



**REPUBLIC OF TRINIDAD AND TOBAGO
AUDITOR GENERAL'S DEPARTMENT**

**R E P O R T
O F T H E
A U D I T O R G E N E R A L**

**ON THE FINANCIAL STATEMENTS OF THE
TRINIDAD AND TOBAGO UNIT TRUST CORPORATION –
TT DOLLAR INCOME FUND**

FOR THE YEAR ENDED

31 December, 2018



**TO: THE BOARD OF DIRECTORS
TRINIDAD AND TOBAGO UNIT TRUST CORPORATION**

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF TRINIDAD AND TOBAGO ON THE FINANCIAL STATEMENTS OF THE TRINIDAD AND TOBAGO UNIT TRUST CORPORATION - TT DOLLAR INCOME FUND FOR THE YEAR ENDED 31 DECEMBER, 2018

OPINION

The financial statements of the Trinidad and Tobago Unit Trust Corporation – TT Dollar Income Fund (the Fund) for the year ended 31 December, 2018 have been audited. The statements as set out on pages 1 to 27 comprise a Statement of Financial Position as at 31 December, 2018, and the Statement of Profit or Loss, a Statement of Comprehensive Income, a Statement of Changes in Equity and a Statement of Cash Flows for the year then ended, and Notes to the Financial Statements numbered 1 to 12, including a summary of significant accounting policies.

2. In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trinidad and Tobago Unit Trust Corporation – TT Dollar Income Fund as at 31 December, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

3. The audit was conducted in accordance with accepted auditing standards. The Auditor General's responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. The Auditor General is independent of the Fund in accordance with the ethical requirements that are relevant to the audit of the financial statements and other ethical responsibilities have been fulfilled in accordance with these requirements. It is my view that the audit evidence obtained is sufficient and appropriate to provide a basis for the above audit opinion.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

4. Management of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS 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.

5. In preparing the financial statements, management is responsible for assessing the ability of the Fund 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 Fund or to cease operations, or has no realistic alternative but to do so.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

7. The Auditor General's responsibility is to express an opinion on these financial statements based on the audit and to report thereon in accordance with section 30 (4) of the Unit Trust Corporation of Trinidad and Tobago Act, Chapter 83:03.

8. The Auditor General's 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 audit report that includes his opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards 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.

9. As part of an audit in accordance with accepted auditing standards, the Auditor General exercises professional judgment and maintains professional skepticism throughout the audit. The Auditor General also:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for an 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.
- Obtains 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 internal control of the Fund.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concludes 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 ability of the Fund to continue as a going concern. If the Auditor General concludes that a material uncertainty exists, the Auditor General is required to draw attention in his audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify his opinion. The Auditor General's conclusions are based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluates 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.

10. The Auditor General communicates 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 were identified during the audit.

20TH MARCH, 2019
PORT OF SPAIN



MAJEED ALI
AUDITOR GENERAL

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20190320

**Trinidad & Tobago Unit Trust Corporation
TT Dollar Income Fund**

Financial Statements
(Expressed in Trinidad and Tobago Dollars)

31 December 2018

Trinidad and Tobago Unit Trust Corporation

TT Dollar Income Fund

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Trinidad and Tobago Unit Trust Corporation
TT DOLLAR INCOME FUND
STATEMENT OF FINANCIAL POSITION
As at 31 December, 2018
Expressed in Trinidad and Tobago Dollars

	Notes	31-Dec-18 \$'000	31-Dec-17 \$'000
ASSETS			
Cash and Cash Equivalents	3	625,539	1,650,294
Receivables	4	250,043	233,011
Investment Securities	5	10,337,897	9,102,608
Total Assets		11,213,479	10,985,913
LIABILITIES			
Payables	6	36,826	36,103
Total Liabilities		36,826	36,103
EQUITY			
Unitholders' Capital	9	10,996,875	10,704,784
Fair Value Reserve		-	107,072
Retained Earnings		103,997	65,781
Fund Reserves		75,781	72,173
Total Equity		11,176,653	10,949,810
TOTAL LIABILITIES AND EQUITY		11,213,479	10,985,913



Net Asset Value Per Unit

\$20.06

\$20.21

R.F. Nelson

[Signature]

Chairman

Executive Director

Trinidad and Tobago Unit Trust Corporation
TT DOLLAR INCOME FUND
STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December, 2018

Expressed in Trinidad and Tobago Dollars

	Notes	31-Dec-18 \$ '000	31-Dec-17 \$'000
INCOME			
Interest Income	7	326,206	335,126
Net Change in Fair Value of Investment Securities		(70,857)	28,619
Foreign Exchange Gain		921	1,194
Other Income		1,264	307
Total Income		257,534	365,246
EXPENSES			
Management Charge	11	(176,202)	(176,255)
Impairment		-	(1,754)
Commissions		(9,819)	(9,271)
Other Expenses		(487)	(1,725)
Bank Charges		(314)	(22)
Total Expenses		(186,822)	(189,027)
Net Income for the year		70,712	176,219
Other Comprehensive Income:			
<i>Items that may be reclassified subsequently to Profit or Loss:</i>			
Movement in Fair Value - Available for Sale Assets		-	24,789
Transfer of Fair Value Gains to Current Period Profit or Loss		-	(8,588)
Impairment Loss Transferred to Income		-	1,754
Exchange translation differences		-	-
Other Comprehensive Income for the year		-	17,955
Total Comprehensive Income for the year		70,712	194,174

