# First Citizens Depository Services Limited

Financial Statements

30 September 2020

*(Expressed in Trinidad and Tobago Dollars)*

## First Citizens Depository Services Limited

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# First Citizens Depository Services Limited

## Statement of Management's Responsibilities

Management is responsible for the following:

- Preparing and fairly presenting the accompanying financial statements of First Citizens Depository Services Limited (the Company) which comprise the statement of financial position as at 30 September 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information;

  Ensuring that the Company keeps proper accounting records;

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

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

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

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

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

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

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

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

Senior Manager
Fund Administration and Investment Solutions
1 December 2020

Senior Manager
Financial Accounting
1 December 2020

pwc

# Independent Auditor's Report

To the shareholder of
First Citizens Depository Services Limited

## Report on the audit of the financial statements

## Our opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of First Citizens Depository Services Limited (the Company) as at 30 September 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *What we have audited*

The Company's financial statements comprise:
- the statement of financial position as at 30 September 2020;
- the statement of profit or loss and other comprehensive income;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

### *Independence*

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

## Responsibilities of management and those charged with governance for the financial statements

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

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

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

## Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers

Port of Spain
Trinidad, West Indies
1 December 2020

# First Citizens Depository Services Limited

## Statement of Financial Position

*(Expressed in Trinidad and Tobago Dollars)*

| | Notes | As at 30 September 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5 | 382,112 | 356,890 |
| Statutory deposit with Central Bank | 6 | 77 | 77 |
| Investment securities | | | |
| - Fair value through other comprehensive income | 7(a) | 84 | 84 |
| - Fair value through profit and loss | 7(b) | 16,116 | 15,824 |
| Other receivables and prepayments | 8 | 12,537 | 15,251 |
| Due from related parties | 9 | 15,816 | 20,570 |
| Taxation receivable | 10 | 12,040 | 16,649 |
| Property, plant and equipment | 11 | 29,798 | 30,774 |
| Intangible assets | 12 | 1,526 | 1,418 |
| **Total assets** | | 470,106 | 457,537 |
| **Liabilities** | | | |
| Funds held for third party customers | 13 | 115,384 | 109,015 |
| Customers' deposits | 14 | 849 | 846 |
| Deferred tax liability | 15 | 4,112 | 3,914 |
| Other creditors and accrued expenses | 16 | 5,842 | 5,668 |
| Due to related party as paying agent for bondholders | 9 | -- | 8,090 |
| Deferred income | 17 | 1,251 | 1,757 |
| Taxation payable | | 1,888 | 2,288 |
| **Total liabilities** | | 129,326 | 131,578 |
| **Equity** | | | |
| Share capital | 18 | 15,000 | 15,000 |
| Statutory reserve | 19 | 15,000 | 15,000 |
| Revaluation reserve | 20 | 18,416 | 18,416 |
| Retained earnings | | 292,364 | 277,543 |
| **Total equity** | | 340,780 | 325,959 |
| **Total liabilities and equity** | | 470,106 | 457,537 |

The notes on pages 8 to 53 are an integral part of these financial statements.

On 26 November 2020, the Board of Directors of First Citizens Depository Services Limited authorised these financial statements for issue.

Director    Director

# First Citizens Depository Services Limited

## Statement of Profit or Loss and Other Comprehensive Income

*(Expressed in Trinidad and Tobago Dollars)*

| | Notes | Year ended 30 September 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Income** | | | |
| Revenue from contracts with customers | 21 | 87,047 | 92,968 |
| Other income | 22 | 2,043 | 1,681 |
| Net interest income | 23 | 2,128 | 2,290 |
| Unrealised (loss)/gain on investment securities - FVPL | | (9) | 19 |
| **Total income** | | 91,209 | 96,958 |
| **Expenses** | | | |
| Administrative expenses | 24 | (18,349) | (18,788) |
| Other operating expenses | 25 | (12,839) | (11,898) |
| **Total expenses** | | (31,188) | (30,686) |
| Profit before taxation | | 60,021 | 66,272 |
| Taxation | 26 | (21,868) | (22,886) |
| Profit for the year | | 38,153 | 43,386 |
| **Other comprehensive income:** | | | |
| *Items that may be subsequently reclassified to profit and loss* | | | |
| Revaluation of financial assets net of tax | | -- | (964) |
| Total other comprehensive loss for the year | | -- | (964) |
| **Total comprehensive income for the year** | | 38,153 | 42,422 |

The notes on pages 8 to 53 are an integral part of these financial statements.

## First Citizens Depository Services Limited

### Statement of Changes in Equity

*(Expressed in Trinidad and Tobago Dollars)*

| | Note | Share capital $'000 | Statutory reserve $'000 | Revaluation reserve $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 October 2019** | | 15,000 | 15,000 | 18,416 | 277,543 | 325,959 |
| **Comprehensive income** | | | | | | |
| Profit for the year | | | | | 38,153 | 38,153 |
| **Other comprehensive income** | | | | | | |
| Total comprehensive income | | -- | -- | -- | 38,153 | 38,153 |
| *Transaction with owners* | | | | | | |
| Dividend paid | 29 | -- | -- | -- | (23,332) | (23,332) |
| **Balance at 30 September 2020** | | 15,000 | 15,000 | 18,416 | 292,364 | 340,780 |
| | | | | | | |
| **Balance at 1 October 2018** | | 15,000 | 15,000 | 20,863 | 261,621 | 312,484 |
| **Comprehensive income** | | | | | | |
| Profit for the year | | -- | -- | -- | 43,386 | 43,386 |
| **Other comprehensive income** | | | | | | |
| Depreciation in fair value of financial assets | | -- | -- | -- | (964) | (964) |
| Reclassification of financial assets from FVOCI to FVPL | | -- | -- | (2,447) | 2,447 | -- |
| Total comprehensive income | | -- | -- | (2,447) | 44,869 | 42,422 |
| *Transaction with owners* | | | | | | |
| Dividend paid | 29 | -- | -- | -- | (28,947) | (28,947) |
| **Balance at 30 September 2019** | | 15,000 | 15,000 | 18,416 | 277,543 | 325,959 |

The notes on pages 8 to 53 are an integral part of these financial statements.

## First Citizens Depository Services Limited

### Statement of Cash Flows
*(Expressed in Trinidad and Tobago Dollars)*

| | Year ended 30 September 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before taxation | 60,021 | 66,272 |
| Adjustments to reconcile profit before taxation to net cash provided by operating activities: | | |
| Capitalised interest | (306) | (304) |
| Unrealised gains/(losses) on investment securities - FVPL | 9 | (19) |
| Depreciation and amortisation | 1,141 | 1,035 |
| Cash flows from operating activities before changes in operating assets and liabilities | 60,865 | 66,984 |
| Changes in operating assets and liabilities | | |
| Net increase in customers' deposits | 3 | 1 |
| Net decrease/(increase) in other receivables and prepayments | 2,714 | (1,466) |
| Net (increase)/decrease in amounts due from related parties | (3,336) | 45,853 |
| Net increase/(decrease) in creditors and accrued expenses | 6,037 | (169,116) |
| Net taxation recovered | 9,460 | -- |
| Taxation paid | (26,915) | (29,345) |
| **Net cash inflow/(outflow) from operating activities** | 48,828 | (87,089) |
| **Cash flows from investment activities** | | |
| Additions to property, plant and equipment and intangibles | (293) | (2,063) |
| Proceeds from disposal of property, plant and equipment | 19 | -- |
| **Net cash outflow from investing activities** | (274) | (2,063) |
| **Cash flows from financing activities** | | |
| Dividends paid | (23,332) | (28,947) |
| **Net cash outflow from financing activities** | (23,332) | (28,947) |
| **Net cash inflow/(outflow) for the year** | 25,222 | (118,099) |
| **Cash and cash equivalents:** | | |
| - at beginning of year | 356,890 | 474,989 |
| - at end of year | 382,112 | 356,890 |
| **Represented by:** | | |
| Cash and cash equivalents | 382,112 | 356,890 |

The notes on pages 8 to 53 are an integral part of these financial statements.

## 1 General information

First Citizens Depository Services Limited (formerly First Citizens Asset Management Limited), ("the Company") is incorporated in Trinidad and Tobago and is licensed under the Financial Institutions Act 2008. The Company is also registered with the Trinidad and Tobago Securities and Exchange Commission. Prior to 1 March 2018, First Citizens Depository Services Limited (formerly First Citizens Asset Management Limited) offered a full range of investment management services for corporate benefit plans, mutual funds and other parties. Due to a remodeling of operations within the First Citizens Group, ("the Group") effective 1 March 2018, the Company acts as custodian to third parties and, effective 1 July 2018, provides bond paying agent services. The Company is a wholly owned subsidiary of First Citizens Bank Limited. The parent company, First Citizens Bank Limited, is incorporated in Trinidad and Tobago and is a subsidiary of First Citizens Holdings Limited, a company owned by the Government of the Republic of Trinidad and Tobago. First Citizens Holdings Limited has 64.43% controlling interest in First Citizens Bank Limited. The remainder of the shares is listed on the Trinidad and Tobago Stock Exchange and is publicly traded. The Company's registered office is located at #50 St Vincent Street, Port of Spain.

