continued)

(ii) Classification (continued)

Business model assessment (continued)

- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

Notes to the Consolidated Financial Statements

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

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

(c) Financial instruments (i-viii are new) (continued)

(ii) Classification (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest (continued)

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Group holds a portfolio of long-term variable-rate mortgage loans for which the Group has the option to propose to revise the interest rate. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or repay the loan mortgage at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

(iii) Derecognition

Financial assets

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

Notes to the Consolidated Financial Statements

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

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

(c) ***Financial instruments (i-viii are new)*** (continued)

(iii) Derecognition (continued)

Financial assets (continued)

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From January 1, 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Group transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, or other residual interests (retained interests). Retained interests are recognised as investment securities and measured as explained Note 7. Before January 1, 2018, retained interests were primarily classified as held to maturity investment securities and measured at amortized cost.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Policy applicable from January 1, 2018

Financial assets

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

Notes to the Consolidated Financial Statements

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

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

(c) ***Financial instruments (i-viii are new)*** (continued)

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

Policy applicable from January 1, 2018

Financial assets (continued)

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Notes to the Consolidated Financial Statements

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

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

(c) Financial instruments (i-viii are new) (continued)

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

Policy applicable from January 1, 2018 (continued)

Financial liabilities

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

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Policy applicable before January 1, 2018

Financial assets

If the terms of a financial asset were modified, then the Group evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised (see (iii)) and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate (see (vii)).

Notes to the Consolidated Financial Statements

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

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

(c) ***Financial instruments (i-viii are new)*** (continued)

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

Policy applicable before January 1, 2018 (continued)

Financial liabilities

The Group derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v) *Offsetting*

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

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

(vi) *Fair value measurement*

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

Notes to the Consolidated Financial Statements

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

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

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

(vi) *Fair value measurement* (continued)

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

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

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

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

Notes to the Consolidated Financial Statements

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

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

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

(vi) *Fair value measurement* (continued)

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

(vii) *Impairment*

Policy applicable from January 1, 2018

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

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

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

Notes to the Consolidated Financial Statements

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

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

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

(vii) *Impairment* (continued)

Policy applicable from January 1, 2018 (continued)

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see (iv)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Notes to the Consolidated Financial Statements

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

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

(c) Financial instruments (continued)

(vii) Impairment (continued)

Policy applicable from January 1, 2018 (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

Notes to the Consolidated Financial Statements

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

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

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

(vii) Impairment (continued)

Policy applicable from January 1, 2018 (continued)

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Notes to the Consolidated Financial Statements

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

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

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

(vii) Impairment (continued)

Policy applicable from January 1, 2018 (continued)

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policy applicable before January 1, 2018

Objective evidence of impairment

At each reporting date, the Group assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

In addition, a retail loan that was overdue for 90 days or more was considered impaired.

Notes to the Consolidated Financial Statements

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

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

(c) ***Financial instruments (i-viii are new)*** (continued)

(vii) Impairment (continued)

Policy applicable before January 1, 2018 (continued)

Objective evidence that financial assets were impaired included:

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

A loan that was renegotiated due to a deterioration in the borrower's condition was usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment.

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

The Group considered evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified (IBNR). Loans and advances and held-to-maturity investment securities that were not individually significant were collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar credit risk characteristics.

Notes to the Consolidated Financial Statements

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

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

(c) ***Financial instruments (i-viii are new)*** (continued)

(vii) *Impairment* (continued)

Policy applicable before January 1, 2018 (continued)

In making an assessment of whether an investment in sovereign debt was impaired, the Group considered the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This included an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there was the capacity to fulfil the required criteria.

Individual or collective assessment

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the Credit Risk function.

The collective allowance for groups of homogeneous loans was established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were regularly benchmarked against actual loss experience.

Notes to the Consolidated Financial Statements

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

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

   (c) Financial instruments (i-viii are new) (continued)

   (vii) Impairment (continued)

   Policy applicable before January 1, 2018 (continued)

   Individual or collective assessment (continued)

   The IBNR allowance covered credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there was objective evidence to suggest that they contained impaired items but the individual impaired items could not yet be identified.

   In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance.

   Loans that were subject to a collective IBNR provision were not considered impaired.

   Measurement of impairment

   Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.

   Reversal of impairment

   - *For assets measured at amortised cost:* If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.
   - *For available-for-sale debt security:* If, in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through OCI.

   Any subsequent recovery in the fair value of an impaired available-for-sale equity security was always recognised in OCI.

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

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

(c) Financial instruments (i-viii are new) (continued)

(vii) Impairment (continued)

Policy applicable before January 1, 2018 (continued)

Presentation

Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

Impairment losses on available-for-sale investment securities were recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that was reclassified from equity to profit or loss was the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to the application of the effective interest method were reflected as a component of interest income.

Write-off

The Group wrote off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Group Credit determined that there was no realistic prospect of recovery.

(viii) Designation at fair value through profit or loss

Financial assets

At initial recognition, the Group has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Before January 1, 2018, the Group also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

Notes to the Consolidated Financial Statements

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

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

(c) Financial instruments (i-viii are new) (continued)

(viii) Impairment (continued)

Policy applicable before January 1, 2018 (continued)

Financial liabilities

The Group has designated certain financial liabilities as at FVTPL in either of the following circumstances:

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

Note 3(u) sets out the amount of each class of financial asset or financial liability that has been designated as at FVTPL. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

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

These represent beneficial interests in pools of mortgages held in trust by the Group. The pools of mortgages are included in Loans and Advances while the liability to the Investors are separately disclosed on the face of the Statement of Financial Position.