Trinidad and Tobago Unit Trust Corporation
TT DOLLAR INCOME FUND
STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December, 2018

Expressed in Trinidad and Tobago Dollars

	Unitholders' Capital \$'000	Fair Value Reserve \$'000	Retained Earnings \$'000	Fund Reserve \$'000	Total \$'000
Balance as at 1 January, 2018	10,704,784	107,072	65,781	72,173	10,949,810
Changes on initial application of IFRS 9	-	(107,072)	107,072	-	-
Adjusted balance as at 1 January, 2018	10,704,784	-	172,853	72,173	10,949,810
Net Income for the year	-	-	70,712	-	70,712
Subscriptions from Unitholders	1,908,412	-	-	-	1,908,412
Redemptions by Unitholders	(1,616,321)	-	-	-	(1,616,321)
Distributions to Unitholders	-	-	(135,960)	-	(135,960)
Allocation of Interest to Fund Reserves	-	-	(808)	808	-
Net Allocation to Reserves	-	-	(2,800)	2,800	-
Balance as at 31 December, 2018	10,996,875	-	103,997	75,781	11,176,653
Balance as at 1 January, 2017	10,659,115	89,117	37,924	51,735	10,837,891
Net Income for the year	-	-	176,219	-	176,219
Subscriptions from Unitholders	1,901,203	-	-	-	1,901,203
Redemptions by Unitholders	(1,855,534)	-	-	-	(1,855,534)
Distributions to Unitholders	-	-	(127,924)	-	(127,924)
Allocation of Interest to Fund Reserves	-	-	(571)	571	-
Net Allocation to Reserves	-	-	(19,867)	19,867	-
Other Comprehensive Income for the year	-	17,955	-	-	17,955
Balance as at 31 December, 2017	10,704,784	107,072	65,781	72,173	10,949,810

Trinidad and Tobago Unit Trust Corporation
TT DOLLAR INCOME FUND
STATEMENT OF CASH FLOWS
For the year ended 31 December, 2018
Expressed in Trinidad and Tobago Dollars

	31-Dec-18 \$'000	31-Dec-17 \$'000
OPERATING ACTIVITIES		
Net Income	70,712	176,219
<i>Adjustment to Reconcile Net Income to Net Cash and Cash Equivalents From Operating Activities:</i>		
Interest Income	(326,206)	(335,126)
Net Change in Fair Value of Investment Securities	70,857	(28,615)
Impairment	-	1,754
	<u>(184,637)</u>	<u>(185,768)</u>
<i>Movements in Net Current Assets</i>		
(Increase)/ Decrease in Receivables	(2,167)	381,676
Increase/ (Decrease) in Payables	453	(356,061)
	<u>(186,351)</u>	<u>(160,153)</u>
Interest Received	292,339	286,155
Net Cash Flow From Operating Activities	<u>105,988</u>	<u>126,002</u>
INVESTING ACTIVITIES		
Purchase of Investment Securities	(6,938,054)	(6,203,212)
Disposal of Investment Securities	5,669,124	6,883,814
Net Cash (Used In)/ Flow From Investing Activities	<u>(1,268,930)</u>	<u>680,602</u>
FINANCING ACTIVITIES		
Subscriptions from Unitholders	1,754,508	1,749,679
Redemptions by Unitholders	(1,616,321)	(1,855,533)
Net Cash Flow From/ (Used In) Financing Activities	<u>138,187</u>	<u>(105,854)</u>
Net (Decrease)/ Increase in Cash and Cash Equivalents	<u>(1,024,755)</u>	<u>700,750</u>
Cash and Cash Equivalents at beginning of the year	1,650,294	949,544
Cash and Cash Equivalents at the end of the year	<u>625,539</u>	<u>1,650,294</u>

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

1) General Information

The TT Dollar Income Fund (the Fund) is a fixed income mutual fund that was established in accordance with the Trinidad and Tobago Unit Trust Corporation Act (the Act). The fund was launched on 1 September 1989. The Fund is denominated in Trinidad and Tobago (TT) dollars. The custodian of the Fund is the Central Bank of Trinidad and Tobago and Citibank. The Trinidad and Tobago Unit Trust Corporation (Corporation) whose registered office is located at UTC Financial Centre, 82 Independence Square, Port of Spain is the Sponsor, Manager, Trustee, and Investment Advisor of the Fund. Responsibility for the management of the business affairs of the Fund is vested in the Board of Directors of the Corporation which approves all significant agreements of the Fund.

