CREDIT RATING REPORT

Bourse Securities Limited

June 2021

TYPE OF RATING	RATING ASSIGNED	OUTLOOK
Corporate Credit Rating	*Cari***A-** (Foreign and Local Currency)	Positive

RATING HISTORY			
Date	**Foreign and Local Currency**	**National Scale**	**Type of Rating**
June 16, 2021	*Cari***A-**	*tt***A-**	Corporate Credit Rating
July 7, 2020	*Cari***A-**	*tt***A-**	Corporate Credit Rating
June 30, 2015**	*Cari***A-**	*tt***A-**	Corporate Credit Rating
April 15, 2014	*Rating Watch Developing*		
June 7, 2013	*Cari***A-**	*tt***A-**	Corporate Credit Rating
May 29, 2012*	*Cari***BBB+**	*tt***BBB+**	Corporate Credit Rating

** Initial rating assigned.*
*** Rating reaffirmed on June 30, 2015, June 14, 2016, June 23, 2017, June 22, 2018 and June 24, 2019.*

RATING DRIVERS

Supporting Factors
- Good financial performance underpinned by good income diversity and efficiency levels, notwithstanding some deterioration in 2020
- Comfortable risk-adjusted capitalization level reflected in strong capital adequacy ratios and good coverage of total assets
- Good asset quality underpinned by a diverse investment portfolio supported by sound risk management practices
- Sound asset-liability management practices contribute to an overall strong liquidity profile
- Sound risk management practices support strategic objectives

Constraining Factors
- High reliance on institutional funding, though declining

Rating Sensitivity Factors

Factors that could, individually or collectively, lead to an improvement in the ratings and/ or Outlook include:
- Improving business conditions over the next 12-15 months, resulting in ROA of above 3% and ROE of above 8%
- Management of its funding concentration risk such that less than 50% of its funding is derived from BSL's top 10 clients over the next 12-15 months

Factors that could, individually or collectively, lead to a lowering of the ratings and/ or Outlook include:
- A deterioration in the credit rating of the sovereign over the next 12-15 months leading to increased liquidity pressures
- Funding withdrawals from its top 3 institutional investors

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COMPANY BACKGROUND

Bourse Securities Limited (BSL or the Company) was founded in 1995 in Trinidad and Tobago (T&T) and is privately owned. BSL is a registered broker-dealer, underwriter and investment advisor registered with the Trinidad and Tobago Securities and Exchange Commission (TTSEC). The Company offers a range of products and services, including mutual fund management, securities brokerage, securities underwriting, wealth management, investment advisory services as well as the provision of short-term fixed return investment products such as repurchase agreements. BSL has three (3) branches across T&T, with locations in Chaguanas, Port of Spain and San Fernando.

BSL's suite of products includes TTD and USD Mutual Funds including its flagship SavInvest India Asia Fund (SIAF), SavInvest Individual and Group Retirement Funds, and Repurchase Agreements. BSL also extends the service of Bond Brokerage and Wealth and Portfolio Management.

The Company currently holds four (4) wholly owned subsidiaries namely: Bourse Brokers Limited (BBL) – a member of the Trinidad and Tobago Stock Exchange (TTSE) and the stockbroking arm of the business, Bourse International Asset Management (BIAM) – an international business corporation (IBC) domiciled in St. Lucia primarily focused on asset management, Windsor Investments Limited incorporated in St. Lucia on December 27, 2018 and Alkene Development Company of Trinidad & Tobago (ADCOTT), with a focus on research and development.

RATIONALE

Caribbean Information and Credit Rating Services Limited (CariCRIS) has reaffirmed the Corporate Credit Ratings of *Cari***A-** (Foreign and Local Currency) on the regional rating scale, and *tt***A-** on the Trinidad and Tobago (T&T) national scale of Bourse Securities Limited (BSL or the Company). These ratings indicate that the level of creditworthiness of this obligor, adjudged in relation to other obligors in T&T and the wider Caribbean is **good.**

CariCRIS has assigned a **positive** outlook on the ratings. The positive outlook is based on the Company's good financial performance and its continued strong capitalisation over the past year, notwithstanding the strained macroeconomic conditions, locally and globally. The favourable outlook also reflects the considerable progress made in developing its non-institutional funding sources over the past 3 years. With continued favourable outturns in these areas over the next 12 to 15 months, we would likely upgrade the Company's ratings.

