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INTERCOMMERCIAL
TRUST & MERCHANT BANK LIMITED

# FINANCIAL STATEMENTS MARCH 31, 2012

# INTERCOMMERCIAL TRUST AND MERCHANT BANK LIMITED

**Independent Auditors' Report to the Shareholders of Intercommercial Trust and Merchant Bank Limited**

We have audited the accompanying financial statements of Intercommercial Trust and Merchant Bank Limited ('ITMBL'), which comprise the statement of financial position as at March 31, 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*
Management is responsible for the preparation and fair presentation of these 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.

*Auditors' Responsibility*
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*
In our opinion, the financial statements present fairly, in all material respects, the financial position of ITMBL as at March 31, 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG
Chartered Accountants
May 21, 2012
Port of Spain, Trinidad and Tobago

## Statement of Financial Position
March 31, 2012

| | Notes | 2012 | 2011 |
|---|---|---|---|
| | | $'000 | $'000 |
| **ASSETS** | | | |
| Cash at bank – deposited with parent | | 16,655 | 19,448 |
| Due from other financial institutions | | 167 | 164 |
| Balances with Central Bank | | 4,195 | 4,220 |
| Loans and advances | 6 | 21,274 | 22,697 |
| Investment securities | 7 | 25,476 | 27,780 |
| Other assets, prepayments and accrued income | 8 | 417 | 803 |
| Deferred tax asset | 9 | 660 | 655 |
| Property, plant and equipment | 10 | 294 | 359 |
| **Total assets** | | 69,138 | 76,126 |
| **LIABILITIES** | | | |
| Customer deposits | 11 | 48,200 | 48,451 |
| Repurchase agreements | 12 | - | 3,000 |
| Other liabilities and accruals | 13 | 422 | 421 |
| Corporation tax payable | | 263 | 122 |
| **Total liabilities** | | 48,885 | 51,994 |

**Statement of Financial Position (cont'd)**
*March 31, 2012*

| | Notes | 2012 | 2011 |
|---|---|---|---|
| | | $'000 | $'000 |
| **EQUITY** | | | |
| Stated capital | 14 | 15,000 | 15,000 |
| Retained earnings | | 4,290 | 7,975 |
| Statutory reserve fund | | 1,703 | 1,562 |
| Investment revaluation reserve | | (1,113) | (825) |
| Loan loss reserve | | 373 | 420 |
| **Total equity** | | 20,253 | 24,132 |
| **Total liabilities and equity** | | 69,138 | 76,126 |

*The accompanying notes form an integral part of these financial statements.*

Director ---------- Director

## Statement of Comprehensive Income
Year ended March 31, 2012

| | Notes | 2012 | 2011 |
|---|---|---|---|
| | | $'000 | $'000 |
| **INTEREST INCOME** | | | |
| Interest on loans and advances | | 2,741 | 2,421 |
| Interest from investments | | 647 | 1,360 |
| Other | | 154 | 340 |
| | | 3,542 | 4,121 |
| **INTEREST EXPENSE** | | | |
| Interest on customer deposits and other funding instruments | | 736 | 950 |
| **Net interest income** | | 2,806 | 3,171 |
| **OTHER INCOME** | | | |
| Loss on sale on investments | | - | (633) |
| Gains on fair value of investments, net | | 417 | 6 |
| Impairment of investment | | (600) | - |
| Fees and commissions | | 59 | 159 |
| Foreign exchange gain | | 36 | 102 |
| Dividend | | 22 | 20 |
| | | (66) | (346) |
| **Operating income** | | 2,740 | 2,825 |
| **NON-INTEREST EXPENSE** | | | |
| Depreciation | | - | 49 |
| Operating lease rentals | | - | 453 |
| Staff costs | | 342 | 913 |
| Advertising and marketing | | - | 84 |
| Administrative and other expenses | | 292 | 609 |
| | | 634 | 2,108 |
| Provision for loan losses | | 302 | 313 |
| | | 936 | 2,421 |
| **Income before taxation** | | 1,804 | 404 |
| Taxation | 15 | (395) | 93 |
| **Net income for the year attributable to equity holder** | | 1,409 | 497 |
| Revaluation adjustment on available-for-sale investments | | (288) | 947 |
| **Total comprehensive income for year attributable to equity holder** | | 1,121 | 1,444 |

*The accompanying notes form an integral part of these financial statements.*

## Statement of Changes in Equity

Year ended March 31, 2012

| | Stated Capital $'000 | Retained Earnings $'000 | Statutory Reserve Fund $'000 | Loan Loss Reserve $'000 | Investment Revaluation Reserve $'000 | Total Equity $'000 |
|---|---|---|---|---|---|---|
| **Balance as at March 31, 2010** | 15,000 | 7,448 | 1,512 | 500 | (1,772) | 22,688 |
| Revaluation adjustment on available-for-sale investments | - | - | - | - | 947 | 947 |
| Net income for the year | - | 497 | - | - | - | 497 |
| ***Total comprehensive income for the year*** | - | 497 | - | - | 947 | 1,444 |
| ***Transactions with equity holder*** | | | | | | |
| Transfer to/(from) general loan loss reserve | - | 80 | - | (80) | - | - |
| Transfer to statutory reserve fund | - | (50) | 50 | - | - | - |
| Total transactions with equity holder | - | 30 | 50 | (80) | - | - |
| **Balance as at March 31, 2011** | 15,000 | 7,975 | 1,562 | 420 | (825) | 24,132 |
| Revaluation adjustment on available-for-sale investments | - | - | - | - | (288) | (288) |
| Net income for the year | - | 1,409 | - | - | - | 1,409 |
| ***Total comprehensive income for the year*** | - | 1,409 | - | - | (288) | 1,121 |
| **Transactions with equity holder** | | | | | | |
| Dividend paid | - | (5,000) | - | - | - | (5,000) |
| Transfer to/(from) general loan loss reserve | - | 47 | - | (47) | - | - |
| Transfer to statutory reserve fund | - | (141) | 141 | - | - | - |
| Total transactions with equity holder | - | (5,094) | 141 | (47) | | (5,000) |
| **Balance as at March 31, 2012** | 15,000 | 4,290 | 1,703 | 373 | (1,113) | 20,253 |