Participation by investors in the Fund is represented by units which are equivalent to a proportion of the Fund's Net Asset Value. There is no limit to the number of units that may be issued. Each unit attracts an equal share in income to be distributed, capital gains are reflected in unit prices and other benefits arising from participation in the Fund.

Subscriptions

The price of a unit is fixed at TT\$20.00 per unit and may be purchased through the Corporation's distribution channels including the Corporation's authorized agents. The minimum initial investment is \$100.00.

Redemptions

Units may be redeemed at a fixed price per unit of TT\$20.

Reinvestments

Income is earned and compounded daily but is credited to unitholders' accounts on a quarterly basis. The Fund's distribution dates are 28 February, 31 May, 31 August and 30 November. Income earned during any distribution period is reinvested in unitholders' accounts unless the unitholder requests otherwise.

Management Charge

The Corporation may charge an annual Management Charge of up to 2% of the market value of the investments held by the Fund.

Investment Objective

The Fund seeks to provide investors with income by investing its capital primarily in fixed income securities issued by the Government of Trinidad and Tobago, local and international corporations and international sovereigns.

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

2) Significant Accounting Policies

The significant accounting policies applied in the preparation of these Financial Statements (the Financial Statements) are set out below. These policies have been consistently applied to all years presented, except as described in Note 2) b).

a) Basis of Preparation

- i. The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS).
- ii. The Financial Statements are prepared under the historical cost convention as modified by financial assets measured at fair value through profit or loss (FVPL). The methods used to fair value the Fund's financial assets are provided at Note 5.
- iii. The Financial Statements are presented in Trinidad and Tobago dollars, which is the functional currency of the Fund.
- iv. The preparation of the Financial Statements in accordance with IFRS requires management to make judgements, estimates and assumptions. Management reviews these judgements, estimates and underlying assumptions on a regular basis.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are those used in estimating the fair value of financial assets categorized as Level 3 (see Notes 5 and 10)

Management has also exercised significant judgement in determining the business model of the investment portfolios.

b) New published standards applicable to the Fund effective 1 January 2018

> IFRS 9 – *Financial Instruments*

IFRS 9 replaced IAS 39 - *Financial Instruments: Recognition and Measurement* and brings together three aspects of the accounting for financial instruments:

- i. Classification and measurement;
- ii. Impairment; and
- iii. Hedge accounting

A summary of the requirements of IFRS 9 is provided below.

Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)

Notes To The Financial Statements (Continued)
31 December 2018

(Expressed in Trinidad and Tobago Dollars)

2) Significant Accounting Policies (continued)

b) New published standards applicable to the Fund effective 1 January 2018 (continued)

➤ **IFRS 9 – Financial Instruments (continued)**

Classification and measurement of financial assets and liabilities

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

Under IFRS 9 entities initially measure a financial asset at its fair value plus, in the case of financial assets not at fair value through profit or loss, transaction cost. Embedded derivatives in contracts, where the host is a financial asset, are never separated. The hybrid financial instrument as a whole is assessed for classification.

Debt instruments are subsequently measured at either FVPL, amortized cost (AC) or fair value through other comprehensive income (FVOCI).

IFRS 9 also contains requirements for the classification and measurement of financial liabilities, many of which are identical to the IAS 39 requirements. However, for financial liabilities designated at FVPL, the change in fair value that is attributable to changes in credit risk is presented in OCI and the balance of the fair value is presented in profit or loss. If the presentation in OCI would create or enlarge an accounting mismatch in profit or loss, an entity is required to present all gains and losses in profit or loss.

Impairment

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI, most loan commitments, financial guarantee contracts and lease receivables.

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

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

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

2) Significant Accounting Policies (continued)

b) New published standards applicable to the Fund effective 1 January 2018 (continued)

➤ **IFRS 9 – Financial Instruments (continued)**

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

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

In the case of trade receivables, a simplified approach, whereby the lifetime expected credit loss is recognized on initial recognition, is permitted.

Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39, that is, fair value hedges, cash flow hedges and net investment hedges. However greater flexibility has been introduced with respect to the types of transactions eligible for hedge accounting. In particular:

- i. the types of instruments that qualify as hedging instruments; and
- ii. the types of risk components of non-financial items that are eligible,

are broader in scope.

In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship' and retrospective assessment of hedge effectiveness is no longer required.

Impact of the initial application of IFRS 9 on the financial statements

In accordance with the requirements of IFRS 9, the Fund classified the financial assets as FVPL, as the Fund is managed - and the Fund's performance is evaluated - on a fair value basis. The resulting changes to the Fund's classification of financial assets are shown below.