Effective 12 December 2018, First Citizens Asset Management Limited changed its name to First Citizens Depository Services Limited.

## 2 Summary of significant accounting policies

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

a. *Basis of preparation*

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). These financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(i) *Standards, amendments and interpretations which are effective and have been adopted by the Company in the current period*

- IFRS 16 Leases (effective 1 January 2019). This standard specifies how an IFRS reporter will recognise, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months and less or the underlying assets has a low value. Lessors continue to classify leases as operating or finance (Note 2.1)
- IFRIC 23 – Uncertainty over Income Tax Treatments (Effective 1 January 2019). The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:
  - Whether tax treatments should be considered collectively
  - Assumptions for taxation authorities' examinations
  - The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - The effect of changes in facts and circumstances

2 **Summary of significant accounting policies (continued)**

a. *Basis of preparation (continued)*

(i) *Standards, amendments and interpretations which are effective and have been adopted by the Company in the current period (continued)*

- IFRS 9 Amendment- Prepayment Features with Negative Compensation (Effective1January 2019). This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

(ii) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company*

- Amendments to IAS 1 and IAS 8 - Definition of Material (Effective 1 January 2020). The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform (Effective 1 January 2020). The amendments in *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)* clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

- Amendments to IFRS 3 – Amendments in *Definition of a Business (Effective 1 January 2020). The amendments:*

  - clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and substantive process that together significantly contribute to the ability to create outputs
  - narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
  - add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
  - remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
  - add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

- Amendments to IFRS 16 - *Covid-19-Related Rent Concessions (Effective 1 June 2020).* The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

The Company is in the process of assessing the impact of the new and revised standards not yet effective on the financial statements. We do not anticipate any material impact.

2 **Summary of significant accounting policies (continued)**

b. *Foreign currency translation*

(i) *Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Trinidad and Tobago dollars, which is the Company's functional and presentation currency. The exchange rate between the TT dollar and the US dollar as at the date of these statements was TT$ 6.7124 = US$1.00 (2019: TT$6.6926 = US$1.00). This rate represents the First Citizens Group mid-rate.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income.

Changes in the fair value of monetary securities denominated in foreign currency classified as Fair Value through Other Comprehensive Income (FVOCI) are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in equity. Translation differences on non-monetary items such as equities classified as FVOCI financial assets are included in other comprehensive income.

c. *Cash and cash equivalents*

Cash and cash equivalents comprise of cash balances on hand, deposits with financial institutions and short-term highly liquid investments with maturities of three months or less.

d. *Financial assets and financial liabilities*

(i) *Financial assets*

The Company classifies its financial assets based on the following business models:

- Hold for trading
- Hold to collect and sell or
- Hold to collect

Based on these factors, the Company classifies its assets into one of the following three measurement categories:

*Amortised cost*

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at fair value through profit and loss (FVPL) are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 3.a. (v) Interest income from these financial assets is included in "Net interest income" using the effective interest rate method.

2 **Summary of significant accounting policies (continued)**

d. *Financial assets and financial liabilities (continued)*

(i) *Financial assets (continued)*

*Fair value through other comprehensive income (FVOCI)*

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represents solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is de-recognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit and loss and recognised in "Net interest income". The interest income from these financial assets is included in "Net interest income' using the effective interest rate method.

*Fair value through profit and loss (FVPL)*

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit and loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of profit or loss and other comprehensive income within "Other income" in the period in which it arises, unless it arises from debt instruments that were classified at fair value or which are not held for trading, in which case they are presented in "Net interest income". Interest income from these financial assets is included in "Net interest income" using the effective interest rate method.

(a) *Debt instruments*

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:
(i) the Company's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

*Company's business model*

The business model reflects how the Company manages its assets in order to generate cash flows. An assessment is made at a portfolio level and includes an analysis of factors such as:

The stated objective and policies of the portfolio and the operation of those in practice. More specifically whether the Company's objective is solely to collect the contractual cash flows from the assets or it to collect both the contractual cash flows and cash flows arising from the sale of the assets.

- Past experience on how the cash flows for these assets were collected.

**2 Summary of significant accounting policies (continued)**

d. *Financial assets and financial liabilities (continued)*

(i) *Financial assets (continued)*

(a) *Debt instruments (continued)*

*Company's business model (continued)*

- Determination of performance targets for the portfolio, how evaluated and reported to key management personnel.
- Management's identification of and response to various risks, which includes but not limited to, liquidity risk, market risk, credit risk, interest rate risk.
- Management considers, in classifying its assets, the level of historical sales and forecasted liquidity requirements.

Arising out of the assessment, the portfolios were deemed to have the business models identified as follows:

| Hold to Collect | Hold to Collect & Sell | Hold for Trading |
|---|---|---|
| Other receivables | Cash | Floating NAV Mutual Funds |
| Due from related parties | Unquoted equities | |

*Solely payments of principal and interest (SPPI)*

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether flows represent solely payment of principal and interest (SPPI test). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

2 **Summary of significant accounting policies (continued)**

d. *Financial assets and financial liabilities (continued)*

(i) *Financial assets (continued)*

(b) *Equity instruments*

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include shareholdings with ExporTT (formerly Small Business Development Company Limited).

The Company subsequently measures all equity investments at fair value through profit or loss, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. These financial assets are presented within investment securities held to collect and sell. The Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Gains and losses on equity investments classified as FVPL are included in the statement of profit or loss and other comprehensive income.

(c) *Impairment*

The Company assesses on a forward-looking basis the expected credit losses (ECL) associated with its investment securities carried at amortised cost and FVOCI. The Company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.
- Note 3.a.(v) provides more detail of how the expected credit loss allowance is measured.

2 **Summary of significant accounting policies (continued)**

d. *Financial assets and financial liabilities (continued)*

(i) *Financial assets (continued)*

(d) *Recognition and de-recognition*

All purchases and sales of investment securities are recognised on the trade-date - the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs. Financial assets are de-recognised when the rights to receive cash flows from the financial asset have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

(ii) *Financial liabilities*

Financial liabilities are classified and subsequently measured at amortised cost. Financial liabilities include funds held as paying agent for bondholders, customer deposits, due to related parties and creditors and accrued expenses. Financial liabilities are de-recognised when they have been redeemed or otherwise extinguished (that is, when the obligation specified in the contract is discharged, cancelled or expired).

(iii) *Determination of fair value*

For financial instruments traded in an active market, the determination of fair values of financial assets and liabilities is based on quoted market prices or dealer price quotations.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and these prices represent actual and regular occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques using input existing at the year-end.

The Company uses an internally developed model which is generally consistent with other valuation models used in the industry. Valuation models are used to value unlisted debt securities and other debt securities for which the market has become or is illiquid. Some of the inputs of this model may not be market observable and are therefore based on assumptions.

e. *Lease transactions*

**Policies applicable on 1 October 2019**

The Company has adopted IFRS 16 effective 1 October 2019, which replaces IAS 17 and IFRIC 4. The comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

For all new contracts entered into on or after 1 October 2019, the Company assesses whether a contract is, or contains a lease. A lease is defined as "a contract that conveys the right-of-use an asset for a period of time in exchange for consideration". To assess whether a contract conveys the right-of-use of an asset, the Company assesses whether:

2 **Summary of significant accounting policies (continued)**

e. *Lease transactions (continued)*

*Policies applicable after 1 October 2019 (continued)*

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
- the Company has the right to obtain substantially all the economic benefits from use of the assets through the period of use
- the Company has the right to direct the use of the asset throughout the period of use. The Company has this right when it has the rights to direct "how and for what purpose" the asset is used.

(i) *The Company as the lessee*

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 October 2019, the Company recognises leases as a right-of-use asset and a lease liability at the date at which the leased asset is available for use by the Company. The right of use is initially measured at the cost, which comprises the initial amount of the lease liability, any initial direct cost incurred, an estimate of any cost to dismantle and remove the asset or to restore the asset and less any lease incentive received.

The Company depreciates the right-of-use assets on a straight line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. The Company also assess the right-of-use asset for impairment when such indicators exists.

The Company measures the lease liability at the present value of the lease payments not paid at the commencement date, discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Company's incremental borrowing rate, which is the Repo rate. Lease liabilities include the net present value of the following lease payments:-

- fixed payments, including in-substance fixed payments, less any lease incentive
- variable lease payments that are based on an index or a rate, initially measured using the index or rate at the commencement date
- amount expected to be payable by the Company under residual value guarantees
- the exercise price under a purchase option, if the Company is reasonably certain to exercise that option
- lease payments in an optional renewal period, if the Company is reasonably certain to exercise
- penalties for early termination of a lease, if the lease term reflects the Company exercising this option

Payments associated with short-term leases and all low-value assets are recognised on a straight-line basis as expenses in the income statement. Short-term leases are leases with a term of twelve (12) months or less. Low-value assets comprise IT equipment and small items of office furniture. However, the Company currently does not hold any low value assets or short term leases.

2 **Summary of significant accounting policies (continued)**

e. *Lease transactions (continued)*

(i) *The Company as the lessee (continued)*

*Policies applicable prior to 1 October 2019*

Leases were accounted for in accordance with IAS 17 and IFRIC 4. They were divided into finance leases and operating leases.