*The accompanying notes form an integral part of these financial statements.*

## Statement of Cash Flows

March 31, 2012

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before taxation | 1,804 | 404 |
| Adjusted for: | | |
| Depreciation and amortisation | - | 49 |
| Amortisation of securities and discount cost | (200) | (10) |
| Allowance for loan loss | 302 | 313 |
| Loss on sale of investments | - | 633 |
| Unrealised gain on fair value of investments | (574) | (140) |
| Impairment of investment | 600 | - |
| **Operating profit before working capital changes** | 1,932 | 1,249 |
| Change in reserves with Central Bank | 25 | (707) |
| Change in loans and advances | 1,121 | 6,700 |
| Change in other assets, prepayments and accrued income | 386 | 1,724 |
| Change in customer deposits and repurchase agreements | (3,251) | 4,026 |
| Change in amounts due to parent company | - | (640) |
| Change in other liabilities and accruals | - | (326) |
| Taxes paid | (193) | (14) |
| **Net cash from operating activities** | 20 | 12,012 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 5,196 | 9,125 |
| Purchase of investments | (3,006) | (18,548) |
| Purchase of property, plant and equipment | - | - |
| **Net cash from/(used in) investing activities** | 2,190 | (9,423) |
| CASH FLOWS USED IN FINANCING ACTIVITIES | | |
| Dividend paid | (5,000) | - |
| **Net movement in cash and cash equivalents** | (2,790) | 2,589 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 19,612 | 17,023 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 16,822 | 19,612 |
| CASH AND CASH EQUIVALENTS REPRESENTED BY: | | |
| Cash deposited with parent | 16,655 | 19,448 |
| Due from other financial institutions | 167 | 164 |
| | 16,822 | 19,612 |
| **Supplemental information:** | | |
| Interest received during the year | 3,924 | 4,496 |
| Interest paid during the year | 728 | 1,280 |

*The accompanying notes form an integral part of these financial statements.*

## Notes to Financial Statements

*March 31, 2012*

### 1. Incorporation and Principal Activity

Intercommercial Trust and Merchant Bank Limited (ITMBL) was incorporated in the Republic of Trinidad and Tobago in January 2001 and commenced operations in October 2001. ITMBL is a wholly owned subsidiary of Intercommercial Bank Limited (the Bank). As a licensed trust company, merchant bank and finance house/finance company, it operates under a licence from the Financial Institutions Act, 2008. Its principal activities include providing medium and long-term finance, mortgages, accepting medium and long-term fixed deposits from the public, invoice financing, trade and inventory financing, investment services, leasing, project financing and arranging and underwriting issues of marketable securities. Its registered office is situated at DSM Plaza, Old Southern Main Road, Chaguanas.

These financial statements were authorised for issue by the Board of Directors on May 21, 2012.

### 2. Basis of Preparation

*(a) Statement of compliance*

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board.

*(b) Basis of measurement*

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss and available-for-sale financial assets which are measured at fair value.

*(c) Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Trinidad and Tobago dollars, which is ITMBL's functional and presentation currency, unless otherwise stated.

*(d) Use of estimates and judgments*

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 4.

### 3. Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

*(a) Foreign currency*

Transactions in foreign currencies are initially recorded at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in Trinidad and Tobago dollars at the rate of exchange ruling on the reporting date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

*(b) Financial assets and liabilities*

ITMBL's financial assets and financial liabilities are recognised in the statement of financial position when it becomes party to contractual obligations of the instrument. Financial liabilities are recognised initially at fair value net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

ITMBL derecognises its financial assets when it loses control of the contractual rights that comprise the financial assets. ITMBL loses such control if it realises rights to benefits specified in the contract, the rights expire, or the Bank surrenders those rights. Financial liabilities are derecognised only when the obligation is discharged, cancelled or expired.

*(c) Cash and cash equivalents*

Cash and equivalents include notes and coins on hand, balances held with Central Bank and other financial institutions, which are highly liquid financial assets with less than 90 days to maturity from the date of acquisition, are subject to insignificant risk of changes in their fair value, and are used by ITMBL in the management of its short-term commitments.

*(d) Derivative instruments*

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in the statement of comprehensive income as a component of net income on other financial instruments carried at fair value.

*(e) Impairment*

The carrying amounts of ITMBL's assets, other than deferred tax assets (see accounting policy (q)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy (e)(i)) and an impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable

**Notes to Financial Statements (cont'd)**
*March 31, 2012*

**3. Significant Accounting Policies (cont'd)**

**(e) Impairment (cont'd)**

amount. Impairment losses are recognised in the statement of comprehensive income.