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

2) Significant Accounting Policies (continued)

b) New published standards applicable to the Fund (continued)

New published standards effective from 1 January 2018 (continued)

➤ **IFRS 9 – Financial Instruments (continued)**

Financial Asset	Measurement Category		Carrying Amount 1 January 2018		Change \$'000
	IAS 39	IFRS 9	IAS 39 \$'000	IFRS 9 \$'000	
Bonds	Available-for-sale	Fair value through profit or loss - mandatory	5,219,723	5,219,723	-
Structured Instruments	Available-for-sale	Fair value through profit or loss - mandatory	73,315	73,315	-
Short-term Instruments	Available-for-sale	Fair value through profit or loss - mandatory	3,809,570	3,809,570	-
Sub-total Investment securities			9,102,608	9,102,608	-
Receivables	Loans & Receivables	Fair value through profit or loss - mandatory	233,011	233,011	-
Cash and Cash Equivalents	Loans & Receivables	Fair value through profit or loss - mandatory	1,650,294	1,650,294	-
Sub-total Other financial assets			1,883,305	1,883,305	-
Total Financial Assets			10,985,913	10,985,913	-

- There was no cumulative retrospective impact on the Fund's equity position as a result of the initial application of IFRS 9.
- The impairment requirements of IFRS 9 were not applicable as none of the Fund's financial assets are classified as AC or FVOCI.
- There were no changes to the classification of financial liabilities.
- The hedge accounting requirements are not applicable to the Fund.
- As permitted by the transitional provisions of IFRS 9, the Fund did not restate comparative amounts.
- The changes in accounting policy on adoption of IFRS 9 are described in Note 2 (c) below.

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

2) Significant Accounting Policies (continued)

c) Financial Assets

The Fund's financial assets consist of:

- i. Investment securities;
- ii. Cash and cash equivalents; and
- iii. Receivables

The Fund recognizes a financial asset when it becomes party to the contractual obligations of the financial asset.

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expires or where the Fund has transferred substantially all the risks and rewards of ownership of the financial asset to another party.

Classification and subsequent measurement of financial assets - Policy from 1 January 2018

On 1 January 2018 the Fund adopted IFRS 9 Financial Instruments. The Fund classifies its financial assets based on the business model of the portfolio within which the financial asset is managed and the contractual cash flow characteristics of the financial asset.

In assessing the objective of a portfolio's business model, the Fund considers:

- i. The way in which the assets within the portfolio are managed and information provided to management;
- ii. The stated policies and objectives of the portfolio;
- iii. The operation of the portfolio's stated policies in practice;
- iv. The method of evaluating the performance of the portfolio; and
- v. The risks that affect the performance of the portfolio and how those risks are managed.

The Fund's investment securities are held in portfolios which are managed and evaluated on a fair value basis. The receipt of contractual cash flows or, the receipt of contractual cash flows and the purchase and sale of the financial assets in the portfolio, are incidental to the objectives of the portfolios. Accordingly, the assets in the Fund's portfolios have been classified and measured at FVPL – mandatory.

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

2) Significant Accounting Policies (continued)

c) Financial Assets (continued)

Classification and subsequent measurement of financial assets - Policy prior to 1 January 2018

The Fund classified its financial assets on initial recognition into the following three (3) categories: available-for-sale, held-to-maturity and loans and receivables. The classification depended on the purpose for which the financial assets were acquired. In particular:

- i. Investment securities intended to be held for an indefinite period of time, but which might be sold in response to liquidity requirements or market conditions, were classified as available-for-sale. Available-for-sale investments were carried at fair value. Unrealized gains and losses from changes in the fair value of investments classified as available-for-sale were recognized in Other Comprehensive Income (OCI). When available-for-sale financial assets were disposed of, or were impaired, the related accumulated fair value adjustments were re-classified from OCI to the Statement of Profit or Loss.
- ii. Investment Securities with fixed maturities and that which management had the intent and ability to hold to maturity, were classified as held-to-maturity. Held-to-maturity investments were carried at amortized cost, less adjustments for impairment.
- iii. Non-derivative investment securities with fixed and determinable payments, which were not quoted in an active market and were not designated as available-for-sale, were classified as loans and receivables. Loans and receivables were carried at amortized cost, using the effective interest method.

Impairment of financial assets - Policy from 1 January 2018

The impairment requirements of IFRS 9 were not applicable as none of the Fund's financial assets are classified as AC or FVOCI.

Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)

Notes To The Financial Statements (Continued)
31 December 2018

(Expressed in Trinidad and Tobago Dollars)

2) Significant Accounting Policies (continued)

c) Financial Assets

Impairment of financial assets - policy prior to 1 January 2018

Assets classified as available-for-sale - bonds

At the end of each reporting period the Fund assessed whether there was objective evidence that a bond, or a Fund of bonds classified as available-for-sale, was impaired. A bond or Fund of bonds classified as available-for-sale was considered impaired and impairment losses were recognized if and only if:

- i. there was objective evidence of impairment as a result of one or more events that occurred subsequent to initial recognition of the asset (a 'loss event'); and
- ii. the impact on the future cash flows as a result of the loss event could be reliably estimated.

The criteria used by the Fund to determine whether there had been a loss event included evidence that:

- (a) the issuer, or obligor, was in significant financial difficulty;
- (b) there had been a breach of contract, such as a default or delinquency in interest payments or principal re-payment by the issuer or obligor;
- (c) the issuer's lender, for economic or legal reasons relating to the issuer's financial difficulty, has granted to the issuer a concession that the lender would not otherwise consider;
- (d) it was probable that the borrower will enter bankruptcy or other financial re-organization;
- (e) an active market for the financial asset had disappeared because of financial difficulties; or
- (f) there was a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease could not yet be identified with the individual financial asset in the portfolio, including:
 - i. adverse changes in the payment status of borrowers in the portfolio; and
 - ii. national or local economic conditions that correlate with defaults on the assets in the portfolio.