For Gareemics, the Group guarantees the timely payment of principal and interest on the underlying mortgages, whether or not received, together with the full principal balance of any foreclosed mortgages. (Refer to Notes 10 and 22).

For MPF, the investors earn a stated rate of return (variable) and there are no repayments of capital until investors elect to redeem their investments in part or in full. (Refer to Notes 10 and 22).

Notes to the Consolidated Financial Statements

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

3. Significant Accounting Policies (continued)

(e) Cash and cash equivalents

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

(f) Property and equipment

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

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

The rates used are as follows:

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

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

(g) Investment property

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

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

Notes to the Consolidated Financial Statements

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

3. Significant Accounting Policies (continued)

(g) Investment property (continued)

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

(h) Impairment of non-financial assets

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

(i) Debt securities

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

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

(j) Capitalised bond issue costs

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

Notes to the Consolidated Financial Statements

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

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

(k) Employee benefits

The Group operates a defined contribution pension plan, which covers all of its eligible employees. The Group's contribution expense in relation to this plan for the year amounts to $4,966,057 (2017: $838,418).

(l) Other assets and liabilities

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

(m) Revenue recognition

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

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

Other fee and commission income, including investment management fees, is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of the loan. Then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

(n) Taxation

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

Notes to the Consolidated Financial Statements

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

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

(n) Taxation (continued)

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

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

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

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

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

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

(o) Earnings per share

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

(p) Dividends

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

Notes to the Consolidated Financial Statements

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

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

(q) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2018 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have an impact on the Group's consolidated financial statements in the period of initial application.

A. IFRS 16 Leases

The Group is required to adopt IFRS 16 Leases from January 1, 2019. The Group has assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements, as described below.

The actual impact of adopting the standard on January 1, 2019 may change because:

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases Incentives and SIC 27 Evaluating the

Substance of Transactions Involving the Legal Form of a Lease.

(i) Leases in which the Group is a lessee

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Group's lease portfolio, the Group's assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

Notes to the Consolidated Financial Statements

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

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

(q) Standards issued but not yet effective (continued)

A. IFRS 16 Leases (continued)

(i) Leases in which the Group is a lessee (continued)

The Group will recognise new assets for its operating leases of the office premises. The nature of expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Group is assessing the impact of implementing IFRS 16 on its 2019 financial statements.

(ii) Transition

The Group plans to apply IFRS 16 initially on January 1, 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

B. Other standards

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to References to Conceptual Framework in IFRS Standards
- FRS 17 Insurance Contracts.

Notes to the Consolidated Financial Statements

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

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

(r) Contingency for mortgage risks reserve

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

4. **Risk Management**

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

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

Risk management structure

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

Board of Directors

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

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

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

  (a) Define, measure, identify and report on credit, market, liquidity, counterparty and operational risk; and
  (b) Establish and communicate risk management controls throughout the Group.

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

4. **Risk Management** (continued)

Board of Directors (continued)

- Ensuring that the Group has implemented an effective ongoing process to identify risk, to measure its potential impact against a broad set of assumptions and then to activate what is necessary to pro-actively manage these risks, and to decide the Group's appetite or tolerance for risks.
- Reviewing management reports detailing the adequacy and overall effectiveness of risk management, its implementation by management, reports on internal control and any recommendations and confirm that appropriate action has been taken.
- Providing an independent and objective oversight and view of the information presented by management on corporate accountability and specifically associated risk.
- Keep the Board informed on risk exposures and risk management activities through the submission of periodic reports from management.

Treasury

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

Risk measurement and reporting systems

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

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

Excessive risk concentration

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

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

4. Risk Management (continued)

Credit risk

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

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

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

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

	Gross Maximum Exposure	
	2018	**2017**
	$'000	**$'000**
Cash and cash equivalents	29,611	12,242
Investment securities	791,340	1,680,611
Gross mortgage portfolio	2,250,388	1,488,371
Construction advances	37,035	42,898
Other assets	46,324	21,965
Total gross financial assets	3,154,698	3,246,087
Mortgage commitments	90,056	36,799
Total credit risk exposure	3,244,754	3,282,886

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

4. Risk Management (continued)

Collateral and other credit enhancements

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

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

Management monitors the market value of collateral at the point of granting the mortgage commitment and during its review of the adequacy of the allowance for impairment losses.

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

Credit quality per class of financial assets

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

- Loans and advances to customers
- Investment securities.

Loans and advances to customers

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

Investment securities

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

Notes to the Consolidated Financial Statements

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

4. Risk Management (continued)

Credit quality per class of financial assets

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

- 97.4% of the loans and advances to customers' portfolio is categorised in the first two stages of the grading system (2017: 97.4%);
- Loans and advances to customers, which represent 71% (2017: 46%) of financial assets, are backed by collateral.

Credit quality analysis

	Loans and Advances to Customers				
	2018				2017
	*Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000	Total $'000
Past due but not impaired					
30-60 days	262,399	1,142	90	263,631	194,749
60-90 days	1,275	47,394	221	48,890	36,397
90-180 days	2,834	62	22,411	25,307	15816
180 days +	820	286	11,891	12,997	7,077
Carrying amount	267,328	48,884	34,613	350,825	254,039
Individually impaired	739,353	36,150	27,246	802,749	17,128
Allowance for impairment	(1,340)	(961)	(6,422)	(8,723)	(3,219)
Carrying amount	738,013	35,189	20,824	794,026	13,909
Neither past due nor impaired					
Carrying amount	1,118,292	15,023	534	1,133,849	1,260,102
Total carrying amount	2,123,633	99,096	55,971	2,278,700	1,528,050

*Description of Stages:

Stage 1 - Performing
Stage 2 - Performing or Non-Performing
Stage 3 - Non-Performing