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised in reserves is recognised in the statement of comprehensive income even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the statement of comprehensive income is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income.

*(i) Calculation of recoverable amount*
The recoverable amount of ITMBL's advances and other assets is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

*(ii) Reversals of impairment*
An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as "available for sale" is not reversed through the statement of comprehensive income. If the fair value of a debt instrument classified as "available for sale" increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss shall be reversed, with the amount of the reversal recognised in the statement of comprehensive income.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.
An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

***(f) Loans and advances***
Loans and advances are financial assets with fixed or determinable payments and are not quoted in an active market created by ITMBL providing money to a debtor other than those created with the intention of short-term profit sharing. Such assets are classified as loans and are stated at amortised cost, net of any advances for credit losses using the effective interest method.

A loan is classified as impaired when there is objective evidence that ITMBL will not be able to collect all amounts due according to the original contractual terms of the loan. Objective evidence of impairment includes observable data that comes to the attention of ITMBL such as:

- Significant financial difficulties of the borrower
- Actual delinquencies
- Adverse change in the payment status of a borrower
- Deterioration of credit ratings assigned to the borrower
- Bankruptcy or reorganisation by the borrower.

If there is objective evidence that an impairment loss on loans has incurred, the amount of the allowance for impairment is measured as the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans. Interest is no longer accrued and taken into income on an ongoing basis because there is doubt as to the recoverability of the balances.
The allowance which is made during the year, less amounts released and recoveries of bad debts previously written off, is charged against the statement of comprehensive income. When a loan is deemed uncollectible, it is written off against the related allowance for losses.

***(g) Investment securities***
All purchases and sales of investment securities that require delivery within the time frame established by regulation or market convention are recognised at settlement date.

*(i) At fair value through profit or loss*
Securities at fair value through profit or loss are trading securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exist. Trading securities are initially recognised at cost and subsequently re-measured at fair value based on quoted bid prices at reporting date. Where the instrument is not actively traded or quoted on recognised exchanges, fair value is determined using discounted cash flow analysis. Where discounted outflow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions.

All related realised and unrealised gains and losses are included in other income. Interest earned whilst holding trading securities is reported as interest income.

*(ii) Available for sale*
Available-for-sale assets are financial assets that are not financial assets at fair value through profit or loss, loans by ITMBL or held to maturity. These are initially measured at cost.

After initial recognition, investments which are classified as "available for sale" are measured at fair value in the same manner described above, with unrealised gains or losses on revaluation recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative loss or gain previously reported in the unrealised investment reserve is included in the statement of comprehensive income.

Any available-for-sale asset that does not have a quoted market price in an active market and where fair value cannot be reliably measured is stated at cost less impairment losses.

*(iii) Held to maturity*
Held-to-maturity assets are other long-term investments which ITMBL's management has the positive intentions and ability to hold to maturity. These investments are carried at amortised cost less impairment losses. Amortised cost is calculated on the effective interest method.

**(h) Related parties**

A party is related to ITMBL, if:
(i) directly, or indirectly through one or more intermediaries, the party:
  a) is controlled by, or is under common control with, ITMBL (this includes parents, subsidiaries and fellow subsidiaries);
  b) has a direct or indirect interest in ITMBL that gives it significant influence; or
  c) has joint control over ITMBL;
(ii) the party is an associate of ITMBL;
(iii) the party is a joint venture in which the company is a venturer;
(iv) the party is a member of the key management personnel of ITMBL or its parent;
(v) the party is a close member of the family of any individual referred to in (i) or (iv);
(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
(vii) the party is a post-employment benefit plan for the benefit of employees of ITMBL, or of any entity that is a related party of the company.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.
ITMBL has a related party relationship with its directors and key management personnel, representing certain senior officers of the company, its parent company and all their affiliates.
A number of banking transactions are entered into with related parties into the normal course of business. These transactions were carried out on commercial terms and conditions at market rates, except loans to officers (see Note 5).

***i) Property, plant and equipment***
Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to ITMBL and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. Depreciation on furniture and equipment, which consist of computer hardware, machinery and office equipment, is provided on the reducing balance method at various rates sufficient to write off the assets over their estimated useful lives. Leasehold improvements are computed using the straight-line method.

The rates used are as follows:
Furniture and equipment 10% - $33^{1}/_{3}$%

The assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate. Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with their carrying amount and are taken into account in determining operating profit.

***(j) Customer deposits and repurchase agreements***
Deposits and repurchase agreements are ITMBL's sources of debt funding. A repurchase agreement is entered into when ITMBL sells a financial asset and simultaneously enters into a "repo" agreement to repurchase the asset at a fixed price on a future date and the underlying asset continues to be recognised in ITMBL financial statements. These debt-funding instruments are initially measured at fair value and subsequently re-measured at their amortised cost using the effective interest method.

***k) Provisions***
Provisions are recognised when ITMBL 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.

***(l) Reserve requirements***
In accordance with the provisions of the Financial Institutions Act, 2008, ITMBL is required to hold and maintain with the Central Bank of Trinidad and Tobago a cash reserve balance equivalent to 9% of total prescribed liabilities.

***(m) Statutory reserve fund***
In accordance with the Financial Institutions Act, 2008, ITMBL is required to transfer at the end of each financial year no less than 10% of its net income after tax to a statutory reserve fund, until the amount standing to the credit of the statutory reserve fund is not less than its paid-up capital.