Where there was objective evidence of impairment to bonds classified as available-for-sale, the Fund transferred the cumulative unrealized loss previously recorded in OCI, to the Statement of Profit or Loss.

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

2) Significant Accounting Policies (continued)

c) Financial Assets (continued)

Impairment of financial assets - policy prior to 1 January 2018 (continued)

Assets classified as available-for-sale – bonds (continued)

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of an appropriate portion of the previously recognized impairment loss was recognized in the Statement of Profit or Loss.

Assets classified as available-for-sale – equity

In the case of equity investments classified as available-for-sale, in addition to the impairment criteria for available-for-sale bonds outlined above, the Fund assessed whether there has been either a significant or a prolonged decline in the fair value of the security below cost. If there had been either a significant or a prolonged decline in the value of the investment below cost, it was regarded as evidence that the asset was impaired. If any such evidence existed for available-for-sale equity investments, the cumulative un-realized loss was re-classified from equity and recognized in the Statement of Profit or Loss as an impairment expense.

The Fund considers a decline for a period of twelve or more months as prolonged and a 30% decline in value below cost, as significant.

Financial Liabilities

The Fund recognizes a financial liability when it becomes party to the contractual obligations of the financial instrument. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

2) Significant Accounting Policies (continued)

e) Fair Value Estimation – Investment Securities

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Fund has access at that date.

Valuation framework

The Fund has established a control framework for the measurement of fair values. The framework includes a valuation team that is independent of the front office management. The valuation team reports to a Valuation Committee comprising the Vice Presidents of the Finance, Trust Services and Risk Departments. Valuations are reviewed by the Audit and Compliance Committee on a quarterly basis.

Fair value hierarchy

Fair value measurements of securities are categorized into three levels based on the degree to which the fair value measurement inputs are observable. The three levels are:

- **Level 1.** Level 1 valuation inputs are unadjusted quoted prices for identical assets and liabilities in active markets that the entity can access at the measurement date.
- **Level 2.** Level 2 valuation inputs exclude Level 1 inputs but are inputs that are observable for the asset or liability either directly or indirectly. There were no assets classified as Level 2 during the years 2017 and 2018.
- **Level 3.** Level 3 uses significant inputs that are unobservable in the valuation of the asset.

The level within the fair value hierarchy to which fair value measurements are assigned is determined by the lowest level input that is significant to the fair value measurement in its entirety. Thus, where a fair value measurement requires significant judgment with respect to an input, it is classified as Level 3.

The Fund considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market.

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

2) Significant Accounting Policies (continued)

e) Fair Value Estimation – Investment Securities (continued)

Traded local and foreign bonds

Traded bonds are valued using the average of indicative quotations received from brokers at the reporting date. The quotations do not necessarily reflect the price at which the broker would be willing to execute a transaction and the valuations have been categorized as Level 3. Where the Fund is in receipt of prices at which dealers are prepared to trade, the bonds are categorized as Level 1.

Illiquid local bonds- Unquoted

The Fund uses an internally developed model to value its unquoted local bonds. Management reviews the model regularly. The output of any valuation model is an estimate of a value that cannot be determined with certainty. As such the valuation may vary significantly from the value that would be realized in an actual transaction. Valuations based on the model are categorized as Level 3.

Categorization of short-term investments

The Fund's short-term investments are assumed to be encashable/tradeable at their carrying value and are categorized as Level 1.

Receivables, payables and short-term liabilities

The carrying value of receivables and payables are assumed to approximate their fair values.

f) Foreign Currency Translation

The Fund's functional and presentation currency is Trinidad and Tobago dollars. Foreign currency transactions are translated into the functional currency using the average mid-rate for the currency, quoted by the Central Bank of Trinidad and Tobago, on the date of the transaction. 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 recognized in the Statement of Comprehensive Income.

The results and financial position of all Fund entities that have a functional currency other than the presentation currency are translated into the presentation currency using the closing rate. All resulting exchange differences are recognized in the Statement of Comprehensive Income.

g) Cash and Cash Equivalents

Cash and cash equivalents represent balances held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. It includes cash in hand, deposits held at call with banks, cash balances at brokers, and other short-term instruments with original maturities of ninety days or less.

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

2) Significant Accounting Policies (continued)

h) Revenue Recognition

Interest income is recognized in the Statement of Comprehensive Income using the effective interest method. Realized and unrealized investment gains and losses are recognized as income in the Statement of Comprehensive Income.

i) Taxation

Withholding tax is payable interest earned in foreign jurisdictions based on the jurisdiction's tax laws and double taxation treaties where applicable.