Notes to the Consolidated Financial Statements

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

4. Risk Management (continued)

Credit quality per class of financial assets (continued)

	Investment Securities 2018				2017
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000	Total $'000
Individually impaired	295,638	437,050	-	732,688	48,638
Allowance for impairment	(133)	(414)	-	(547)	(48,638)
Carrying amount	295,505	436,636	-	732,141	-
Neither past due nor impaired					
Carrying amount	59,199	-	-	59,199	1,680,611
Total carrying amount	354,704	436,636	-	791,340	1,680,611

Inputs, assumptions and techniques used for estimating impairment under the ECL model

Overview of measurement of the ECL

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

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

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

Significant increase in credit risk

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

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

4. Risk Management (continued)

Inputs, assumptions and techniques used for estimating impairment under the ECL model (continued)

Significant increase in credit risk (continued)

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

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

- The Group uses three criteria for determining whether there has been a significant increase in credit risk:
  - quantitative test based on movement in PD;
  - qualitative indicators; and
  - a backstop of 90 days past due

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting date. Significant increase in credit risk (SICR) is introduced in IFRS 9 to determine whether a financial instrument needs to be moved from Stage 1 to Stage 2 to recognize lifetime ECL.

Since information that is more forward-looking than past due status is not available without undue cost or effort, the Group decided to use past due information along with a loan watch list to determine whether there have been significant increases in credit risk since initial recognition.

Based on the delinquency buckets and IFRS 9 Standard's 30 day rebuttable presumption, accounts in delinquency bucket (> 30 DPD and <= 90 DPD) are classified into Stage 2 and subject to lifetime ECL calculation. Based on the Bank's default definition as well as the 90 day rebuttable presumption, accounts in delinquency bucket (> 90 DPD) are classified as Stage 3 and subject to lifetime ECL calculation. Accounts that are not in arrears or have a DPD <= 30 remain as Stage 1 accounts and subject to 12 month ECL calculation.

Notes to the Consolidated Financial Statements

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

4. **Risk Management** (continued)

Inputs, assumptions and techniques used for estimating impairment under the ECL model (continued)

Significant increase in credit risk (continued)

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

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

Credit risk assessment

The Group allocates each exposure by conducting a credit assessment based on the payment history and independent credit check of the customer. Credit risk assessments involve a review of the customer's economic position and debt ratios.

When payment defaults, credit risk increases exponentially. For example, the difference in risk of default between 30 to 60 days is smaller than the difference between 60 to 90 days.

Period	**12-month Weighted-average PD**
30-60 days	3.2%
60-90 days	2.9%
90-180 days	3.1%
180 days +	3.3%

Notes to the Consolidated Financial Statements

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

4. **Risk Management** (continued)

Inputs, assumptions and techniques used for estimating impairment under the ECL model (continued)

Generating the term structure of PD

In the case of loans and advances, the Group has adopted a PD estimation model based on a vintage analysis and then forecasting the PD term structure based on fitting a Weibull distribution. The credit risk structure of the portfolio was segmented using the regional corporations.

Default rates are calculated as the number of observed defaults over the total number of loans originated in each vintage for each year following the loan origination. The final segment level average default rates per year after origination is calculated as an arithmetic average over all vintages.

The definition of default for the investment portfolio is aligned with the definition of default provided by S&P, which identifies a default used when payments on an obligation are not made on the date due. All investments are rated externally by a rating agency (S&P). The Group uses the PD based on the year of the investment.

Definition of default

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

1. A loan is greater than 90 days past due.
   Given that the 90 DPD is the backstop, the Group considers this quantitative definition of default to be appropriate under IFRS 9. The Group considers it's definition of default to be in line with the IFRS 9 standard and appropriate for identifying Stage 3 loans.

   In assessing whether a borrower is in default, the Group considers indicators that are:
   - qualitative: e.g. breaches of covenant;
   - quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
   - based on data developed internally and obtained from external sources.

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

   The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

Notes to the Consolidated Financial Statements

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

4. Risk Management (continued)

Inputs, assumptions and techniques used for estimating impairment under the ECL model (continued)

Loss given default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

Exposure at default (EAD)

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

The EAD has been calculated using different formulas depending on the stage and when the loan matures.

For Stage 3 loans, or if the loan is maturing in the 12 months following the reporting date, outstanding balance is used for EAD.

For all other amortizing loans, the EAD is calculated over a time horizon by yearly intervals.

EAD is calculated for year 1 for Stage 1 and 3 loans, and for the lifetime of the loan for Stage 2.

Notes to the Consolidated Financial Statements

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

4. **Risk Management** (continued)

Inputs, assumptions and techniques used for estimating impairment under the ECL model (continued)

Exposure at default (continued)

For Stage 3 loans, or those maturing in the next 12 months, the outstanding balance is appropriately assigned as EAD. In addition, the Bank has considered loans where an amortization schedule applies and therefore appropriately projects an EAD term structure which allows lifetime ECL to be calculated over yearly contributions, thus improving the granularity of the overall ECL estimate under IFRS 9.

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

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

- instrument type;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

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

Incorporation of forward-looking information

The Forward Looking information (FLF) model provides methodologies to adjust the ECL numbers to incorporate forward looking macroeconomic information. The forward looking factor is applied to ECL calculation as a constant.

Notes to the Consolidated Financial Statements

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

4. Risk Management (continued)

Inputs, assumptions and techniques used for estimating impairment under the ECL model (continued)

Incorporation of forward-looking information (continued)

The FLF input is determined based on model developer's forecasts of multiple forward looking information and economic scenarios (base, optimistic, and pessimistic) and their estimated impacts to Group's ECLs.