Leases in which a significant portion of the risks and methods of ownership are retained by another party, the lessor, were classified as operating leases. Leases of assets where the Company has substantially all the risk and rewards of ownership were classified as finance leases.

Where operating leases existed, the total payments were charged to the statement of profit or loss and other comprehensive income over the period of the lease. When an operating lease is terminated before the period has expired, any penalty payment made to the lessor is recognised as an expense in the period in which termination takes place.

When assets were held subject to a finance lease, an asset and liability were recognised in the statement of financial position at amounts equal at inception to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments were apportioned between the finance charge and the outstanding liability so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost was charged to the statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant and equipment acquired under finance leases were depreciated over the shorter of the useful life of the asset and the lease term.

(ii) *The Company as the lessor*

The Company's accounting policy under IFRS 16 has not changed

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return on the remaining balance of the asset for each period.

Currently the Company is a lessor and not a lessee, therefore only the policy as a lessor will apply.

### 2 Summary of significant accounting policies (continued)

f. *Property, plant and equipment*

Freehold land and building are shown at fair value based on assessments performed by management or by independent valuators every three years, less subsequent depreciation for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the assets and the net amount is restated to the revalued amount of the asset. The valuations of freehold land and building are re-assessed when circumstances indicate there may be a material change in value.

Revaluation surpluses are credited directly to equity under the heading revaluation reserve. To the extent the surplus reverses a previous deficit charged to income in respect of the same asset, it is recognised in the statement of profit or loss and other comprehensive income. Revaluation deficits not covered by a previous surplus of the same asset are charged to the statement of profit or loss and other comprehensive income.

All other property, plant and equipment are recorded at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the terms.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation and amortisation are computed on all assets.

The provision for depreciation and amortisation is computed using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 50 years |
| Equipment and furniture | 4 – 5 years |
| Computer equipment | 3 years |
| Motor vehicles | 4 years |

The assets' useful lives are reviewed and adjusted if appropriate at each reporting date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstance indicate the carrying amount may not be recoverable.

2 **Summary of significant accounting policies (continued)**

f. *Property, plant and equipment (continued)*

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the assets fair value less cost to sell and value in use. Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. When revalued assets are sold, the amounts included in revaluation reserve are transferred to retained earnings.

g. *Intangible assets*

Intangible assets comprise acquired computer software and licences. Computer software and licences are initially capitalised at cost, which includes the purchase price (net of any discounts and rebates) and other directly attributable cost of preparing the asset for its intended use. Direct expenditure which enhances or extends the performance of computer software beyond its specifications is added to the original cost of the software. Costs associated with maintaining the computer software are recognised as an expense when incurred. Computer software development costs are recognised as assets when the following criteria are met:

(i) It is technically feasible to complete the software and use it.

(ii) Management intends to complete the software and use it.

(iii) There is an ability to use the software (adequate technical, financial and other resources to complete the development and to use it).

(iv) The expenditure attributable to the software during its development can be reliably measured.

The software development costs are amortised using the straight-line method over their useful lives but not exceeding a period of three years.

h. *Income tax*

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 **Summary of significant accounting policies (continued)**

h. *Income tax (continued)*

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The principal temporary differences arise from depreciation on property, plant and equipment and the revaluation of financial assets available-for-sale and freehold land and building. Deferred income 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 income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

i. *Employee benefits*

(i) *Pension plans*

The Company's employees are members of the Group defined benefit plan. A defined benefit plan defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. This pension plan is funded by the payments from employees and the Group, taking account of the recommendations of independent qualified actuaries. The Group defined benefit plan operates as a plan that shares risks among subsidiaries of the Group that are under common control. The Group's policy is to recognise the net defined benefit cost of the plan in the separate financial statements of First Citizens Bank Limited, the entity which is legally considered the sponsoring employer for the plan. The Company recognises a cost equal to its contribution payable for its employees in its separate financial statements.

(ii) *Profit sharing and bonus plans*

The Company recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

j. *Fee and commission income*

IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018). This standard provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Fees and commissions income from contracts with customers are measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a service to a customer.

The information about the nature of the type of services and the timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms and related revenue recognition policies are as follows:-

2 **Summary of significant accounting policies (continued)**

j. *Fee and commission income (continued)*

(i) *Custodian services*

The Company provides custodian services to Trinidad and Tobago pension plan funds, collective investment schemes (CIS), other funds and other subsidiaries within the Group.
Custodian fees for funds are calculated based on a percentage of the fund value or market value of the assets under custody. These Custodian fees are billed and payable at least quarterly in arrears. Custodian fees for services to other subsidiaries are charged as a flat fee per annum. Group custodian fees for proprietary services are billed and payable monthly.

Revenue from custodian services is recognised over time as the services are provided.

(ii) *Administration services*

The Company provides administration services for Collective Investment Schemes (CIS) managed by the Group. Fees are charged as a percentage of the average net asset value per annum, billed and payable at least quarterly in arrears.

Revenue is recognised over time as the services are provided.

(iii) *Distribution services*

The Company provides distribution services for Collective Investment Schemes (CIS) managed by the Group. Fees are charged as a percentage of the average net asset value per annum.

Revenue is recognised over time as the services are provided.

(iv) *Bond paying agency and registrar services*

The Company provides bond paying agency and registrar services on behalf of issuers of various debt instruments issued within Trinidad and Tobago and the wider Caribbean region. Fees are payable annually in arrears or in advance based on the provisions laid out within the specific agreement.

Revenue is recognised over time as the services are provided

(v) *Accounting services*

The Company provides accounting services for other subsidiaries within the group. A flat fee is charged for this service, billed and payable on a monthly basis.

Revenue is recognised over time as the services are provided.

### 2 Summary of significant accounting policies (continued)

k. *Interest income and expense*

Interest income and interest expense are recognised in the statement of profit or loss and other comprehensive income for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price.

l. *Dividends*

Dividends that are proposed and declared during the period are accounted for as an appropriation of retained earnings in the statement of changes in equity.

m. *Provisions*

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pretax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

n. *Fiduciary activities*

The Company acts as custodian which results in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Company (Note 31).

o. *Offsetting financial instruments*

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

p. *Going concern*

Management has considered the consequences of COVID-19 on the Company's ability to continue as a going concern and has determined that there is no material uncertainty that casts doubt on the Company's ability to continue as a going concern. It expects that COVID-19 might have some impact, though not significant, in relation to expected future performance of the Company.

## 3 Financial risk management

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

First Citizens Depository Services Limited is part of the First Citizens Group and the Company is governed by the Group's risk management policies. These policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. These risk management policies are also monitored by the Board of Directors of First Citizens Depository Services Limited.

*Risk management framework*

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. As part of its mandate, the Board establishes written principles for overall risk management, as well as ensuring that policies are in place covering specific areas of risk. The most significant types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and other price risks including commodity and equity risk.

The Group utilizes the three lines of defense concept to manage risk. The first line encompasses the units which design and implement controls to mitigate the risks which they face, the second line are control functions such as risk management and finance functions which monitor the first line against these standards/controls. The third line is the Group's internal audit function which provides additional assurance and independent review or risk management and the control environment.

To assist the Board of Directors in fulfilling its duties, two Board Sub-Committees are in place to monitor and report to the Board of Directors on the overall risks within the Group - the Board Enterprise Risk Management (BERM) Committee and the Board Credit Committee (BCC); and two Senior Management Committees – the Senior Management Enterprise Risk Management Committee (SMERMC) and the Asset Liability Committee (ALCO).

The Group Enterprise Risk Management unit, headed by the Group Chief Risk Officer (GCRO), reports to both Sub-Committees through the Senior Management Enterprise Risk Management Committee. This unit is responsible for the identification, analysis, measurement, monitoring and control of credit, market and operational risks for the Group through the Group Credit Risk Management Unit (GCRM), Group Market Risk Unit (GMR), Group Operational Risk and Controls Unit (GORC). Group Enterprise Risk Management also facilitates the monitoring of the Group's risk profile in relation to its risk appetite and the impact of developments in the aforementioned risk areas on strategy and how strategy should be adjusted in light of these developments.

The Asset Liability Committee's role is to manage and monitor the policies and procedures that address the financial risks associated with changing interest rates, foreign exchange rates and any factors that can affect the Group's liquidity. The ALCO seeks to limit risk to acceptable levels by monitoring and anticipating possible pricing differences between assets and liabilities across the Group via the Group Treasury and International Trade Centre. The Group Treasury and International Trade Centre's primary role and responsibility is to actively manage the Group's liquidity. The ALCO is also supported in some specific areas of activity by the Market Risk Committee.

3 **Financial risk management (continued)**

The Group Internal Audit department is responsible for the independent review of risk management and the control environment and reports its findings and recommendations to the Board Audit Committee.

a. *Credit risk*

Credit risk is the risk of incurring financial loss, should any of the Company's customers, clients or market counterparties fail to fulfil their contractual obligations to the Company. The Company does not engage in the extension of credit, therefore credit risk is largely restricted to cash and cash equivalents, receivables from customers and amounts due from related parties.