Taxes are recognised as an expense in the period in which they occur.

j) Comparative Information

In addition to the changes from the initial application of IFRS 9 - Financial Instruments (see note 2 (b)), certain minor changes have been made in these Financial Statements to conform to presentation in the current year. These changes had no effect on the operating results or net income of the Fund.

3) Cash And Cash Equivalents

	31-Dec-18	31-Dec-17
	\$'000	\$'000
Cash and cash equivalents at brokers	67,307	455
Cash at banks	558,232	1,649,839
Total	625,539	1,650,294

4) Receivables

	31-Dec-18	31-Dec-17
	\$'000	\$'000
Interest receivable	72,247	76,404
Other receivables	177,796	156,607
Total	250,043	233,011

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

5) Investment Securities

Summaries of the Investment securities held by the Fund are provided by year, investment type and classification below.

	31-Dec-18	31-Dec-17
	\$'000	\$'000
Investment securities carried at fair value		
Bonds	5,416,150	5,219,723
Structured bonds	72,675	73,315
Short-term investments	4,849,072	3,809,570
	10,337,897	9,102,608
Investment securities summarized by classification		
	31-Dec-18	31-Dec-17
	\$'000	\$'000
- at fair value through profit or loss – mandatory (FVPL – M)	5,488,825	-
- available for sale at fair value through other comprehensive income (AFS)	-	5,293,038
	5,488,825	5,293,038

a) The Fair Value Hierarchy for Investment Securities

The Fund uses a valuation hierarchy to rank the fair value of its Investments (see Note 2 (e) Fair Value Hierarchy). The Fund's Investments at December 2018 are analyzed by their fair valuation categorization below:

Fair Value Hierarchy for Investment Securities December 2018

Recurring fair value measurements	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Investment securities carried at fair value through profit or loss - mandatory				
Bonds	-	-	5,416,150	5,416,150
Structured bonds	-	-	72,675	72,675
Short-term Investments	4,849,072	-	-	4,849,072
Total Investment Securities	4,849,072	-	5,488,825	10,337,897

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

5) Investments Assets (continued)

The Fund's Investment at 31 December 2017 are analyzed by the fair valuation hierarchy below:

Fair Value Hierarchy for Investment Securities December 2017

Recurring fair value measurements	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Available-for-sale assets carried at fair value:				
Bonds	-	-	5,219,723	5,219,723
Structured bonds	-	-	73,315	73,315
Short-term Investments	3,809,570	-	-	3,809,570
Total Investment Securities	3,809,570	-	5,293,038	9,102,608

b) Transfers between Fair Value Hierarchy Levels

There were no transfers between the Fair Value Hierarchy Levels during either 2018 or 2017.

c) Valuation Techniques used to derive Level 3 Fair Values

The valuation techniques used by the Fund to arrive at the fair value of Level 3 investments are set out in Note 2. The Tables below summarize the valuation techniques used in estimating the fair value of Level 3 securities, the significant unobservable inputs, the relationship of the unobservable inputs to fair value and the impact that an increase or decrease in the unobservable inputs would have had on the valuation results.

Values in the following four (4) Tables are expressed in millions of dollars.

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

5) Investment Securities (continued)

c) Valuation Techniques used to derive Level 3 Fair Values (continued)

Summary of Techniques used to value Level 3 Financial Assets in 2018

Investment securities carried at fair value through profit or loss - mandatory	Level 3 fair value 2018 \$'M	Valuation Technique used	Significant unobservable inputs	Possible shift in inputs +/-	Change in valuation +/- \$'M
Bonds	5,416	Valuation model, Trading prices	Interest rates	+1%	54
Structured bonds	73	Trading prices	Interest rates	+1%	1
TOTAL	5,489				55

Fair value through profit or loss - mandatory	Carrying Value Level 3 Securities 1/1/2018 \$'M	Purchase s/ Capitalized Interest \$'M	Sales/ Repayments/Maturities \$'M	Net Gains/ (Losses) recognized in Profit or Loss \$'M	Unrealized Gains/ Losses recognized in OCI \$'M	Carrying Values Level 3 Securities 31/12/2018 \$'M	Fair Values \$'M
Bonds	5,220	2,123	(1,850)	9	(85)	5,416	5,416
Structured bonds	73	-	-	-	-	73	73
TOTAL	5,293	2,123	(1,850)	9	(85)	5,489	5,489

Summary of Techniques used to value Level 3 Financial Assets in 2017

Available-for-sale investments carried at fair value	Level 3 fair value 2017 \$'M	Valuation Technique used	Significant unobservable inputs	Possible shift in inputs +/-	Change in valuation +/- \$'M
Bonds	5,220	Valuation model, Trading prices	Interest rates	+ 1%	52
Structured bonds	73	Trading prices	Interest rates	+ 1%	1
TOTAL	5,293				53

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

5) Investment Securities (continued)

c) Valuation Techniques used to derive Level 3 Fair Values (continued)

Available-for-sale assets carried at fair value	Carrying Value Level 3 Securities 1/1/2017 \$'M	Purchases/ Capitalized Interest \$'M	Sales/ Repayments/ Maturities \$'M	Net Gains/ (Losses) recognized in Profit or Loss \$'M	Unrealized Gains/ Losses recognized in OCI \$'M	Carrying Values Level 3 Securities 31/12/2017 \$'M	Fair Values \$'M
Bonds	5,414	1,381	(1,611)	29	6	5,220	5,220
Structured bonds	73	-	-	-	-	73	73
TOTAL	5,487	1,381	(1,611)	29	6	5,293	5,293

d) The Fund's exposure to market, credit and liquidity risk on its investments is provided at Note 10.