The Group assigns weightings to macroeconomic factors to indicate relative significance of each factor to the FLF segment. The macroeconomic forecast under three scenarios are determined by the Group based on management judgement. Two macroeconomic variables have been used for the forward looking indicator model development, namely, GDP and the unemployment rate.

The economic expectation is that an increase in unemployment rate will increase the ECL and GDP growth will decrease the ECL.

Each macroeconomic factor forecast is graded as being in positive, stable or negative state. A multiplier is assigned to each of the three states to indicate the impact on the Group's ECL. The positive state will have an FLF less than 1, decreasing the total ECL number, and the negative state will have a FLF greater than 1, increasing the total ECL number. The multiplier of each state is shown in the following table.

State	Multiplier
Positive	0.75
Stable	1.0
Negative	1.75

The Exposure at Default (EAD) has been calculated using different formulas depending on the stage and when the loan matures.

For Stage 3 loans, or if the loan is maturing in the 12 months following the reporting date, outstanding balance is used for EAD. EAD is calculated for year 1 for Stage 1 and 3 loans, and for the lifetime of the loan for Stage 2.

For Stage 3 loans, or those maturing in the next 12 months, the outstanding balance is appropriately assigned as EAD. In addition, the Group has considered loans where an

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

amortization schedule applies and therefore appropriately projects an EAD term structure which allows lifetime ECL to be calculated over yearly contributions, thus improving the granularity of the overall ECL estimate under IFRS 9.

4. Risk Management (continued)

Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Modified financial assets

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

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

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

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

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

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Credit Committee regularly reviews reports on forbearance activities.

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

Notes to the Consolidated Financial Statements

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

4. **Risk Management** (continued)

Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Modified financial assets (continued)

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

Liquidity risk and funding management

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

The table below summaries the maturity profile of the Group's financial assets and liabilities at December 31, 2018 based on contractual undiscounted repayment obligations, over the remaining life of those assets and liabilities. These balances include interest to be paid over the remaining life of the instruments and will therefore be greater than the carrying amounts on the statement of financial position.

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

4. Risk Management (continued)

Liquidity risk and funding management (continued)

	2018			
	Within 1 Year $'000	**2-5 Years $'000**	**Over 5 Years $'000**	**Total $'000**
Financial assets				
Cash and cash equivalents	29,611	-	-	29,611
Investments securities	94,892	247,508	592,366	934,765
Other assets	46,321	-	-	46,321
Loans and advances to customers	302,546	1,137,012	1,529,354	2,968,912
Total financial assets	473,371	1,384,520	2,121,720	3,979,610
Financial liabilities				
Mortgage participation fund	537,069	-	-	538,069
Collaterised mortgage obligation	1,814	-	-	1,814
Short-term borrowings	146,933	-	-	146,933
Debt securities	112,889	1,159,262	364,792	1,636,943
Total undiscounted financial liabilities	799,705	1,159,262	364,792	2,323,758
Net gap	(326,334)	(225,258)	1,756,928	1,655,852
Cumulative gap	(326,334)	(101,076)	1,655,852	-

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

4. Risk Management (continued)

Liquidity risk and funding management (continued)

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

	On Demand $'000	Less Than 3 Months $'000	3-12 Months $'000	1-5 Years $'000	Over 5 Years $'000	Total $'000
2018						
Commitments	-	8,846	81,210	-	-	90,056
2017						
Commitments	-	36,799	-	-	-	36,799

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

Notes to the Consolidated Financial Statements

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

4. **Risk Management** (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices such as interest rate risk and other price risk trading portfolios. The Group has no exposure to currency risk as all financial instruments are denominated in Trinidad and Tobago dollars.

Equity price risk

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

The effect on equity will arise as a result of changes in the fair value of equity instruments categorised as FVOCI.

The effect on equity and income at December 31, 2018 due to a reasonably possible change in equity indices of +/- 5% with all other variables held constant will have an impact on equity of +/- $2.96million (2017: $47.09 million).

Interest rate risk

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

(a) Financial assets

Loans and advances to customers

The Group has the ability to vary interest rates on its variable rate portfolios by giving three to six months notice to mortgagors. The variable rate portfolios account for 83.3% of the total gross mortgage portfolio as at December 31, 2018 (2017: 88.7%).

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

Notes to the Consolidated Financial Statements

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

4. **Risk Management** (continued)

(b) *Financial liabilities*

Bonds in issue

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

Collateralised Investments

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

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

	Variable Rate 2018 $'000	Fixed Rate 2018 $'000	Total 2018 $'000	Variable Rate 2017 $'000	Fixed Rate 2017 $'000	Total 2017 $'000
Loans and advances to customers	2,174,773	112,655	2,287,428	1,357,762	173,519	1,531,281
Percentage of total loans and advances to customers	95.1%	4.9%	100.0%	88.7%	11.3%	100.0%
Bonds in issue	1,188,747	250,000	1,438,747	867,936	466,300	1,334,236
Percentage of total bonds in issue	82.6%	17.4%	100.0%	65.1%	34.9%	100.0%

Notes to the Consolidated Financial Statements

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

4. **Risk Management** (continued)

Interest rate risk (continued)

(b) Financial liabilities

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

	Within 1 Year $'000	1-3 Years $'000	3-5 Years $'000	5-7 Years $'000	7-10 Years $'000	Total $'000
2018						
Loans and advances to customers	102,593	7,669	-	592	1,800	112,655
Percentage of total fixed loans and advances to customers	91.1%	6.8%	0.0%	0.5%	1.6%	100.0%
2017						
Loans and advances to customers	128,945	39,981	522	-	4,071	173,519
Percentage of total fixed loans and advances to customers	74.3%	23.0%	0.3%	0%	2.3%	100.0%

Sensitivity analysis

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

However it should be noted that the majority of the Group's financial assets are held in loans and advances to mortgagers. Variable rate mortgages account for 83.3% (2017: 88.7%) of the mortgage pool which gives the Group the ability to change interest rates if needed, within a short time frame.