(i) *Credit risk management*

In its management of credit risks, the Group has established an organisational structure which supports the lending philosophy of the Group. This structure comprises the Board of Directors, the Board Credit Committee (BCC), Senior Management Enterprise Risk Management Committee (SMERMC), the Group Chief Risk Officer (GCRO), the Group Credit Risk Management (GCRM) unit and the Internal Audit department. The Board of Directors maintains general oversight to ensure that policies and procedures are consistent with the strategic direction and credit philosophy of the Group and that they serve to bring the required level of protection over assets that are exposed to credit risks. To facilitate day to day decision making and timely implementation of decisions, the Board has delegated authority for specific areas to specific committees and/or officers with an appropriate reporting system to the Board. The BCC focuses primarily on credit risk appetite and in so doing sanctions amendments to credit policies, delegation of lending authority to senior management and credit requests exceeding the authority of management. The SMERMC together with the GCRO monitors the effectiveness of credit policies and procedures and may direct changes to strategies to improve the effectiveness of policies. The major focus of GCRM is to formulate credit policies, monitor compliance with them and on a continuous basis to assess their relevance to the changing business environment. Most of these policies are established and communicated through the Group's documented Credit Policy manuals. These documents set out in detail the policies governing the lending function and provides a comprehensive framework for prudent risk management of the credit function.

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Company measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9 (note 3.a.(iv)).

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(ii) *Credit risk grading*

The Company uses the Group's internal credit risk grading or ratings which reflect its assessment of the risk profile or PD of counterparties. The Company utilises one (1) rating model for all financial assets.

*Investment securities*

For sovereign and corporate investment securities, the ratings published by Standards and Poor's Rating Agency (S&P), where available, are used. For sovereigns with no S&P rating, the Group's Research and Analytics Unit uses a model based on the S&P methodology to generate a rating. For corporate investment securities with no S&P rating, a rating is assigned using the Borrower Risk Rating (BRR) model.

S&P published ratings are continuously monitored and updated. The PD's associated with each rating are determined based on realised default over the prior 12 months, as published by the rating agency. The ratings generated by the BRR model are also updated annually.

The Table below provides a comparative view of the rating models used by the Group:

| | **S&P Rating** | **Research & Analytics Risk Rating (Investment Securities)** | **FC Borrower Risk Rating (Corporate)** | **FC IG Code** | **Interpretation** |
|---|---|---|---|---|---|
| Investment Grade | AAA, AA+ | A+ | 1 | 98 | Extremely Low Risk |
| | AA, AA- | A | | | |
| | A+, A | A- | 2 | 95 | Very Low Risk |
| | BBB+, BBB, BBB- | B+ | 3 | 90 | Low Risk |
| Speculative Grade | BB+, BB, BB- | B | 4 | 85 | Moderate Risk |
| | B+, B, B- | B- | 5 | 80 | High Risk |
| | CCC+, CCC, CCC-, CC+, CC, CC-, C+, C, C- | C | 6 | 65 | Very High Risk |
| | D | D | 7 | * | In Default |

(iii) *Expected credit loss measurement*

IFRS 9 established a new model for recognition and measurement of impairments in loans and receivables that are measured at amortised cost or FVOCI called the expected credit losses model. Expected credit losses are measured according to one of three approaches - a general approach, a simplified approach and a credit adjusted approach.

The simplified approach applies to all receivables from customers and amounts due from related parties. At initial recognition, the Company recognizes a loss allowance based on Lifetime ECLs. This approach does not require the significant estimation and judgement necessary to determine whether there have been changes in credit risk and whether such changes are significant. A provision matrix is used to measure the lifetime ECL.

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

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

IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3. Please refer to note 3.a.(iv) for a description of how the Group defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses within the next twelve (12) months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 3.a.(v) for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

  A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward- looking information. Note 3.a.(vi) includes an explanation of how the Company has incorporated this in its ECL model.

- Purchased or originated credit-impaired (POCI) financial assets are those assets that are credit-impaired on initial recognition. The ECL is always measured on a lifetime basis and is deemed "built-in" to the fair value on origination. A credit impaired effective interest rate is used to amortise these instruments to their maturity. Changes to the life-time expected credit losses are adjusted in the amortised prices.

Further explanation is also provided of how the Company determines appropriate groupings when ECL is measured on a collective basis (refer to note 3.a.(vii)).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

**Change in credit quality since initial recognition**

| **Stage 1** | **Stage 2** | **Stage 3** |
|---|---|---|
| **(initial Recognition)** | **(Significant increase in credit risk)** | **(Credit - impaired assets)** |
| 12 month expected credit losses | Lifetime expected credit losses | Lifetime expected credit losses |

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

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

*Significant increase in credit risk (SICR)*

The Company considers a financial instrument to have experienced a significant increase in credit risk when it meets the following criteria have been met:

*Investment securities:*

| Criteria | Investment Grade Portfolio | Single "B" Speculative Grade Portfolio |
|---|---|---|
| Absolute Measure | PD - 15% or higher | PD - 25% or higher |
| AND | AND | AND |
| Relative Measure | One notch downgrade (investment securities rating scale) | One notch downgrade (investment securities rating scale) |
| OR | OR | OR |
| Special Consideration | Eurobonds with Trigger 3 Breaches | Eurobonds with Trigger 3 Breaches |

The Company has not used the low credit risk exemption for any financial instruments in the year ended 30 September 2020.

With respect to the cure for SICR, the Company considers a significant decrease in credit risk has occurred when the following happens:

| Criteria | Investment Grade Portfolio | Single "B" Speculative Grade Portfolio |
|---|---|---|
| Absolute Measure | PD - 12.5% or lower | PD - 25% or lower |
| AND | AND | AND |
| Relative Measure | Credit rating reverts to level just prior to the SICR | One notch upgrade (investment securities rating scale) |
| OR | OR | OR |
| Special Consideration | No credit stop loss breaches | No credit stop loss breaches |

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(iv) *Definition of default and credit-impaired assets*

The Company defines a financial instrument as in default or credit impaired, when it meets the following criteria:

*Quantitative criteria*

The borrower is more than ninety (90) days past due on its contractual payments.

*Qualitative criteria*

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower formally files for bankruptcy or there is a commencement of foreclosure proceedings.
- The obligation is classified Doubtful or worse as per the Group's classification process.
- A modification to the terms and conditions of the original agreement that would not normally be considered is executed
- Restructure proceedings or an indication of the intention to restructure is initiated by the issuer (investments only).

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

An investment instrument is considered to no longer be in default (i.e. to have cured) when it has been restructured. An exception exists for credit-impaired facilities at origination.

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(v) *Measuring ECL - Explanation of inputs, assumptions and estimation techniques*

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

- PD represents the likelihood of a borrower defaulting on its financial obligation (as defined in note 3.a.(iv), either over the next twelve (12) months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next twelve (12) months (12M EAD) or over the remaining lifetime (Lifetime EAD). The EAD is calculated as the outstanding balance less the discounted collateral value. Collateral values are discounted by first making adjustments to account for the cost of disposal and the expected time it would take to sell the collateral. This present value of this reduced collateral value is then calculated by discounting it by the effective interest rate of the facility.
- LGD is expressed as the percentage of loss expected to be incurred if the default occurs over the remaining expected lifetime of the loan and represents management's expectation of the extent of loss on a defaulted exposure. LGD varies by seniority of claim and product type, while the availability of collateral is factored before LGD is considered.

*PDs*

The lifetime and twelve (12) month PDs are determined differently for loans and investment securities. Loans' PDs are derived from the historical experience of the Company, calculated using a vintage analysis methodology. The investment securities' PDs for sovereign and corporate instruments are taken from the Standard & Poor's (S&P) Annual Sovereign Default and Rating Transition Study and the Annual Global Corporate Default and Transition Study, respectively.

*EAD*

For amortising products and bullet repayment loans, EAD is based on the contractual repayments owed by the borrower over a twelve (12) month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment assumptions are also incorporated into the calculation.

For revolving products, the EAD is calculated by taking the current drawn balance and adding a credit conversion factor (CCF) which adjusts for the expected drawdown of the remaining unutilised limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on an analysis of the product's usage over a two (2) year period. (Note 3.a.(vi))

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(v) *Measuring ECL - Explanation of inputs, assumptions and estimation techniques (continued)*

*LGD*

For sovereign investment securities, LGDs are obtained from Moody's Investor Services' Data Report on Sovereign Global Default and Recovery Rates (1983-2019). Corporate investment securities LGDs are based on the standard terms for North American corporate entities CDS contracts, taken from Moody's Analytics' CDS-implied EDF™ Credit Measures and Fair-value Spreads.