The factors supporting the ratings are:

Good financial performance underpinned by good income diversity and efficiency levels, notwithstanding some deterioration in 2020

In 2020, BSL continued to report good financial performance notwithstanding a 42.1% reduction in adjusted Profit After Tax (PAT)[1] to TT $23.4 million from TT $40.5 million in the prior year, with the return on assets (ROA) and return on equity (ROE) falling to 2.6% (5.1% previously) and 8.1% (15.5% previously) (Table 1). BSL's ROA was relatively in line with CariCRIS' regional sample peer average of 3.2% while its ROE was below the sample average of 19.1%, reflective of the Company's continued conservative gearing. In 2019, BSL recorded a one-off capital gain of TT $8.9 million on the sale of its real estate holding company, Vanalta Limited, which supported the improvement in profitability for that period. Additionally, in 2020, BSL recorded a significant fall in gains due to a net reversal (write-back) on Expected Credit Losses (ECL) on securities to TT $0.4 million compared to net gains of TT $7.7 million in 2019[2]. Excluding the impact of these two events, PAT for 2020 would have fallen by 1.6%.

[1] *Adjusted PAT excludes the impact of unrealized gains and losses*
[2] *This was due to a write-back of ECL on fixed income securities arising from the revision of the Company's IFRS-9 model adopted on January 1st, 2018.*

Table 1
Summary Financial Performance (2017-2020)

	2020 (TT$ '000)	Y-O-Y Chg	2019 (TT$ '000)	Y-O-Y Chg	2018 (TT$ '000)	Y-O-Y Chg	2017 (TT$ '000)	3-Year CAGR
Interest Income	38,491	16.8%	32,947	22.4%	26,915	-8.9%	29,531	9.2%
Interest Expense	16,219	1.4%	15,998	34.1%	11,927	-4.4%	12,481	9.1%
Net Interest Income (NII)	22,272	31.4%	16,950	13.1%	14,988	-12.1%	17,049	9.3%
Non-Interest Income	13,216	-37.9%	21,293	9.3%	19,479	-34.8%	29,879	-23.8%
Total Income	35,488	-7.2%	38,242	11.0%	34,468	-26.6%	46,928	-8.9%
Total Operating Expenses	15,632	-11.0%	17,569	19.0%	14,767	10.7%	13,344	5.4%
Operating Profit	19,856	-4.0%	20,674	4.9%	19,701	-41.3%	33,585	-16.1%
Adjusted Profit After Tax (PAT) [a]	23,424	-42.1%	40,477	92.2%	21,063	4.5%	20,149	5.1%
Tangible Net Worth (TNW) [b]	292,708	3.0%	284,221	19.2%	238,537	0.8%	236,575	7.4%
Investments	801,322	1.6%	788,983	25.3%	629,745	6.8%	589,660	10.8%
Total Assets [b]	927,953	4.2%	890,737	25.8%	708,274	3.4%	684,675	10.7%
Total Interest-Bearing Liabilities (TIBL)	576,226	0.6%	572,690	26.5%	452,811	5.2%	430,306	10.2%