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

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

Notes to the Consolidated Financial Statements

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

4. **Risk Management** (continued)

Interest rate risk (continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

5. **Capital Management**

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

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

6. **Use of Critical Estimates and Judgements**

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

(a) Key sources of estimation uncertainty

Allowances for credit losses

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

Notes to the Consolidated Financial Statements

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

6. **Use of Critical Estimates and Judgements** (continued)

(a) *Key sources of estimation uncertainty* (continued)

Allowances for credit losses (continued)

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

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

(1) Impairment of financial assets

Management makes judgements at each reporting period to determine whether financial assets are impaired. Financial assets are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

(2) Property development

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

(3) Deferred tax assets

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

(4) Determining fair values

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

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

7. Fair Value of Financial Instruments

The fair value of financial assets and liabilities that are traded in active markets are based on quoted market prices or dealer quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

(a) Valuation models

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

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

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

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

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Notes to the Consolidated Financial Statements

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

7. Fair Value of Financial Instruments (continued)

(b) Financial instruments measured at fair value

	2018			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial assets				
Investment securities	655,688	77,000	-	732,688
Equity securities	59,199	-	-	59,199

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

Transfers between and movement in Levels

For the year ended December 31, 2018 there were no transfers of assets between and movement in Levels.

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

7. Fair Value of Financial Instruments (continued)

(c) Financial instruments not measured at fair value

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

	Level 1	Level 2	Level 3	Fair Value	Total Carrying Amount
	$'000	$'000	$'000	$'000	$'000
As at December 31, 2018					
Assets					
Loans and advances to customers	-	-	2,282,039	2,282,039	2,282,039
Liabilities					
Debt securities	1,029,635	410,066	-	1,439,701	1,438,747
Short-term borrowings		143,000	-	143,000	143,000
Mortgage Participation Fund	530,117	-	-	530,117	530,117
Collateral mortgage obligation	-	1,814	-	1,814	1,814

Notes to the Consolidated Financial Statements

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

7. Fair Value of Financial Instruments (continued)

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

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

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

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

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

	2018 $'000	2017 $'000
8. Cash and Cash Equivalents		
Cash and cash equivalents comprise:		
Cash at bank and on hand	19,278	11,980
Short-term deposits	10,333	262
Total cash and cash equivalents	29,611	12,242

The average effective interest rate on cash and short-term deposits is 0.32% (2017: 0.02%).

	2018 $'000	2017 $'000
9. Investment Securities		
Investment securities measured at FVOCI – debt instruments	732,141	-
Investment securities designated as at FVOCI – equity investments	59,199	-
Held-to-maturity investment securities	-	738,757
Available-for-sale investment securities	-	941,853
	791,340	1,680,611
Debt investment securities measured at FVOCI		
State-owned company securities	490,031	-
Government securities	242,657	-
Expected Credit Loss on debt securities	(547)	-
	732,141	-
Equity investment securities designated as at FVOCI		
Investment in Jamaica Money Market Brokers	59,199	-
	59,199	-

Sale of Investments measured at FVOCI

In the year 2018 the Bank transferred investment securities to the NIBTT in the amount of $815M as part of a strategic arrangement between both parties. The sale resulted in a realized gain of $471M to profit and loss. This is a one-off transaction.

The average effective interest rate on investment securities for the year is 4.22% (2017: 4.21%).

Notes to the Consolidated Financial Statements

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

	2018 $'000	2017 $'000
9. Investment Securities (continued)		
Provision for impairment on other securities	547	48,638

On January 30, 2009, the Central Bank of Trinidad and Tobago ('CBTT') intervened in the operations of Clico Investment Bank Limited ('CIB') and took control of that entity under Section 44D of Central Bank Act Chap. 72:02. The Bank held funds totalling $48.6 million with CIB as at the date of the intervention. In the year 2018, two payments were made in relation to these outstanding balances, (1) April 30th, 0.50 cents per dollar representing $24.3M principal repayment and $3.9M accrued interest, (2) December 11, 0.026 cents per dollar representing $1.2M principal repayment and $197K accrued interest.

As at December 31, 2018, the remain provision allowance has been written off as no additional payment are expected.

	2018 $'000	2017 $'000
10. Loans and Advances to Customers		
Loans retained	1,746,769	939,841
Mortgages held in trust (Note 22)	531,931	588,209
Total loans administered	2,278,700	1,528,050

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

	2018 $'000	2017 $'000
Retained mortgage loans (a)	1,709,734	896,943
Construction loan advances (b)	37,035	42,898
	1,746,769	939,841

Notes to the Consolidated Financial Statements

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

10. Loans and Advances to Customers (continued)

(a) *Retained mortgage loans*

	2018 $'000	2017 $'000
Principal balances and unamortised discounts:		
Total loans administered at January 1	1,488,369	1,214,609
New mortgages/transfers from construction loan advances	1,042,552	523,328
Principal repayments	(280,533)	(249,568)
	2,250,388	1,488,369
Specific provision for impaired loans	(8,723)	(3,217)
Total loans administered at December 31	2,241,665	1,485,152
Mortgages held in trust (Note 22)		
- Guaranteed Mortgage Investment Certificates	(1,814)	(2,498)
- Mortgage Participation Fund	(530,117)	(585,711)
	(531,931)	(588,209)
Retained mortgage loans	1,709,734	896,943
Represented by:		
Mortgages with recourse	2,537	3,711
Mortgages without recourse	1,707,197	893,232
Balance at December 31	1,709,734	896,943
Specific provision for impaired loans:		
Balance at January 1	3,217	2,578
ECL Transition	2,609	-
Charge for the year	2,897	639
Balance at December 31	8,723	3,217

The average effective interest rate on the retained mortgage portfolio is 6.22% (2017: 6.12%).