6) Accounts Payable And Other Liabilities

	31-Dec-18 \$'000	31-Dec-17 \$'000
Amount due to the Corporation	24,029	23,073
Other payables	1,230	1,732
Accrual for distribution	11,567	11,298
Total	36,826	36,103

7) Interest Income

	31-Dec-18 \$'000	31-Dec-17 \$'000
Interest Income	290,134	294,191
Amortization of premium and discount	37,214	42,077
Accrued Interest expense	(1,142)	(1,142)
Total	326,206	335,126

8) Distribution To Unitholders

The distributions for the year ended 31 December amounted to \$135,961,367 (2017: \$127,924,293).

Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)

Notes To The Financial Statements (Continued)
31 December 2018

(Expressed in Trinidad and Tobago Dollars)

9) Unitholders' Capital

This represents the capital value of units issued by the Fund. The units issued by the Fund may be redeemed by unitholders of the Fund at any time. The Fund is primarily responsible for redemption of its units. The movement in the balance of Redeemable units is summarized below.

	2018	2017
	\$'000	\$'000
Opening balance Unitholders' Capital 1 January	10,704,784	10,659,114
Add: Sales	3,563,396	3,765,995
Less: Repurchases	(3,271,305)	(3,720,325)
Net Sales	292,091	45,670
Closing balance 31 December	10,996,875	10,704,784

10) Financial Risk Management

Financial Risk Exposures

The primary financial risks to which the Fund is exposed are:

- i. market risk – which comprises:
 - interest rate risk
 - currency risk
- ii. credit risk; and
- iii. liquidity risk

Market Risk

Market risk is the risk that changes in market prices bond price risk, foreign exchange rates, and interest rates, will affect the Fund'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 optimizing returns.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest risk exposure arises primarily on fixed rate debt securities held, which expose the Fund to fair value interest rate risk and to cash flow interest rate risk.

The Fund manages the overall interest rate risk by making judicious adjustments of the overall weighted average term to maturity (duration) of its portfolios.

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

10) Financial Risk Management (continued)

Interest Rate Risk (continued)

The following Tables demonstrate the sensitivity of the Fund's profit or loss for the year to a reasonable possible change in interest rates, with all other variables held constant. The sensitivity of the profit or loss for the year is the effect of the assumed change in interest rates on:

- i. The interest income for one year, based on the floating rate assets held at the end of the reporting period; and
- ii. Changes in the fair value for the year, based on revaluing fixed rate financial assets at the end of the reporting period.

31 December 2018	Change in basis points	Sensitivity of interest income Increase/decrease \$'000	Sensitivity of changes in fair value of investments \$'000
US interest rates	100	17	13,140
LIBOR	100	6	135
T&T interest rates	100	177	27,275

31 December 2017	Change in Basis points	Sensitivity of interest income Increase/decrease \$'000	Sensitivity of changes in fair value of investments \$'000
US interest rates	100	53	13,123
LIBOR	100	4	138
T&T interest rates	100	83	30,879

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

10) Financial Risk Management (continued)

Interest Rate Risk (continued)

The Fund's exposure to interest rate risk as at 31 December, 2018 is summarized below. The Fund's assets and liabilities are included at their carrying amount and categorized by the earlier of contractual re-pricing or maturity dates.

	Less than 1 year \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Total \$'000
At 31 December, 2018				
Assets				
Cash & Cash Equivalents	625,539	-	-	625,539
Short-term Investments	4,849,072	-	-	4,849,072
Fixed Income Securities measured at fair value through profit or loss	5,591,986	3,609,005	1,408,175	10,609,166
Liabilities				
Net Assets Attributable to Unitholders	(11,176,653)	-	-	(11,176,653)
Rate Re-pricing Position	(110,056)	3,609,005	1,408,175	4,907,124

The Fund's exposure to interest rate risk as at 31 December, 2017 is summarized below.

	Less than 1 year \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Total \$'000
At 31 December, 2017				
Assets				
Cash & Cash	1,650,294	-	-	1,650,294
Short-term Investments	3,809,570	-	-	3,809,570
Fixed Income Securities	5,399,003	1,584,247	2,296,369	9,279,619
Liabilities				
Net Assets Attributable to Unitholders	(10,949,810)	-	-	(10,949,810)
Rate Re-pricing Position	(90,943)	1,584,247	2,296,369	3,789,673

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

10) Financial Risk Management (continued)

Currency Risk

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Since the TT\$ denominated portfolios contain investments denominated in US\$, these portfolios can be impacted by movements in the US\$/TT\$ exchange rate.