**Notes to Financial Statements (cont'd)**
*March 31, 2012*

3. Significant Accounting Policies (cont'd)

*(n) Revenue recognition*

*i. Interest income and expense*
Interest income and expense are recognised in the statement of comprehensive income for all interest-bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and trading securities as well as accrued discount and premium on treasury bills and other discounted instruments. Interest income is suspended when loans are overdue and considered non-performing.

*ii. Fees and commissions income*
Unless included in the effective interest calculation, fees and commissions are recognised on an accrual basis as the service is provided. Commissions and fees not integral to effective interest arising from negotiating or participating in negotiation of a transaction for a third party are recognised on the completion of the underlying transaction.

*iii. Dividends*
Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of net trading income, net income on other financial instruments at fair value or other operating income based on the underlying classification of the equity instrument.

*(o) Accounting for leases – where ITMBL is the lessee*
Leases entered into by ITMBL are all operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.
When the operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as an expense in the period in which termination takes place.

*(p) Employee benefits*

*(i) Short term*
Employee benefits are all forms of consideration given by ITMBL in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, annual leave, and non-monetary benefits such as medical care and loans; post-employment benefits such as pensions; and other long-term employee benefits such as termination benefits.
Employee benefits that are earned as a result of past or current service are recognised in the following manner: short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. Post-employment benefits are accounted for as described below.

*(ii) Post employment*
The parent company operates a defined contribution arrangement whereby each eligible employee maintains an individual annuity approved under Section 134 (6) of the Income Tax Act with Guardian Life of the Caribbean Limited. Under the terms of employment the parent company is obligated to contribute an amount up to 10% of the employees' pensionable salary to the individual annuities in respect of all eligible employees. All eligible employees, who include employees of ITMBL, contribute an amount equivalent to 5% of their pensionable salary. ITMBL's contributions to the respective annuities are charged to the statement of comprehensive income in the year to which they relate. For the current financial period to March 31, 2012, ITMBL's contribution expense in relation to this plan for the year amounts to $NIL (2011: $92,866).

*(q) Taxation*
Tax on income comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rate enacted by the reporting date, green fund levy and any adjustment of tax payable for the previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable income (loss). Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the basis of the tax rate that is expected to apply to the period when the asset is realised or the liability is settled. The effect on the deferred tax of any changes in the tax rate is charged to the statement of comprehensive income, except to the extent that it relates to items previously charged or credited directly to equity.

*(r) Earnings per share*
Earnings per share is calculated by dividing the profit after tax by the weighted average number of shares in issue during the year.

| | 2012 | 2011 |
|---|---|---|
| Profit after tax ($'000) | 1,409 | 497 |
| Number of shares in issue ('000) | 15,000 | 15,000 |
| Earnings per share | 0.09¢ | 0.03¢ |

*(s) New standards and interpretations not yet adopted*
A number or new standards, amendments to standards and interpretations are not yet effective for the year ended March 31, 2012, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Company, except IFRS 9 Financial Instruments, published on November 12, 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

4. Significant Accounting Judgments and Estimates
In the process of applying ITMBL's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

*Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

*Impairment losses on loans and advances*
ITMBL reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

*Impairment of equity investments*
ITMBL treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its costs or where other objective evidence of impairment exist. The determination of what is "significant" or "prolonged" requires judgment. ITMBL treats "prolonged" as greater than six months. In addition, ITMBL evaluates other factors, such as the share price volatility.

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

*Property, plant and equipment*
Management exercises judgment in determining whether costs incurred can accrue sufficient future economic benefits to ITMBL to enable the value to be treated as a capital expense. Further judgment is used upon annual review of the residual values and useful lives of all capital items to determine any necessary adjustments to carrying value.

5. Related Party Balances and Transactions
Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. Certain banking transactions are entered into with related parties in the normal course of business. These transactions were carried out on normal terms and conditions at market rates. For the year ended March 31, 2012, ITMBL has not made any provision for doubtful debts relating to amounts owed by related parties (2011: $NIL).

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year.

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Interest paid | - | - |
| Interest received | 154 | 340 |
| *Compensation of key management personnel* | | |
| Short-term employee benefits | 342 | 420 |
| Post-employment benefits | 255 | - |
| Total compensation | 597 | 420 |

6. Loans and Advances

| | | |
|---|---|---|
| Performing loans | 19,856 | 14,566 |
| Past due but not impaired loans | - | 3,539 |
| Impaired loans | 1,418 | 5,092 |
| Gross loans and advances | 21,274 | 23,197 |
| Less provision for loan loss | - | (500) |
| | 21,274 | 22,697 |

7. Investment Securities

| | | |
|---|---|---|
| (a) *At fair value through profit or loss* | 16,540 | 16,000 |
| (b) *Available for sale* | | |
| Government Bonds | 5,505 | 3,339 |
| Equities | 709 | 672 |
| Corporate securities | 2,722 | 2,570 |
| | 8,936 | 6,581 |
| (c) *Held to maturity* | | |
| Government Bonds | - | 3,003 |
| Corporate | - | 2,196 |
| | - | 5,199 |
| Total investment securities | 25,476 | 27,780 |