(vi) *Forward-looking information incorporated in the ECL models*

The calculation of ECL incorporates forward-looking information. The Company has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

*Determination of macroeconomic scenarios and probabilities*

For each country in which the Group has investment securities, management performs scenario analysis to determine the impact of future economic conditions on the PD in these countries. After testing multiple economic indicators, a main macro-economic variable (MEV) is determined, which is statistically linked to the credit risk of that sovereign. To increase the robustness of the model and in light of the shock from COVID-19, management adopted a bivariate model to determine two MEVs for key sovereigns. The statistical relationship is determined through regression analysis and an analysis of various measures of significance. The sign of the coefficients is also an important factor in determining the use of the two MEVs. Correlation analysis is then conducted between the two MEVs and key sovereign credit risk metrics, to determine which are most significant. Three selected sovereign credit risk metrics were identified as sovereign credit rating drivers to quantify the impact of the MEVs on each credit risk driver, ordinary least squares (OLS) regression is conducted. To establish scenarios, the MEVs are 'shocked', such that the official forecast for each year moves up and down by a multiple of the historical standard deviation to establish a best- and worse-case. The new values derived are run through a regression model to quantify the relationship between the credit rating and the scenarios. Data used in the update of the model as at 30 September 2020 incorporate the impact of COVID-19, as such the forward looking scenarios factor in the economic shock of the pandemic.

Credit ratings were forecasted for the next three years using these macro-economic scenarios. The weightings applied to the forecasted ratings were 60% for year 1, 20% each for year 2 and 3. These weightings were determined based on management's judgment and experience.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Management judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Economics Research Unit on a periodic basis and provide the best estimate view of the economy over the next three years. After three years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used. The impact of these economic variables on the PD, EAD and LGD has been determined by performing regression analysis to understand the impact changes in these variables have had historically on default rates and LGD.

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(vi) *Forward-looking information incorporated in the ECL models (continued)*

*Determination of macroeconomic scenarios and probabilities (continued)*

*Economic assumptions*

The most significant period-end assumptions used for the ECL estimate as at 30 September 2020 are set out below. The scenarios "base", "best" and "worst" were used for the investment portfolios.

*Sensitivity analysis*

The most significant assumptions affecting the ECL allowance are as follows:

*Corporate/Commercial portfolios*

(i) GDP, given the significant impact on company financial performance and collateral valuations;

Set out below are the changes to the ECL as at 30 September 2020 that would result from reasonably possible changes in these parameters from the actual assumptions used by management (for example, the impact on ECL of increasing the estimated unemployment rate by 1% in each of the base, best and worst case scenarios):

| | September 2020 | | | September 2019 | | |
|---|---|---|---|---|---|---|
| **Unemployment Rates** | **PDs** | | | **PDs** | | |
| | **-1%** | **No Change** | **1%** | **-1%** | **No Change** | **1%** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| | -- | -- | -- | 1,655 | -- | 1,655 |
| **GDP** | **LGDs** | | | **LGDs** | | |
| | **-5%** | **No Change** | **5%** | **-5%** | **No Change** | **5%** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| | -- | -- | -- | 3,436 | -- | 3,436 |

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(vii) *Risk limit control and mitigation policy*

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, groups of borrowers, industry and country segments. The Company monitors its concentration of credit exposure so that no single borrower default will have a material impact on the Company. These limits are implemented and monitored by the Group Credit Risk Management Unit through the Group Credit Policy Manual. In instances where it is strategically beneficial and adequately documented, the Company would seek approval on an exception basis for variation to the approved limits from the Board of Directors.

(a) *Single borrower and borrower group exposure limits*

Limits established by regulatory authorities have been incorporated into the credit policies where concentration is restricted by limiting credit amounts to a percentage of the capital base. This is supported by a stringent reporting requirement and is further enhanced by policies requiring periodic review of all commercial credit relationships.

(b) *Industry exposure limits*

These limits have been established based on a ranking of the riskiness of various industries. The ranking is guided by a model developed for the Group for this purpose. The model utilises a scale incorporating scores of 1 to 6 with 1 being the least risky. Exposure limits as a percentage of the total credit portfolio have been established to the various Industry exposure categories based on the risk ranking.

(c) *Country exposure limits*

Exposure limits have been established for selected countries which are considered to be within the Company's target market. Three (3) risk categories have been developed and the selected countries have been assigned to these categories based either on ratings issued by acceptable rating agencies or the Company's own internal assessment of the strategic direction of the Company. Maximum cross border exposure has been limited to a pre-determined portion of total assets and this amount is allocated to the various risk categories with a larger share being allocated to the more highly rated categories.

(d) *Impairment and provisioning policies*

The Company's impairment provision policy is covered in detail in Note 2(d) (i) (c)

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(viii) *Maximum exposure to credit risk before credit risk collateral held or other credit enhancement:*

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| *Gross maximum exposure* | | |
| Cash and cash equivalents | 382,112 | 356,890 |
| Statutory deposit with Central Bank | 77 | 77 |
| Investment securities | 16,200 | 15,908 |
| Other receivables | 11,430 | 14,921 |
| Due from related parties | 15,816 | 20,570 |
| | 425,635 | 408,366 |

The above table represents a worst case scenario of credit risk exposure to the Company without taking account of any collateral held or other credit enhancements attached.

b. *Market risk*

The Company takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The market risks arising from trading and non-trading activities are measured separately by the Group Market Risk department who submit reports to the Senior Management Enterprise Risk Committee (SMERMC) on a regular basis and also reports via the Enterprise Risk Unit to the Board Enterprise Risk Committee to enable Board oversight of market risk issues. Additionally, on a monthly basis, the Company's Market Risk Committee reviews and approves the yield curves used to value all investment securities and reports on this into the Company ALCO. This Committee also provides for the consideration of the Company ALCO technical information that may be relevant to current and developing market conditions from time to time.

3 **Financial risk management (continued)**

b. *Market risk (continued)*

(i) *Currency risk*

The Company takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The market risk associated with maintaining foreign currency exposures is monitored monthly by the Company's Asset/Liability Committee. The Company does not currently engage in any hedging activities.

*Foreign currency exposure for financial assets and financial liabilities*

**As at 30 September 2020**

| | TTD $'000 | USD $'000 | Total $'000 |
|---|---|---|---|
| *Financial assets* | | | |
| Cash and cash equivalents | 288,278 | 93,834 | 382,112 |
| Statutory deposit with Central Bank | 77 | -- | 77 |
| Investment securities | 16,200 | -- | 16,200 |
| Other receivables | 9,897 | 1,533 | 11,430 |
| Due from related parties | 15,816 | -- | 15,816 |
| Total financial assets | 330,268 | 95,367 | 425,635 |
| *Financial liabilities* | | | |
| Funds held as paying agent for bondholders | 115,384 | -- | 115,384 |
| Customers' deposits | 849 | -- | 849 |
| Other creditors and accrued expenses | 5,842 | -- | 5,842 |
| Total financial liabilities | 122,075 | -- | 122,075 |
| Net statement of financial position | 208,193 | 95,367 | 303,560 |

3 **Financial risk management (continued)**

b. *Market risk (continued)*

(i) *Currency risk (continued)*

*Foreign currency exposure for financial assets and financial liabilities (continued)*

**As at 30 September 2019**

| | TTD $'000 | USD $'000 | Total $'000 |
|---|---|---|---|
| *Financial assets* | | | |
| Cash and cash equivalents | 283,544 | 73,346 | 356,890 |
| Statutory deposit with Central Bank | 77 | -- | 77 |
| Investment securities | 15,908 | -- | 15,908 |
| Other receivables | 13,733 | 1,188 | 14,921 |
| Due from related parties | 20,570 | -- | 20,570 |
| Total financial assets | 333,832 | 74,534 | 408,366 |
| *Financial liabilities* | | | |
| Funds held as paying agent for bondholders | 59,212 | | 59,212 |
| Due to related party as paying agent for bondholders | 8,090 | -- | 8,090 |
| Customers' deposits | 846 | -- | 846 |
| Other creditors and accrued expenses | 55,471 | -- | 55,471 |
| Total financial liabilities | 123,619 | -- | 123,619 |
| Net statement of financial position | 210,213 | 74,534 | 284,747 |

If the TT$ appreciates by 250 basis points (2019: 250 basis points) against the US$, the profit would decrease by $2,384,168 (2019: $1,863,350). The average change for the last three years was 10 basis points (2019: 19 basis points).

(ii) *Interest rate risk*

Interest rate risk management focuses on potential changes in net interest income resulting from changes in interest rates, product spreads and mismatches in the re-pricing between interest rate sensitive assets and liabilities.

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and future cash flows. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of the changes in market interest rates. Cashflow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of the changes in market interest rate.

The Company takes on exposure to the effects of fluctuations in the prevailing level of market interest rates on both its fair value and cash flow risks. Interest earnings are immaterial, and the Company does not have any long-term borrowings. Hence, interest rate risk does not have a significant impact on its operations.

3 **Financial risk management (continued)**

b. *Market risk (continued)*

(ii) *Interest rate risk (continued)*

The table below summarises the Company's exposure to interest rate risk. The assets and liabilities are categorised by the contractual date.