The material foreign currency assets and liabilities of the Fund at 31 December are summarized below.

	At 31 December, 2018		At 31 December, 2017	
	US\$ (Presented in TT\$) \$'000	Other Foreign Currencies \$'000	US\$ (Presented in TT\$) \$'000	Other Foreign Currencies \$'000
Assets				
Cash & Cash Equivalents	105,518	-	315,350	-
Short-term Investments	363,308	-	-	-
Fixed Income Securities measured at fair value through profit or loss	1,429,995	-	1,588,574	-
Liabilities				
Net Assets Attributable to Unitholders (see Note 11)	-	-	-	-
Total	1,898,821	-	1,903,924	-

The following analysis shows the effect of a 1% change in the TT dollar relative to the US dollar would have changed the net assets of the Fund at 31 December with all other variables held constant.

	2018 \$'000	2017 \$'000
Approximate change in US\$	<u>18,988</u>	<u>19,039</u>
Concentration of foreign currency exposure		
% of total monetary financial assets	2018	2017
US dollars	16.86	19.11
% of total financial assets		
US dollars	16.93	17.33

Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)

Notes To The Financial Statements (Continued)
31 December 2018

(Expressed in Trinidad and Tobago Dollars)

10) Financial Risk Management (continued)

Credit Risk

Credit risk is the risk that the counter-party to a financial instrument will default on its financial obligations that is, it fails to make full and timely payments of scheduled interest and/or principal sums due.

It is the Fund's policy to enter into financial instruments with reputable counterparties.

The Fund is exposed to credit risk primarily on debt securities, short-term investments and bank balances. These classes of financial assets are not subject to IFRS 9's impairment requirements as they are measured at FVPL. The carrying value of these assets represents the Fund's maximum exposure to credit risk on financial instruments not subject to IFRS 9 impairment requirements on the respective reporting dates. Hence no separate maximum exposure to credit risk disclosure is provided for these instruments.

Credit risk is managed by:

- i. subjecting counter-parties to robust credit risk assessments prior to initial acquisition;
- ii. limiting the acquisition or retention of debt instruments to certain credit ratings; and
- iii. regular review, measurement and monitoring of counter-parties' credit ratings.

The quality of the Fund's debt securities, money market fund and bank balances is analyzed in the Table below into high, moderate and low using ratings primarily from international rating agencies and local rating agencies for either the instrument, the issuer, the sponsor in the case of Bond ETFs or the sovereign in the case of State owned entities. In those few instances where instruments were rated internally, the ratings were mapped to the international credit quality grades used by Standard and Poor.

	2018	2017
	\$'000	\$'000
Securities rated by S&P as AAA to BBB-, are considered high credit quality instruments		
- Debt securities	5,234,907	4,463,968
- Short-term instruments	4,849,072	3,809,570
- Bank balances	625,539	1,650,294
Securities rated by S&P as BB+ to B-, are considered medium credit quality instruments		
- Debt securities	245,126	784,641
Securities rated by S&P as CCC+ and below, are considered low quality instruments		
- Debt securities	8,792	44,496
Total	10,963,436	10,752,969

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

10) Financial Risk Management (continued)

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset as they become due.

The units of the Fund, are redeemable on demand. The risk is mitigated in each portfolio by holding adequate cash, cash equivalents and short-term investments. In addition, substantial portions of the investments held by the portfolios are tradable. The risk is therefore deemed insignificant.

The financial liabilities of the Fund are summarized by their due dates and shown below. The amounts disclosed are the contractual undiscounted cash flows. The Fund had no financial liabilities over one (1) year.

	Less than 1 year \$'000
At 31 December, 2018	
Accounts payable and short-term liabilities	25,258
Distribution payable	11,567
Net assets attributable to Unitholders	11,176,653
Total	11,213,478
	Less than 1 year \$'000
At 31 December, 2017	
Accounts payable and short-term liabilities	24,804
Distribution payable	11,299
Net assets attributable to Unitholders	10,949,810
Total	10,985,913

Capital Management

The Fund's capital consists of Reserves and Retained Earnings. The Fund's objectives when managing capital are:

- i. to comply with the capital requirements stipulated by the regulators of the markets where the Fund operates;
- ii. to safeguard the Fund's ability to continue as a going concern; and
- iii. to provide attractive risk adjusted returns

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in Trinidad and Tobago Dollars)

11) Related Party Transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Fund is managed by the Corporation. Under the terms of the management agreement dated 1 September 1989, the Corporation may charge an annual management fee of up to 2% of the Net Asset Value of the Fund.

Total management fees for the year amounted to \$176.20 million or 1.63 % of the average Fund size (2017: \$176.26 million or 1.64% of the average Fund size). The outstanding management charge due to the Corporation at 31 December amounted to TT\$20.13 million (December 2017: TT\$19.27 million).

12) Approval of the Financial Statements

These Financial Statements were approved by the Board of Directors and authorized for issue on 22 February 2019.