Notes to the Consolidated Financial Statements

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

	2018 $'000	2017 $'000
10. Loans and Advances to Customers (continued)		
(b) Construction loan advances		
Balance at January 1	42,899	38,738
New advances	22,443	33,229
Repayments	(2,253)	(2,937)
Advances converted to mortgages	(26,054)	(26,132)
Balance at December 31	37,035	42,898

The average effective interest rate on Construction loan advances is 6.44% (2017: 5.05%).

	2018 $'000	2017 $'000
11. Other Assets		
Interest receivable on investment securities	5,832	5,991
Advance receipt on bond issued	4,008	3,060
Sundry debtors	2,346	1,917
Mortgage remittance receivable	34,138	10,997
	46,324	21,965

	2018 $'000	2017 $'000
12. Capitalised Bond Issue Costs		
Balance at January 1	720	209
Costs incurred during the year	73	669
	793	878
Costs amortised during the year	(280)	(157)
Balance at December 31	513	721

Notes to the Consolidated Financial Statements

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

	2018 $'000	2017 $'000
13. Investment Property		
Tobago Villas		
Balance at January 1	38,625	42,265
Cost of units sold (Note 26)	(10,548)	(3,640)
	28,077	38,625
Provision for impairment	(11,777)	(14,020)
Balance at December 31	16,300	24,605
Other real estate holding	18,876	18,876
	35,176	43,481
Provision for impairment:		
Balance at January 1	14,020	14,960
Charge for the year	1,604	-
Provisions reversed during the year	(3,847)	(940)
Balance at December 31	11,777	14,020

Tobago Villas

During the year 2018 3 villa units were sold. After considering the results of the valuation of Investment Property which was carried out in June 2018, and based on the acceptance of the sales price offered, management concluded that an additional provision in the amount of $1.6m was necessary for the financial year 2018.

Other real estate holding

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

Notes to the Consolidated Financial Statements

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

14. Property and Equipment

	Furniture, Fixtures, Office Machinery and Equipment $'000	Motor Vehicles $'000	Total $'000
Cost			
Balance at January 1, 2018	5,985	2,789	8,774
Additions	1,155	265	1,420
Disposals	(30)	(1,341)	(1,371)
Balance at December 31, 2018	7,110	1,713	8,823
Depreciation			
Balance at January 1, 2018	3,618	2,155	5,773
Charge for the year	617	365	982
Disposals	(17)	(1,307)	(1324)
Balance at December 31, 2018	4,218	1,213	5,431
Net book value	2,892	500	3,392
Cost			
Balance at January 1, 2017	5,656	2,544	8,200
Additions	346	245	591
Disposals	(17)	-	(17)
Balance at December 31, 2017	5,985	2,789	8,774
Depreciation			
Balance at January 1, 2017	3,193	1,742	4,935
Charge for the year	438	413	851
Disposals	(13)	-	(13)
Balance at December 31, 2017	3,618	2,155	5,773
Net book value	2,367	634	3,001

15. Deferred Tax Asset (Liability)

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

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(Expressed in Trinidad and Tobago Dollars)

15. Deferred Tax Asset (Liability) (continued)

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

	2017	(Charged) credited to Profit or loss	OCI	2018
	$'000	$'000	$'000	$'000
Deferred tax assets				
Impairment provision on lands for Development and Units unsold	4,206	867	-	5,073
Impairment provision on investment securities designated as at FVOCI	1,540	(1,540)	-	-
	5,746	(673)	-	5,073
Deferred tax liabilities				
Discount on purchase of Mortgage Pools	(18)	18	-	-
Revaluation of investment securities designated as at FVOCI	(176,226)	141,341	20,627	(14,258)
Bond issue costs	(216)	47	-	(169)
Property and equipment	(26)	(20)	-	(46)
	(176,486)	141,386	20,627	(14,473)
Net deferred tax liability	(170,740)	140,713	20,627	(9,400)

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

Notes to the Consolidated Financial Statements

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

15. Deferred Tax Asset (Liability) (continued)

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

	2018 $'000	2017 $'000
Balance at January 1	(170,740)	(211,604)
Charge to profit or loss (Note 27)	(628)	(359)
Charge to other comprehensive income	20,627	41,223
Amount associated with disposal of equities	141,341	-
Balance at December 31	(9,400)	(170,740)

16. Stated Capital

	2018 $'000	2017 $'000
Authorised		
An unlimited number of ordinary shares of no par value		
Issued and fully paid		
16,000,000 ordinary shares of no par value	16,000	16,000

17. Revaluation Reserve

The revaluation reserve is used to record increases or decreases in the carrying value of the Group's FVOCI equity portfolio. If the value of this portfolio increases or decreases based on market prices, this movement is recognised in equity under the heading revaluation reserve and other comprehensive income. The revaluation reserve comprised the following:

	2018 $'000	2017 $'000
Equities	33,956	410,983
Other assets	(681)	216
	33,275	411,199

Notes to the Consolidated Financial Statements

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

18. Mortgage Risk Reserve

	2018 $'000	2017 $'000
Balance at January 1	7,291	5,852
Transfer from retained earnings	3,822	1,439
Balance at December 31	11,113	7,291

19. Other Liabilities

	2018 $'000	2017 $'000
Interest payable on bonds	12,538	9,548
Sundry creditors and accruals	12,466	7,833
Gareemic holders payable	48	79
	25,052	17,460
Taxation payable	2,857	3,806
	27,909	21,266