**Notes to Financial Statements (cont'd)**
*March 31, 2012*

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| **8. Miscellaneous Assets** | | |
| Accounts receivable and prepayments | 180 | 184 |
| Accrued income | 237 | 619 |
| | 417 | 803 |
| **9. Deferred Tax Asset** | | |
| (i) The deferred tax asset is attributable to the following items: | | |
| Available-for-sale investments | 391 | 354 |
| Property, plant and equipment | 269 | 301 |
| | 660 | 655 |
| (ii) The movement in the deferred tax account comprised: | | |
| Balance at beginning of year | 655 | 887 |
| Available-for-sale investments fair value re-measurement | 62 | (361) |
| Current deferred tax charge | (57) | 129 |
| Balance at end of year | 660 | 655 |

**10. Property, Plant and Equipment**

| | Furniture and Equipment | Total 2012 | Total 2011 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Opening net book value | 359 | 359 | 443 |
| Additions | - | - | - |
| Disposals | - | - | - |
| Depreciation charge | (65) | (65) | (84) |
| Closing net book value | 294 | 294 | 359 |
| Cost | 1,021 | 1,021 | 1,021 |
| Accumulated depreciation | (727) | (727) | (662) |
| Closing net book value | 294 | 294 | 359 |

| | | |
|---|---|---|
| **11. Customer Deposits** | | |
| State enterprises | 7,800 | 2,000 |
| Corporate and commercial | 25,365 | 31,300 |
| Personal | 15,035 | 15,151 |
| | 48,200 | 48,451 |
| **12. Repurchase Agreements** | | |
| Corporate and commercial | - | 3,000 |
| **13. Other Liabilities and Accruals** | | |
| Interest accrued on deposits | 293 | 285 |
| Other | 129 | 136 |
| | 422 | 421 |
| **14. Stated Capital** | | |
| Authorised | | |
| An unlimited number of shares of no par value | | |
| Issued and fully paid | | |
| 15,000,000 ordinary shares of no par value | 15,000 | 15,000 |
| **15. Taxation** | | |
| (i) Provision for taxation | | |
| Current year - Green fund levy | 2 | 5 |
| - Corporation tax | 336 | 31 |
| Deferred tax expense relating to the origination and reversal of temporary difference | 57 | (129) |
| | 395 | (93) |
| (ii) Tax reconciliation | | |
| The following is a reconciliation between the tax expense and the product of income before taxation multiplied by the applicable tax rate: | | |
| Income before taxation | 1,804 | 404 |
| Expected tax calculated at statutory tax rate – 25% | 451 | 101 |
| Income not assessable for tax | (107) | (70) |
| Other | 51 | (124) |
| | 395 | (93) |
| **16. Operating Leases** | | |
| The total future minimum lease payments under a non-cancellable operating lease | - | 438 |
| The lease payments recognised in profit or loss for the year | - | 438 |

**17. Contingent Liabilities**
As at March 31, 2012, there were no legal proceedings outstanding against ITMBL as such no provisions were required (2011: $NIL).

**18. Credit Commitments**
As at March 31, 2012, the Bank has no commitments of a credit nature (2011: $NIL).

**19. Capital Commitments**
As at March 31, 2012 there were no capital commitments (2011: $NIL).

**20. Financial Risk Management**
**Introduction and overview**

ITMBL has exposure to the following risks from its use of financial instruments:

- Credit risk
- Settlement risk
- Liquidity risk
- Market risks
- Operational risks.

This note presents information about ITMBL's exposure to each of the above risks, ITMBL's objectives, policies and processes for measuring and managing risk, and ITMBL's management of capital.

**Risk management framework**

The Board of Directors (the Board) has overall responsibility for the establishment and oversight of ITMBL's risk management framework. The Board has established the Credit Investment, Audit and Risk Committees. These Board committees currently employ an integrated Risk Management Framework supported by three Management Committees in order to maximise shareholders value within the Group's risk appetite; Portfolio Planning, Asset and Liability (ALCO), and Operational Risk Committees, which are responsible for developing and monitoring risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board on their activities.

ITMBL's risk management policies are established to identify and analyse the risks faced by ITMBL, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. ITMBL, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit and Risk Committees are responsible for monitoring compliance with the risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by ITMBL. The Audit and Risk Committees are assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

**(a) Credit risk**
Credit risk is the risk of financial loss to ITMBL if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from ITMBL's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, ITMBL considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

***Management of credit risk***
The Board has delegated responsibility for the management of credit risk to the Credit Committee. A separate credit department is responsible for oversight of ITMBL's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance and regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Credit Committee of the Board.
- *Reviewing and assessing credit risk.* Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Developing and maintaining ITMBL's risk* gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/ committee as appropriate. Risk grades are subject to regular reviews by the Risk Committee.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken, where necessary.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout ITMBL in the management of credit risk.

**Notes to Financial Statements (cont'd)**
*March 31, 2012*

**20. Financial Risk Management (cont'd)**

**(a) Credit risk (cont'd)**

ITMBL is required to implement credit policies and procedures, with credit approval authorities delegated from the Credit Committee. ITMBL is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of ITMBL's credit processes are undertaken by Internal Audit.