**As at 30 September 2020**

| | Up to 1 month $'000 | 1 to 3 months $'000 | 3 to 12 months $'000 | 1 to 5 years $'000 | Over 5 years $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| *Financial assets* | | | | | | | |
| Cash and cash equivalents | 382,112 | -- | -- | -- | -- | -- | 382,112 |
| Statutory deposit with Central Bank | -- | -- | -- | -- | -- | 77 | 77 |
| Investment securities | 16,116 | -- | -- | -- | -- | 84 | 16,200 |
| Other assets | -- | -- | -- | -- | -- | 11,430 | 11,430 |
| Due from related parties | 19 | 47 | 308 | 15,442 | -- | -- | 15,816 |
| | 398,247 | 47 | 308 | 15,442 | -- | 11,591 | 425,635 |
| *Financial liabilities* | | | | | | | |
| Funds held as paying agent for bondholders | | | -- | -- | -- | 115,384 | 115,384 |
| Customers' deposits | 223 | 15 | 458 | -- | 153 | -- | 849 |
| Other creditors and accrued expenses | -- | -- | -- | -- | -- | 5,842 | 5,842 |
| Total financial liabilities | 223 | 15 | 458 | -- | 153 | 121,226 | 122,075 |
| Interest sensitivity gap | 398,024 | 32 | (150) | 15,442 | (153) | | |

3 **Financial risk management (continued)**

b. *Market risk (continued)*

(ii) *Interest rate risk (continued)*

**As at 30 September 2019**

| | Up to 1 month $'000 | 1 to 3 months $'000 | 3 to 12 months $'000 | 1 to 5 years $'000 | Over 5 years $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| *Financial assets* | | | | | | | |
| Cash and cash equivalents | 356,890 | -- | -- | -- | -- | -- | 356,890 |
| Statutory deposit with Central Bank | -- | -- | -- | -- | -- | 77 | 77 |
| Investment securities | 15,824 | -- | -- | -- | -- | 84 | 15,908 |
| Other assets | -- | -- | -- | -- | -- | 14,921 | 14,921 |
| Due from related parties | 14 | 17 | 1,865 | 12,008 | -- | 6,666 | 20,570 |
| Total financial assets | 372,728 | 17 | 1,865 | 12,008 | -- | 21,748 | 408,366 |
| *Financial liabilities* | | | | | | | |
| Funds held as paying agent for bondholders | -- | -- | -- | -- | -- | 59,212 | 59,212 |
| Customers' deposits | 221 | 15 | 462 | -- | 148 | -- | 846 |
| Due to related party as paying agent for bondholders | | | -- | -- | -- | 8,090 | 8,090 |
| Other creditors and accrued expenses | -- | -- | -- | -- | -- | 55,471 | 55,471 |
| Total financial liabilities | 221 | 15 | 462 | -- | 148 | 122,773 | 123,619 |
| Interest sensitivity gap | 372,507 | 2 | 1,403 | 12,008 | (148) | | |

3 **Financial risk management (continued)**

b. *Market risk (continued)*

(iii) *Other price risk*

Other price risk arises due to the possibility that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is affected by changing prices of mutual funds (puttable instruments) classified as fair value through profit or loss securities with fair value movements recognised in statement of profit or loss and other comprehensive income. Management has determined that the impact of the price risk on these instruments classified as fair value through profit or loss is immaterial at the end of both periods reported.

c. *Liquidity risk*

The liquidity risk is the risk that the Company will be unable to generate or obtain sufficient cash or its equivalent in a timely and cost-effective manner to meet its commitments when they fall due under normal and stress circumstances and arises from fluctuation in cash flows.

*Liquidity risk management process*

The Company's liquidity management process is carried out by the Treasury and International Trade Centre and monitored by the Group's Asset/Liability Committee (ALCO). The Company's liquidity management framework is designed to ensure that there are adequate reserves of cash and other liquid securities to satisfy current and prospective commitments. Current and projected cash flows are monitored, together with diversification of funding and contingency planning, and ensuring that funding disturbances are minimised. The Company manages liquidity risk using both expected and contractual cash flows by maintaining a liquid pool of marketable securities dedicated to mitigating liquidity risk as a contingency measure and managing the concentration of portfolios.

Compliance with liquidity policies and risk limits is tracked by Group Market Risk and reported into the Senior Management Enterprise Risk Management Committee and via the Group Enterprise Risk Management Unit to the Board Enterprise Risk Management Committee.

## 3 Financial risk management (continued)

### c. *Liquidity risk (continued)*

The table below analyses the financial assets and liabilities of the Company into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Up to 1 month $'000 | 1 to 3 months $'000 | 3 to 12 months $'000 | 1 to 5 Years $'000 | Over 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **As at 30 September 2020** | | | | | | |
| *Financial liabilities* | | | | | | |
| Funds held as paying agent for bondholders | 115,384 | -- | -- | -- | -- | 115,384 |
| Customers' deposits | 223 | 17 | 462 | -- | 167 | 869 |
| Creditors and accrued expenses | 5,842 | -- | -- | -- | -- | 5,842 |
| Total financial liabilities | 121,449 | 17 | 462 | -- | 167 | 122,095 |
| Total financial assets | 425,503 | 60 | 1,220 | 16,456 | 161 | 443,400 |
| Liquidity gap | 304,054 | 43 | 758 | 16,456 | (6) | 321,305 |
| **As at 30 September 2019** | | | | | | |
| *Financial liabilities* | | | | | | |
| Funds held as paying agent for bondholders | 59,212 | -- | -- | -- | | 59,212 |
| Due to related party as paying agent for bondholders | 8,090 | -- | -- | -- | -- | 8,090 |
| Customers' deposits | 223 | 17 | 465 | -- | 160 | 865 |
| Creditors and accrued expenses | 55,471 | -- | -- | -- | -- | 55,471 |
| Total financial liabilities | 122,996 | 17 | 465 | -- | 160 | 123,638 |
| Total financial assets | 408,232 | 21 | 2,114 | 12,500 | 161 | 423,028 |
| Liquidity gap | 285,236 | 4 | 1,649 | 12,500 | 1 | 299,390 |

3 **Financial risk management (continued)**

d. *Capital risk management*

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

- to comply with the capital requirement set by the regulators in the Financial Institutions Act (2008);
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits for other stakeholders;
- to ensure that the Company can remain solvent during periods of adverse earnings or economic decline; and
- to ensure that the Company is adequately capitalised to cushion depositors and other creditors against losses.

Capital adequacy and the use of the regulatory capital are monitored monthly by the Company ALCO Committee, employing techniques based on the guidelines developed by the Basel Committee on Banking Regulations and Supervisory practices, as implemented by the Central Bank of Trinidad and Tobago for supervisory purposes. The required information is filed with the Central Bank of Trinidad and Tobago on a monthly basis.

The Central Bank of Trinidad and Tobago requires each financial institution to:

- Maintain a ratio of qualifying capital to risk adjusted assets of not less than the minimum standard of 8%.
- Maintain core capital not less than fifty percent (50%) of qualifying capital i.e. supplementary capital must not exceed core capital.

The Company's regulatory capital is calculated using:

- Tier 1 (Core) capital - share capital, retained earnings and reserves created by appropriations of retained earnings.
- Tier 2 (Supplementary) capital - qualifying subordinated loan capital, impairment allowances and unrealised gains arising on the fair valuation of available-for-sale securities and property, plant and equipment.

### 3 Financial risk management (continued)

d. *Capital risk management (continued)*

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| *Tier 1 (Core) capital* | | |
| Share capital | 15,000 | 15,000 |
| Statutory reserve | 15,000 | 15,000 |
| Retained earnings | 292,364 | 277,543 |
| Total Tier 1 | 322,364 | 307,543 |
| *Tier 2 (Supplementary) capital* | | |
| Revaluation reserve | 18,416 | 18,416 |
| Total Tier 2 | 18,416 | 18,416 |
| Qualifying capital | 340,780 | 325,959 |
| *Ratios* | | |
| Risk adjusted assets | 164,264 | 171,005 |
| Qualifying capital to risk adjusted assets | 207.46% | 190.61% |
| Core capital to qualifying capital | 94.60% | 94.35% |

As at 30 September 2020 the Company was in compliance with these requirements.

3 **Financial risk management (continued)**

e. *Fair value of financial assets and liabilities*

*Financial instruments not measured at fair value*

The fair value of floating rate placements with financial institutions and overnight deposits is approximately equal to their carrying value.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities presented on the Company's statement of financial position at an amount other than their fair value.

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| *Financial assets* | | | | |
| Cash and cash equivalents | 382,112 | 356,890 | 382,112 | 356,890 |
| Statutory deposit with Central Bank | 77 | 77 | 77 | 77 |
| Other receivables | 11,430 | 14,921 | 11,430 | 14,921 |
| Due from related parties | 15,816 | 20,570 | 15,816 | 20,570 |
| | 409,435 | 392,458 | 409,435 | 392,458 |
| *Financial liabilities* | | | | |
| Funds held as paying agent for bondholders | 115,384 | 59,212 | 115,384 | 59,212 |
| Due to related party as paying agent for bondholders | -- | 8,090 | -- | 8,090 |
| Customers deposits | 849 | 846 | 849 | 846 |
| Other creditors and accrued expenses | 5,842 | 55,471 | 5,842 | 55,471 |
| | 122,075 | 123,619 | 122,075 | 123,619 |

*Financial instruments where carrying value is equal to fair value*

Due to their liquidity and short-term maturity, the carrying value of certain financial instruments is assumed to approximate their fair values. These include cash, statutory deposit with the Central Bank of Trinidad and Tobago, other receivables, customer deposits, funds held for bondholders, creditors and accrued expenses and related party balances.