20. Short-term Borrowings

	2018 $'000	2017 $'000
Balance at January 1	110,000	127,000
Proceeds	822,000	325,000
Repayments	(789,000)	(342,000)
Balance at December 31	143,000	110,000

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

Notes to the Consolidated Financial Statements

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

	2018 $'000	2017 $'000
21. Debt Securities		
Balance at January 1	1,334,236	1,041,130
Issues	377,705	350,000
Redemptions	(273,194)	(56,894)
Balance at December 31	1,438,747	1,334,236

Notes:

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

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

	2018 $'000	2017 $'000
Within 1 year	63,013	273,194
1 to 2 years	463,013	56,894
2 to 3 years	63,013	456,894
3 to 4 years	296,479	56,894
4 to 5 years	206,119	290,360
Over 5 years	347,110	200,000
	1,438,747	1,334,236

	2018 $'000	2017 $'000
(c) Tax free bonds	577,759	175,930
Other bonds	860,988	1,158,306
	1,438,747	1,334,236

Under the Home Mortgage Bank Act 1985, the Bank is authorised to issue tax-free bonds up to $600 million of which $578 million has been issued at year end (2017: $176 million).

Notes to the Consolidated Financial Statements

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

22. Managed Fund Liabilities

	2018 $'000	2017 $'000
Managed Funds comprises:		
Guaranteed Mortgage Investment Certificates	1,814	2,498
Mortgage Participation Fund	530,117	585,711
	531,931	588,209
Carrying value of loans backing the Managed Fund liabilities (Note 10)	(531,931)	(588,209)
Net liability	-	-

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

	2018 $'000	2017 $'000
The movement in the Managed Fund liabilities is as follows:		
Balance at January 1	588,209	647,746
Additions	164,704	250,639
Capitalised interest	7,992	8,820
Repayments	(228,974)	(318,996)
Balance at December 31	531,931	588,209
Accrued interest		
Balance at January 1	-	-
Interest paid	(8,522)	(9,391)
Interest expense	8,522	9,391
Balance at December 31	-	-

Guaranteed Mortgage Investment Certificates (Gareemics)

As issuer and guarantor of Gareemics, the Bank is obligated to disburse scheduled monthly instalments of principal and interest (at the coupon rate) and the full unpaid principal balance of any foreclosed mortgage to Gareemics investors, whether or not any such amounts have been received. The Bank is also obligated to disburse unscheduled principal payments received from borrowers. At December 31, 2018 the outstanding balances of securitised mortgages and the related Gareemics issued amounts to $1.8 million (2017: $2.5 million).

Notes to the Consolidated Financial Statements

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

22. Managed Fund Liabilities (continued)

Guaranteed Mortgage Investment Certificates (Gareemics)

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

Mortgage Participation Fund

The Bank guarantees the investments under its Mortgage Participation Fund (MPF) investment programme. This fund is backed by mortgage and/or other securities. At the reporting date, the outstanding balance under the MPF investment product was $530.117 million (2017: $585.71 million).

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

December 31, 2018

	FVOCI Debt Instruments $'000	FVOCI Equity Instruments $'000	Amortised Cost $'000	Total Carrying Amount $'000
Cash and cash equivalents	-	-	29,611	29,611
Loans and advances to customers	-	-	2,278,700	2,278,700
Investment securities	732,141	59,199	-	791,340
Other assets	-	-	46,834	46,834
Total financial assets	732,141	59,199	2,355,145	3,146,485
Short term Borrowings and Interest payment on Bonds	-		155,538	155,538
Debt securities	-		1,438,747	1,438,747
Total financial liabilities	-		1,594,285	1,594,285

Notes to the Consolidated Financial Statements

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

23. Classification of Financial Assets and Financial Liabilities (continued)

December 31, 2017

	Held-to-Maturity $'000	Loans and Receivables $'000	Available-for-sale $'000	Other Amortised Cost $'000	Total Carrying Amount $'000
Cash and cash equivalents	-	12,242	-	-	12,242
Loans and advances to customers	-	-	-	-	-
Measured at amortised cost	738,757	-	-	939,841	1,678,598
Investment securities	-	-	-	-	-
Measured at fair value	-	-	941,853	-	941,853
Other assets	-	-	-	22,686	22,686
Total financial assets	738,757	12,242	941,853	962,527	2,655,379
Short term borrowings interest payment on Bonds	-	-	-	119,548	119,548
Measured at amortised cost	-	-	-	1,334,236	1,334,236
Total financial liabilities	-	-	-	1,453,784	1,453,784

Notes to the Consolidated Financial Statements

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

	2018 $'000	2017 $'000
24. Net Interest Income		
Loans and advances to customers	116,466	87,243
Investment securities	37,447	33,957
	153,913	121,200
Interest expense	(11,127)	(5,737)
Net interest income	142,786	115,463

	2018 $'000	2017 $'000
25. General and Administrative Expenses		
Staff costs	13,575	9,099
Premises	3,176	3,291
Other operating expenses	11,343	11,271
	28,094	23,661
Included within other operating expenses are the following charges:		
Depreciation	982	851
Directors' fees	1,900	1,799

	2018 $'000	2017 $'000
26. Loss on Sale of Property Units		
Income from sale of units	6,600	2,700
Income from sale of furniture	101	-
Cost of units sold	(10,548)	(3,640)
Loss on sale of property units	(3,847)	(940)

Notes to the Consolidated Financial Statements

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

	2018 $'000	2017 $'000
27. Taxation		
(i) Current taxation:		
Corporation tax	11,535	8,844
Green Fund levy	543	607
Business levy	843	470
Deferred taxation	628	359
Taxation charge for the year	13,549	10,280

(ii) Tax recognised in other comprehensive income:

	2018			2017		
	Before Tax $'000	Tax Benefit $'000	Net of Tax $'000	Before Tax $'000	Tax Expense $'000	Net of Tax $'000
Investment Securities designated as at FVOCI	(68,757)	20,627	(48,130)	(137,412)	41,223	(96,189)

(iii) Tax reconciliation:

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

	2018		2017	
	$'000	%	$'000	%
Profit before taxation	573,649	100.00	84,149	100.00
Tax at the statutory rate of 25% and 30%	172,095	29.99	25,194	29.93
Changes in estimates related to prior years	(4,961)	(0.89)	1,115	1.32
Green Fund levy	543	0.09	607	0.72
Business levy	843	0.15	470	0.56
Tax exempt income	(154,971)	(26.98)	(17,106)	(20.31)
	13,549	2.36	10,280	12.22

Notes to the Consolidated Financial Statements

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

28. Related Party Transactions and Balances

(a) Identity of related parties

A party is related to the Group if:

(a) The party is a subsidiary or an associate of the Group;
(b) The party is, directly or indirectly, either under common control or subject to significant influence with the Group or has significant or joint control of the Group.
(c) The party is a close family member of a person who is part of key management personnel or who controls the Group;
(d) The party is controlled or significantly influenced by a member of key management personnel or by a person who controls the Group;
(e) The party is a joint venture in which the Group is a venture partner;
(f) The party is a member of the Group's or its parent's key management personnel;
(g) The party is a post-employment benefit plan for the Group's employees.
(h) The party, or any member of a group of which it is a part, provides key management personnel services to the Group.

	2018 $'000	2017 $'000
(b) Related party balances		
Loans, investments and other assets		
The National Insurance Board and its subsidiaries	217,000	217,000
Directors and key management personnel	4,532	9,334

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

	2018 $'000	2017 $'000
Bonds in issue and other liabilities		
The National Insurance Board and its subsidiaries	253,173	252,382
Directors and key management personnel	16	914

(c) Related party transactions

Sale of equity investments

The National Insurance Board and its subsidiaries (Note 9)	815,000	-

Notes to the Consolidated Financial Statements

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

	2018 $'000	2017 $'000
28. Related Party Transactions and Balances (continued)		
(c) Related party transactions (continued)		
Interest and other income		
The National Insurance Board and its subsidiaries	9,384	9,384
Directors and key management personnel	211	356
Bond interest and other expenses		
The National Insurance Board and its subsidiaries	6,552	6,279
Directors and key management personnel	-	16
Mortgages purchases		
Trinidad and Tobago Mortgage Finance	905,353	240,710

	2018 $'000	2017 $'000
(d) Key management compensation		
Directors and management compensation		
Short term benefits	5,520	5,454
Post-retirement benefits	3,843	384

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

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

Key management personnel transactions

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

	Transaction Values		Maximum Balance		Balance Outstanding	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Mortgage Lending	1,156	2,543	2,971	4,009	2,868	3,874
MPF	61	3	34	5	9	2

Notes to the Consolidated Financial Statements

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

29. Mortgage Commitments

The Group has issued standby mortgage commitments of which undrawn balances amount to $90 million (2017: $36.8 million).

30. Employees

At year-end, the Group had in its employ a staff complement of 28 employees (2017: 34).

31. Dividend Paid

The Group made a dividend payout of one dollar, eighty-five cents ($1.85) cents per share which was paid on April 26, 2018 in relation to 2017 profits. There was also a special dividend payment of eleven dollars, thirty-four ($11.34) cents paid out of retained earnings on August 23 2018.

32. Contingent Liabilities

As at December 31, 2018, there were no legal proceedings outstanding against the Group, as such no provisions were required (2017: NIL).

33. Restatement

The financial statements for 2018 include a restatement of the Bank's representation of the MPF, which was not previously consolidated in accordance with IFRS 10 *Consolidated Financial Statements*, because of a misinterpretation of facts and circumstances in terms of the Group's assessment of its influence over the MPF. The impact of the restatement on the 2017 financial statements is as follows:

	Restated	As previously stated
	$'000	$'000
Statement of financial position		
Loans and advances to customers	1,528,050	939,841
Liability to Fund Holders	588,209	-
Statement of profit or loss and other comprehensive income		
Interest expense	5,737	15,128
Finance costs	49,021	39,630

34. Events after the Reporting Date

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

SHAREHOLDERS

The stated capital is 16,000,000 ordinary shares to a value of $16,000,000 subscribed as follows as at 31st December, 2018:

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

MANAGEMENT

BRENT MCFEE
Acting Chief Executive Officer
(effective February 11, 2019)

MARK WIGHT
Manager, Finance and Treasury

OSMOND PREVATT
Manager, Fund Management and Capital Markets

SITA MANGAL
Manager, Mortgages

INDIRA GEEBAN
Manager, Risk Management

CHERYL - ANN NEPTUNE
Manager, Human Resources and Administration

PATRICIA ILKHTCHOUI
Corporate Secretary

OFFICE LOCATION
2nd Floor, NIBTT Building,
14–19 Queen's Park East
PORT OF SPAIN

EXTERNAL AUDITORS

KPMG
Trinre Building
69-71 Edward Street
Port of Spain

INTERNAL AUDITORS

DELOITTE & TOUCHE
54 Ariapita Avenue
Woodbrook
Port of Spain

ATTORNEYS- AT-LAW

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

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

BANKERS
Republic Bank Limited
Independence Square
Port of Spain

TRUSTEE, REGISTRAR AND PAYING AGENTS FOR BOND ISSUES

Republic Bank Limited
Trust and Asset Management Division
(Trustee)
Republic House
9-17 Park Street, Port of Spain

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