***Exposure to credit risk***

| | Loans and Advances to Customers | | Investment Securities | |
|---|---|---|---|---|
| | 2012 ($'000) | 2011 ($'000) | 2012 ($'000) | 2011 ($'000) |
| Carrying amount | 21,274 | 22,697 | 25,476 | 27,780 |
| ***Collectively impaired*** | | | | |
| Gross amount | 1,418 | 5,092 | 1,200 | - |
| Allowance for impairment | - | (500) | (600) | - |
| Carrying amount | 1,418 | 4,592 | 600 | - |
| ***Past due but not impaired*** | | | | |
| Carrying amount | - | 3,539 | - | - |
| Past due comprises | | | | |
| 31-60 days | - | 3,539 | - | - |
| 61-90 days | - | - | - | - |
| 91-180 days | - | - | - | - |
| 181 days + | - | - | - | - |
| Carrying amount | - | 3,539 | - | - |
| ***Neither past due nor impaired*** | | | | |
| Gross amount | 19,856 | 14,566 | 24,876 | 27,780 |
| Carrying amount | 19,856 | 14,566 | 24,876 | 27,780 |
| Total carrying amount | 21,274 | 22,697 | 25,476 | 27,780 |

**Impaired loans and securities**
Impaired loans and securities are loans and securities for which ITMBL determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s).

**Past due but not impaired loans**
Loans and securities where contractual interest or principal payments are past due but ITMBL believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to ITMBL.

ITMBL has no past due but not impaired loans as at March 31, 2012 (2011: $3,539,000).

**Loans with renegotiated terms**
Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where ITMBL has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

**Allowances for impairment**
ITMBL establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for performance risks; without individual loan assessment for impairment.

$NIL allowances for impairment were considered necessary at March 31, 2012 (2011: $500,000).

**Write-off policy**
ITMBL writes off a loan/security balance (and any related allowances for impairment losses) when the Credit Committee determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.
As at March 31, 2012 amounts written off were $852,281 (2011: $143,002).

***Collateral held***
ITMBL holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at March 31, 2012 or 2011.

An estimate of the fair value of collateral and other security enhancements held against loans and advances to other customers is shown below:

***Loans and advances to customers***

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Against collectively impaired | | |
| Property | 1,900 | 1,900 |
| Other | - | 4,909 |

**20. Financial Risk Management (cont'd)**

**(a) Credit risk (cont'd)**

***Loans and advances to customers (cont'd)***

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Against past due but not impaired | | |
| Property | - | 3,005 |
| Equities | - | - |
| Other | - | 2,589 |
| Against neither past due nor impaired | | |
| Property | 28,650 | 15,286 |
| Debt securities | - | - |
| Equities | 1,604 | 1,575 |
| Other | 4,211 | 6,037 |
| Total | 36,365 | 35,301 |

ITMBL monitors concentrations of credit risk by sector and by geographic location.

An analysis of concentrations of credit risk of loans and advances at the reporting date is shown in Note 7 and concentrations of credit risk for investment securities are shown below:

| | Loans and Advances to Customers | | Investment Securities | |
|---|---|---|---|---|
| | 2012 ($'000) | 2011 ($'000) | 2012 ($'000) | 2011 ($'000) |
| Gross amount | 21,274 | 23,197 | 26,076 | 27,780 |
| **Concentration by sector** | | | | |
| Corporate | 19,102 | 16,724 | 15,199 | 20,767 |
| Sovereign | - | - | 10,168 | 6,341 |
| Retail/commercial | - | - | - | - |
| Equity | 2,172 | 6,473 | 709 | 672 |
| | 21,274 | 23,197 | 26,076 | 27,780 |
| **Concentration by location** | | | | |
| Trinidad | 12,367 | 13,916 | 22,937 | 21,801 |
| Regional | 8,907 | 9,281 | 3,139 | 5,571 |
| International | - | - | - | 408 |
| | 21,274 | 23,197 | 26,076 | 27,780 |

Concentration by location for investment securities is measured based on the location of the issuer of the security.

**(b) Settlement risk**
ITMBL's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed. Settlement limits form part of the credit approval/limit monitoring process.

**(c) Liquidity risk**
Liquidity risk is the risk that ITMBL will encounter difficulty in meeting obligations from its financial liabilities.

***Management of liquidity risk***
ITMBL's liquidity is managed by the Treasury Unit, whose approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to ITMBL's reputation.
The daily liquidity position is monitored by Treasury. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of ITMBL. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO for review and monitoring.

***Exposure to liquidity risk***
ITMBL is exposed to various risks and the ALCO continually reviews and manages these risks. The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the management of ITMBL. Liquidity gaps are also mitigated by the marketable nature of a substantial segment of ITMBL's assets and by the availability of inter-bank funding.

***Maturity analysis for financial liabilities***

The table below shows the residual contractual maturities of financial liabilities:

| | Carrying Amount $'000 | Gross Nominal Inflow/ (Outflow) $'000 | Up to One Year $'000 | One to Five Years $'000 |
|---|---|---|---|---|
| 2012 | | | | |
| Customer deposits and other funding instruments | 48,200 | (49,014) | (13,679) | (35,335) |
| Other liabilities | 685 | (293) | (293) | - |
| | - | | | |
| | 48,885 | (49,307) | (13,972) | (35,335) |

**Notes to Financial Statements (cont'd)**
*March 31, 2012*

**20. Financial Risk Management (cont'd)**

**(c) Liquidity risk (cont'd)**

***Maturity analysis for financial liabilities (cont'd)***

| | Carrying Amount | Gross Nominal Inflow/ (Outflow) | Up to One Year | One to Five Years |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| 2011 | | | | |
| Customer deposits and other funding instruments | 51,451 | (52,347) | (48,999) | (3,348) |
| Other liabilities | 543 | (259) | (259) | - |
| | 51,994 | (52,606) | (49,258) | (3,348) |

The previous table shows the undiscounted cash flows on ITMBL's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. ITMBL's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance and unrecognised loan commitments are not all expected to be drawn down immediately.
The gross nominal inflow/(outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment.