3 **Financial risk management (continued)**

e. *Fair value of financial assets and liabilities (continued)*

*Fair value hierarchy*

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to these valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy: -

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes debt instruments.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

The following tables analyse the financial instruments held by the Company according to the above fair value hierarchy:

| | Level 1<br>$'000 | Level 2<br>$'000 | Level 3<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|
| **As at 30 September 2020** | | | | |
| Investment securities – Fair value<br>- Mutual funds | -- | 16,200 | -- | 16,200 |
| Total | -- | 16,200 | -- | 16,200 |

| | Level 1<br>$'000 | Level 2<br>$'000 | Level 3<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|
| **As at 30 September 2019** | | | | |
| Investment securities – Fair value<br>- Mutual funds | -- | 15,908 | -- | 15,908 |
| Total | -- | 15,908 | -- | 15,908 |

## 4 Critical accounting estimates

The Company makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below:

*Fair value of financial instruments*

The fair values of financial assets that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

*Income taxes*

The Company is subject to income tax in various jurisdictions. Management judgement is required in determining provisions for income taxes and there are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. When appropriate, particularly where the ultimate tax determination is uncertain, management also obtains opinions or advice from leading tax advisors and regularly reassesses its strategy in relation to such exposures.

## 5 Cash and cash equivalents

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Cash and bank balances | 382,112 | 356,890 |

Cash and cash equivalents include the above for the purpose of the statement of cash flows.

## 6 Statutory deposit with the Central Bank of Trinidad and Tobago

Under the provisions of the Financial Institutions Act, 2008 (Trinidad and Tobago), the Company is required to maintain as a deposit with the Central Bank of Trinidad and Tobago, restricted cash balances. These balances represent a ratio of certain deposit liabilities held in such form and to such extent as the Central Bank may prescribe from time to time. The current ratio is 9% (2019: 9%). Under the provisions of the Act, it can be waived for a specified period of time and on such conditions as may be determined by the Central Bank of Trinidad and Tobago.

As at 30 September 2020 and for the year then ended, the Company was in compliance with this requirement.

## 7 Investment securities

(a) *Fair value through other comprehensive income (FVOCI)*

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Mutual funds | 84 | 84 |
| Unquoted equity | 964 | 964 |
| Fair value loss on unquoted equity | (964) | (964) |
| | 84 | 84 |
| Opening balance | 84 | 16,539 |
| Reclassification of financial assets from FVOCI to FVPL | -- | (15,491) |
| Fair value loss on unquoted equity | -- | (964) |
| Closing balance | 84 | 84 |

(b) *Fair value through profit or loss (FVPL)*

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Mutual funds | 16,116 | 15,824 |
| Opening balance | 15,824 | -- |
| Reclassification of financial assets from FVOCI to FVPL | -- | 15,491 |
| Capitalised interest | 306 | 304 |
| Fair value (loss)/gain on mutual funds | (14) | 29 |
| Closing balance | 16,116 | 15,824 |

## 8 Other receivables and prepayments

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Accounts receivable | 11,430 | 14,921 |
| Prepayments | 1,107 | 330 |
| | 12,537 | 15,251 |

## 9 Due from related parties

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Finance leases receivable from parent and other subsidiaries | 16,575 | 13,904 |
| Due (to)/from parent and other subsidiaries for transfers to customers | (578) | 400 |
| Due to other subsidiary as paying agent for bondholders | -- | (8,090) |
| Due (to)/from parent and other subsidiaries for operating expenses | (597) | 249 |
| Due from plans under administration for transfers to customers | 416 | 6,017 |
| | 15,816 | 12,480 |

Finance leases are non-cancellable agreements generally relating to motor vehicles owned by the Company. The lease terms are four years.

All other outstanding balances with related parties are to be settled in cash within three (3) months of the reporting date. No interest is charged or accrued on balances with related parties.

## 10 Taxation receivable

Within taxation receivable, the Company has long outstanding corporation tax refunds due from the Board of Inland Revenue (BIR) amounting to $7,189,474 (2019:$16,649,363). During the current financial year, the BIR issued tax refunds which amounted to $9,459,889 for the tax years 2008 – 2010. The Company has pursued recovery from the BIR by providing all information in support of these refunds. The Company's position is that these refunds are fully recoverable. The BIR has also agreed with the Company's position.

## 11 Property, plant and equipment

| | Freehold land & building $'000 | Furniture & computer equipment $'000 | Motor vehicles $'000 | Work in progress $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Year ended 30 September 2020** | | | | | |
| Opening net book value | 29,438 | 904 | 413 | 19 | 30,774 |
| Additions | -- | 156 | -- | -- | 156 |
| Disposals | -- | -- | -- | (19) | (19) |
| Depreciation charge | (458) | (405) | (250) | -- | (1,113) |
| **Closing net book value** | 28,980 | 655 | 163 | -- | 29,798 |
| **As at 30 September 2020** | | | | | |
| Cost or valuation | 29,887 | 13,362 | 443 | -- | 43,692 |
| Accumulated depreciation | (907) | (12,707) | (280) | -- | (13,894) |
| **Closing net book value** | 28,980 | 655 | 163 | -- | 29,798 |
| **Year ended 30 September 2019** | | | | | |
| Opening net book value | 29,000 | 553 | 612 | -- | 30,165 |
| Additions | 887 | 709 | -- | 19 | 1,615 |
| Depreciation charge | (449) | (358) | (199) | -- | (1,006) |
| **Closing net book value** | 29,438 | 904 | 413 | 19 | 30,774 |
| **As at 30 September 2019** | | | | | |
| Cost or valuation | 29,887 | 13,206 | 908 | 19 | 44,020 |
| Accumulated depreciation | (449) | (12,302) | (495) | -- | (13,246) |
| **Closing net book value** | 29,438 | 904 | 413 | 19 | 30,774 |
| **As at 30 September 2018** | | | | | |
| Cost or valuation | 29,000 | 12,498 | 908 | -- | 42,406 |
| Accumulated depreciation | -- | (11,945) | (296) | -- | (12,241) |
| **Closing net book value** | 29,000 | 553 | 612 | -- | 30,165 |

### 11 Property, plant and equipment (continued)

If the buildings were stated on the historical cost basis, the amount would be as follows:

| | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| Cost | 14,000 | 14,000 |
| Accumulated depreciation | (9,986) | (9,706) |
| Net book value | 4,014 | 4,294 |

As at 30 September 2018, the Company's land and building were revalued by an external independent qualified valuator. The valuation was made on the basis of open market values determined by considering the current market condition. Changes in fair value are recorded in the statement of profit or loss and other comprehensive income net of tax. Management did assess the key assumptions from the last valuation and there is no change in the fair value of the building at this time. Next external valuation is due 30 September 2021.

The fair value for land and building is a level 2 recurring fair value measurement.

| | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| Opening balance (level 2 recurring fair values) | 29,438 | 29,000 |
| Additions | -- | 887 |
| Depreciation charge | (458) | (449) |
| Closing balance (level 2 recurring fair values) | 28,980 | 29,438 |

### 12 Intangible assets

| | Computer Software<br>$'000 | Work in progress<br>$'000 | Total<br>$'000 |
|---|---|---|---|
| **Year ended 30 September 2020** | | | |
| Opening net book value | 28 | 1,390 | 1,418 |
| Additions | -- | 136 | 136 |
| Depreciation charge | (28) | -- | (28) |
| **Closing net book value** | **--** | **1,526** | **1,526** |
| **As at 30 September 2020** | | | |
| Cost or valuation | 859 | 1,526 | 2,385 |
| Accumulated depreciation | (859) | -- | (859) |
| Closing net book value | -- | 1,526 | 1,526 |

## 12 Intangible assets (continued)

| | Computer Software $'000 | Work in progress $'000 | Total $'000 |
|---|---|---|---|
| **Year ended 30 September 2019** | | | |
| Opening net book value | 57 | 942 | 999 |
| Additions | -- | 448 | 448 |
| Depreciation charge | (29) | -- | (29) |
| **Closing net book value** | 28 | 1,390 | 1,418 |
| **As at 30 September 2019** | | | |
| Cost or valuation | 859 | 1,390 | 2,249 |
| Accumulated depreciation | (831) | -- | (831) |
| Closing net book value | 28 | 1,390 | 1,418 |

## 13 Funds held for third party customers

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Funds held payable to bondholders | 115,384 | 59,212 |
| Funds held for third parties | -- | 49,803 |
| | 115,384 | 109,015 |

The Company in its capacity as bond paying agent receives payments from bond issuers on a periodic basis for payment to bond holders. Also, from time to time, the Company holds funds to remit to third parties for placement of investments on behalf of plans under management. These funds are held in a separate bank account and are included in cash and cash equivalents on the statement of financial position.