**(d) Market risks**

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect ITMBL's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

***Management of market risks***

ITMBL holds no exposure to trading portfolios. With the exception of translation risk arising on ITMBL's net balance sheet position, all foreign exchange risk within ITMBL is managed by Treasury.

***Exposure to interest rate risk – non trading portfolios***

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing. ALCO is the monitoring body for compliance with these limits and is assisted by the Risk Committee in its day-to-day monitoring activities. The table below summarises ITMBL's exposure to interest rate risks. Included in the table are ITMBL's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

***Interest sensitivity of assets and liabilities***

| | Average Effective Rate | Up to One Year | One to Five Years | Over Five years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| | % | $'000 | $'000 | $'000 | $'000 | $'000 |
| **As at March 31, 2012** | | | | | | |
| **Assets** | | | | | | |
| Cash and cash equivalents | 1.09 | 167 | - | - | 16,655 | 16,822 |
| Balances with Central Bank | | - | - | - | 4,195 | 4,195 |
| Loans and advances | 8.38 | 21,234 | 40 | - | - | 21,274 |
| Investment securities | 2.79 | 20,188 | 2,722 | 1,857 | 709 | 25,476 |
| Other assets | | - | - | - | 1,371 | 1,371 |
| **Total assets** | | 41,589 | 2,762 | 1,857 | 22,930 | 69,138 |
| **Liabilities** | | | | | | |
| Customers' deposits | 1.53 | 48,098 | 102 | - | - | 48,200 |
| Other liabilities and equity | | - | - | - | 20,938 | 20,938 |
| **Total liabilities** | | 48,098 | 102 | - | 20,938 | 69,138 |
| **Net gap** | | (6,509) | 2,660 | 1,857 | 1,992 | - |
| **Cumulative gap** | | (6,509) | (3,849) | (1,992) | - | - |
| **As at March 31, 2011** | | | | | | |
| **Assets** | | | | | | |
| Cash and cash equivalents | 1.70 | 19,612 | - | - | - | 19,612 |
| Balances with Central Bank | | - | - | - | 4,220 | 4,220 |
| Loans and advances | 9.05 | 22,697 | - | - | - | 22,697 |
| Investment securities | 9.44 | 18,796 | 600 | 7,712 | 672 | 27,780 |
| Other assets | | - | - | - | 1,817 | 1,817 |
| **Total assets** | | 61,105 | 600 | 7,712 | 6,709 | 76,126 |
| **Liabilities** | | | | | | |
| Customers' deposits | 2.26 | 45,351 | 3,100 | - | - | 48,451 |
| Other funding instruments | 1.65 | 3,000 | - | - | - | 3,000 |
| Other liabilities and equity | | - | - | - | 24,675 | 24,675 |
| **Total liabilities** | | 48,351 | 3,100 | - | 24,675 | 76,126 |
| **Net gap** | | 12,754 | (2,500) | 7,712 | (17,966) | - |
| **Cumulative gap** | | 12,754 | 10,254 | 17,966 | - | - |

**20. Financial Risk Management (cont'd)**

**(d) Market risks (cont'd)**

***Interest sensitivity of assets and liabilities (cont'd)***

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of ITMBL's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in interest rates.

An analysis of ITMBL's sensitivity to an increase or decrease in market interest rates is as follows:

| *In thousands of dollars* | 100 bp parallel Increase | 100 bp parallel decrease | 50bp increase after 1 year | 50bp decrease after 1 year |
|---|---|---|---|---|
| **2012** | | | | |
| At March 31 | | | | |
| Average for the year | 2 | (2) | 2 | (2) |
| Maximum for the year | 5 | 4 | 2 | (1) |
| Minimum for the year | (4) | (5) | 1 | (2) |
| **2011** | | | | |
| At March 31 | | | | |
| Average for the year | (2) | 2 | 2 | (2) |
| Maximum for the year | 12 | 15 | 2 | (2) |
| Minimum for the year | (15) | (12) | 2 | (2) |

***Exposure to currency risk***

The techniques used by ITMBL to manage currency risk vary subject to market conditions. Assets are primarily funded from liabilities of the same currency, thus eliminating currency risk. Foreign currency transactions have not required the use of interest rate swaps, foreign currency options or other derivative instruments. ITMBL does not trade in foreign exchange and therefore has no trading position subject to currency risk.