## 14 Customers' deposits

*Deposits are analysed by sector as follows:*

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Private institutions | 131 | 131 |
| Individuals | 718 | 715 |
| | 849 | 846 |

## 15 Deferred tax liability

Deferred income taxes are calculated on all temporary differences under the liability method using the effective tax rate of 35% (2019: 35%). The movement on the deferred income tax account is as follows:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| At beginning of year | (3,914) | (4,356) |
| Impact of revaluation adjustments: | | |
| Depreciation on financial assets | (208) | -- |
| Profit and loss charge | 10 | 442 |
| At end of year | (4,112) | (3,914) |

## 15 Deferred tax liability (continued)

| | Balance at 1 October 2019 $'000 | Credit/(Charge) to statement of profit or loss and other comprehensive income $'000 | (Charge)/credit to other comprehensive income $'000 | Balance at 30 September 2020 $'000 |
|---|---|---|---|---|
| *Deferred income tax assets* | | | | |
| Accelerated tax depreciation | | | | |
| - current year | 2,709 | (214) | -- | 2,495 |
| - prior year | 643 | 11 | -- | 654 |
| | 3,352 | (203) | -- | 3,149 |
| *Deferred income tax liabilities* | | | | |
| Fair value measurement of financial assets | (813) | 5 | -- | (808) |
| Revaluation gain on freehold land and building | (6,453) | -- | -- | (6,453) |
| | (7,266) | 5 | -- | (7,261) |
| Net deferred tax liability | (3,914) | (198) | -- | (4,112) |

| | Balance at 1 October 2018 $'000 | Credit/(Charge) to statement of profit or loss and other comprehensive income $'000 | (Charge)/credit to other comprehensive income $'000 | Balance at 30 September 2019 $'000 |
|---|---|---|---|---|
| *Deferred income tax assets* | | | | |
| Accelerated tax depreciation | | | | |
| - current year | 2,504 | 205 | -- | 2,709 |
| - prior year | 396 | 247 | -- | 643 |
| | 2,900 | 452 | -- | 3,352 |
| *Deferred income tax liabilities* | | | | |
| Fair value measurement of financial assets | (803) | (10) | | (813) |
| Revaluation gain on freehold land and building | (6,453) | -- | -- | (6,453) |
| | (7,256) | (10) | -- | (7,266) |
| Net deferred tax liability | (4,356) | 442 | -- | (3,914) |

## 16 Other creditors and accrued expenses

Included in other creditors and accrued expenses is an amount of $376 (2019: $358) which is due to investors of the First Energy Fund. The First Energy Fund was closed effective 31 August 2010. In accordance with the Custodian Agreement dated 15 September 2010 between First Citizens Depository Services Limited and the Trustee, the net assets of the Fund, represented by cash was transferred to the Company for distribution to the remaining unit holders. This cash is held in a custodian account and is included in Cash and cash equivalents.

## 17 Deferred income

Fee income received in advance of the service to be provided is carried in deferred income. These fees received will be recognised as income over the next five (5) years.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Income recognisable within one year | 1,139 | 1,519 |
| Income recognisable in more than one year | 112 | 238 |
| | 1,251 | 1,757 |

## 18 Share capital

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Authorised | | |
| 8,000,000 ordinary shares of no par value | | |
| Issued and fully paid | | |
| 667,096 (2019: 667,096) ordinary shares of no par value | 15,000 | 15,000 |

## 19 Statutory reserve

The Financial Institutions Act 2008, Part IV, Section 25 1(a) stipulates that a licensee must transfer annually a minimum of 10% of its profits after taxation to a Reserve Fund until the amount at credit of the Reserve Fund equals the paid up capital of the Company. As at 30 September 2020, the Statutory Reserve was equal to the paid up capital of the Company.

## 20 Revaluation reserve

Investment securities - FVOCI

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Balance at beginning of year | -- | 2,447 |
| Reclassification of financial assets from FVOCI to FVPL | -- | (2,447) |
| Net loss from changes in fair value | -- | -- |
| Balance at end of year | -- | |

## 20 Revaluation reserve (continued)

| Revaluation of land and building | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Revaluation reserve – land and buildings | 18,416 | 18,416 |

## 21 Revenue from contracts with customers

| | Collective investment schemes $'000 | Pension Plan Funds $'000 | Other portfolios $'000 | Institutional debt issuers $'000 | Other related parties $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Year ended 30 September 2020** | | | | | | |
| Custodian fees | 50,625 | 9,313 | 405 | -- | 12,000 | 72,343 |
| Distribution fees | 10,037 | -- | -- | -- | -- | 10,037 |
| Administrative fees | 918 | -- | -- | -- | -- | 918 |
| Bond paying agent fees | -- | -- | -- | 2,549 | -- | 2,549 |
| Accounting services fees | -- | -- | -- | -- | 1,200 | 1,200 |
| Total | 61,580 | 9,313 | 405 | 2,549 | 13,200 | 87,047 |
| **Year ended 30 September 2019** | | | | | | |
| Custodian fees | 59,088 | 8,944 | 147 | -- | 12,000 | 80,179 |
| Distribution fees | 9,057 | -- | -- | -- | -- | 9,057 |
| Administrative fees | 920 | -- | -- | -- | -- | 920 |
| Bond paying agent fees | -- | -- | -- | 2,212 | -- | 2,212 |
| Accounting services fees | -- | -- | -- | -- | 600 | 600 |
| Total | 69,065 | 8,944 | 147 | 2,212 | 12,600 | 92,968 |

## 22 Other income

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Rent | 1,521 | 1,525 |
| Foreign exchange gain | 221 | 53 |
| Miscellaneous income | 301 | 103 |
| | 2,043 | 1,681 |

## 23 Net interest income

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Leases | 1,665 | 1,854 |
| Financial assets | 308 | 309 |
| Balances due from banks | 161 | 132 |
| Interest income | 2,134 | 2,295 |
| Interest expense | (6) | (5) |
| | 2,128 | 2,290 |

## 24 Administrative expenses

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Staff costs (Note 24 a.) | 18,104 | 18,543 |
| Director's fees | 245 | 245 |
| | 18,349 | 18,788 |

a. *Staff costs*

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Salaries | 13,382 | 13,898 |
| Other staff expenses | 2,566 | 2,594 |
| National insurance | 795 | 832 |
| Pension expense | 1,361 | 1,219 |
| | 18,104 | 18,543 |

The number of permanently employed staff as at the year-end was as follows:

| | 2020 | 2019 |
|---|---|---|
| | 61 | 60 |

## 25 Other operating expenses

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Operating expenses | 7,212 | 6,512 |
| Hardware and software expenses (CPU Charges) | 2,995 | 2,995 |
| Advertising expenses | 79 | 231 |
| Property expenses | 1,018 | 724 |
| Technical and professional fees | 394 | 401 |
| Depreciation and amortisation charges | 1,141 | 1,035 |
| | 12,839 | 11,898 |

## 26 Taxation

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Corporation tax - current year | 21,282 | 23,356 |
| - prior year | 388 | (18) |
| Deferred tax-current year | 209 | (205) |
| - prior year | (11) | (247) |
| | 21,868 | 22,886 |

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Profit before tax | 60,021 | 66,272 |
| Tax calculated at 35% (2019: 35%) | 21,008 | 23,195 |
| Non-deductible expenses | 3,849 | 3,976 |
| Income exempt from tax | (710) | (829) |
| Allowances | (2,656) | (3,191) |
| Prior year over provision | 377 | (265) |
| Tax charge | 21,868 | 22,886 |

## 27 Related party transactions and balances

The following transactions are entered into with related parties in the normal course of business:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| *Directors and key management personnel* | | |
| Salaries and other short-term employee benefits | 1,620 | 2,065 |
| *Transactions and balances with parent* | | |
| Cash and cash equivalents | 382,112 | 356,890 |
| Due to related parties | (5,491) | (3,294) |
| Interest income | 1,826 | 1,985 |
| Other operating expenses | 5,790 | 5,790 |
| *Transactions and balances with other related parties* | | |
| Due from related parties | 21,307 | 23,864 |
| Due to related party as paying agent for bondholders | -- | (8,090) |
| Investment securities - FVPL | 16,116 | 15,824 |
| Other receivables and prepayments | 6,402 | 10,243 |
| Income | 76,606 | 83,494 |

### 28 Deposit insurance

The Central Bank and Financial Institutions (Non-Banking) (Amendment) Act, 1986 established a Deposit Insurance Fund for the protection of depositors. By the Central Bank (Deposit Insurance) Order 1986, dated 17 September 1986, an annual premium of 0.2 percent of the average deposit liabilities outstanding as at the end of each quarter of the preceding year is levied.

### 29 Dividends

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Ordinary dividend - 2019 | 23,332 | -- |
| Ordinary dividend - 2018 | -- | 28,947 |
| | 23,332 | 28,947 |

### 30 Contingent liabilities

The Company is involved in claims and counterclaims arising from the conduct of its business. Based on the facts now known to the Company, the Directors believe that the outcome of these matters would not have a material effect on the position of the Company.

### 31 Assets under administration

The Company provides investment management and custody services to third parties, which involve the Company making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. The assets under administration at the reporting dates are as following:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| | 15,028,936 | 14,946,630 |

### 32 Subsequent events

There were no events after the reporting period which were material to the financial statements and should have resulted in adjustments to the financial statements or disclosures when the financial statements were authorised for issue.