| | TT Exposure ($'000) | US Exposure ($'000) | Total ($'000) |
|---|---|---|---|
| **As at March 31, 2012** | | | |
| **Assets** | | | |
| Cash resources | 11,865 | 9,152 | 21,017 |
| Investment securities | 23,235 | 2,241 | 25,476 |
| Loans and advances | 12,367 | 8,907 | 21,274 |
| Other assets | 1,156 | 215 | 1,371 |
| **Total assets** | 48,623 | 20,515 | 69,138 |
| **Liabilities** | | | |
| Customers' deposits | 46,442 | 1,758 | 48,200 |
| Other liabilities | 668 | 17 | 685 |
| **Total liabilities** | 47,110 | 1,775 | 48,885 |
| **Net balance sheet position** | 1,513 | 18,740 | 20,253 |
| **As at March 31, 2011** | | | |
| **Assets** | | | |
| Cash resources | 16,447 | 7,385 | 23,832 |
| Investment securities | 25,232 | 2,548 | 27,780 |
| Loans and advances | 13,417 | 9,280 | 22,697 |
| Other assets | 1,454 | 363 | 1,817 |
| **Total assets** | 56,550 | 19,576 | 76,126 |
| **Liabilities** | | | |
| Customers' deposits | 46,723 | 1,728 | 48,451 |
| Other funding instruments | 3,000 | - | 3,000 |
| Other liabilities | 521 | 22 | 543 |
| **Total liabilities** | 50,244 | 1,750 | 51,994 |
| **Net balance sheet position** | 6,306 | 17,826 | 24,132 |

As at March 31, 2012 there were $NIL credit commitments (2011: $NIL).

**(e) Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with ITMBL's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of ITMBL's operations and are faced by all business entities.
ITMBL's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to ITMBL's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall ITMBL standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions
- Requirements for the reconciliation and monitoring of transactions

**Notes to Financial Statements (cont'd)**
*March 31, 2012*

**20. Financial Risk Management (cont'd)**

**(e) Operational risk (cont'd)**

- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective.

Compliance with ITMBL standards is supported by a programme of periodic reviews undertaken by Internal Audit.

**21. Capital Management**

**Regulatory capital**

ITMBL's lead regulator, The Central Bank of Trinidad and Tobago (the Central Bank), sets and monitors capital requirements for ITMBL. In implementing current capital requirements, the Central Bank requires that ITMBL maintains a prescribed ratio of total capital to total risk-weighted assets.

ITMBL's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, retained earnings and translation reserve after deductions for intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as "available for sale."

Various limits are applied to elements of the capital base. Tier 1 capital comprises of equity and disclosed reserves. These capital elements are considered core because they are either: (i) permanent in nature, or (ii) available to absorb losses while the institution remains a going concern. Qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term-subordinated loan capital may not exceed 50 per cent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

ITMBL's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return, the need to maintain a balance between the higher returns that might be possible with greater gearing, and the advantages and security afforded by a sound capital position are also recognised.
ITMBL has complied with all externally imposed capital requirements throughout the year.
There have been no material changes in ITMBL's capital management policy during the year.

ITMBL's regulatory capital position at March 31 was as follows:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Tier 1 capital** | | |
| Ordinary share capital | 15,000 | 15,000 |
| Statutory reserve | 1,703 | 1,562 |
| Retained earnings | 4,290 | 7,975 |
| | 20,993 | 24,537 |
| **Tier 2 capital** | | |
| Allowance for impairment | 373 | 420 |
| Fair value reserve for available-for-sale equity securities | (1,113) | (825) |
| **Total regulatory capital** | 20,253 | 24,132 |
| **Risk-weighted assets** | | |
| Loans and advances and investment securities | 29,815 | 34,036 |
| **Capital ratios** | | |
| Total regulatory capital expressed as a percentage of total risk-weighted assets | 67.93% | 70.90% |
| Total tier 1 capital expressed as a percentage of risk-weighted assets | 70.41% | 72.09% |

**22. Fair Value of Financial Assets and Liabilities**

***(i) Fair value of financial instruments***

The fair value of financial instruments that are recognised on the statement of financial position and the fair value of financial instruments that are not recognised on the statement of financial position are based on the valuation methods and assumptions set out in the Significant Accounting Policies Note (g).

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price. If no quoted market prices are available, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of net realisable value.
The ITMBL measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 - Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2 - Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique included inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

  Due to the judgment used in applying a wide range of acceptable valuation techniques and estimations in the calculation of fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based upon market conditions at a specific point in time and may not be reflective of future fair values.

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

| | | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **2012** | | | | | |
| Government bonds | $ | - | 5,505 | - | 5,505 |
| Other | | 17,249 | 2,722 | - | 19,971 |
| | $ | 17,249 | 8,227 | - | 25,476 |
| **2011** | | | | | |
| Government bonds | $ | - | 6,342 | - | 6,342 |
| Other | | 16,672 | 4,766 | - | 21,438 |
| | $ | 16,672 | 11,108 | - | 27,780 |

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

At year end, the carrying value of short-term financial assets and liabilities comprising cash and cash equivalents, balances with Central Bank, balances with other financial institutions, interest receivable, customers' current, savings and deposit accounts are a reasonable estimate of their fair values because of the short-term maturity of these instruments.

Loans and advances are shown net of specific provisions for impairment. At the year end, the carrying value of performing loans is assumed to be equal to their estimated fair value as the inherent rates of interest in the portfolio approximate market conditions.

Market values have been used to determine the fair values of trading securities. Where other investment securities are not actively traded in organised financial markets, the fair value is determined using discounted cash flow analysis which requires considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates contained herein are not necessarily indicative of the amounts that ITMBL could realise in a current market exchange. The use of different assumptions and/or estimation of methodologies may have a material effect on the estimated fair values.

The fair value information for investment securities is based on information available to management as of the dates presented. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively re-valued for purposes of the financial statements since those dates and, therefore, the current estimates of fair value may differ significantly from the amounts presented herein. At the year end, investment securities had a carrying value of $25,475,929 (2011: $27,779,705) and fair value of $25,475,929 (2011: $27,777,130).