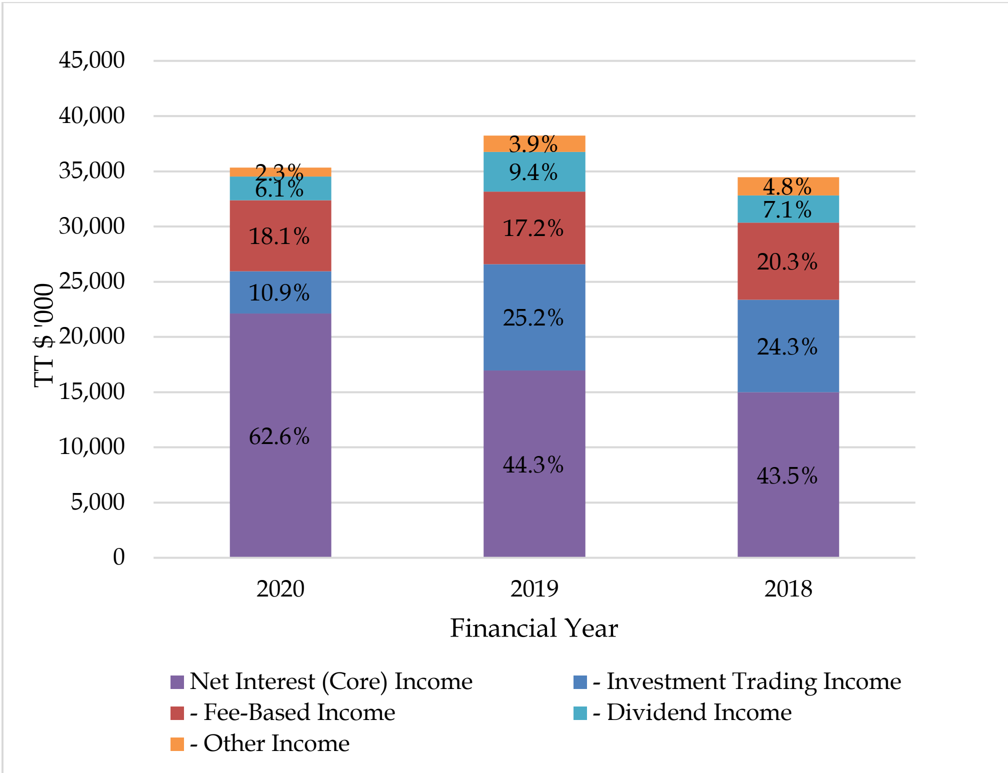
	2020	2019	2018	2017	3-Year Average
Total Investment Yield [c]	4.3%	4.3%	4.0%	4.5%	4.2%
Fixed Income Investment Yield [d]	5.7%	5.8%	5.7%	6.0%	5.7%
Funding Costs [e]	2.8%	3.1%	2.7%	2.9%	2.9%
Net Interest Rate Spread [c]	1.5%	1.1%	1.3%	1.6%	1.3%
Interest Rate Spread [d]	2.9%	2.7%	3.0%	3.1%	2.8%
Cost to Income	40.5%	43.2%	40.9%	26.6%	41.5%
Operating Profit Margin	2.2%	2.6%	2.8%	3.1%	2.5%
ROA	2.6%	5.1%	3.0%	2.9%	3.6%
ROE	8.1%	15.5%	8.9%	8.6%	10.8%
TNW to Total Assets	31.5%	31.9%	33.7%	34.6%	32.4%
Gearing (times)	2.0x	2.0x	1.9x	1.8x	2.0x

Source: BSL's Consolidated Financial Statements
[a] *PAT has been adjusted to exclude unrealised gains/(losses)*
[b] *Total Assets and Tangible Net Worth have been adjusted to exclude Intangible Assets and Revaluation Reserves.*
[c] *Calculated as Total Interest Income/ Average Total Earning Assets; Net Interest Rate Spread based on Total Investment Yield*
[d] *Calculated as Total Interest Income/ Average Total Fixed Income Investment Securities; Interest Rate Spread based on Fixed Income Investment Yield*
[e] *Calculated as Interest Expense/ Average Interest-Bearing Liabilities*

The Company's income streams over the past 3 years consisted of net interest income (NII) from core operations (50.1%), trading income (20.1%), fee-based income (18.5%), dividend income (7.6%) and other operating income[3] (3.7%) (Chart 1).

[3] *Gains/(Losses) on currency exchange, commissions and rebates*

Chart 1
Total Income Mix (2018-2020)



Source: Bourse Securities Limited

In 2020, BSL's total income[4] decreased by 7.2% to TT $35.5 million from TT $38.2 million in the prior year, driven by a 60.1% decline in net investment trading income due to a TT $5.7 million decline in gains on the sale of investments. Also contributing to the fall in BSL's total income was a 39.8% (TT $1.4 million) fall in dividend income reflecting the decision of corporates to reduce or suspend dividend payments given the downside financial impacts of COVID-19 on earnings. The fall in these non-interest lines of income was partially offset by a 31.4% increase in NII to TT $22.3 million from TT $17 million previously, reflecting a 16.8% rise in interest income to TT $38.5 million from TT $32.9 million previously. The growth in interest income was led by a 1.6% increase in the Company's total investment assets to TT $801.3 million from TT $789 million previously, which resulted in the total investment yield remaining stable at 4.3% despite a 10-basis point deterioration in the yield on BSL's fixed-income asset portfolio to 5.7%. During the year, there was also a 1.4% increase in the Company's interest expenses to TT $16.2 million reflecting the combined impact of a marginal 0.6% increase in BSL's interest bearing liabilities and a 30-bps fall in funding costs to 2.8%. The decline in interest costs led to a slight improvement in the net interest spread to 1.5% from 1.1% previously.

[4] *Excluding one-off items and impairment losses/write-backs*

In 2020, BSL's operating expenses decreased by 11.0% to TT $15.6 million from TT $17.6 million previously. This reduction in expenditure was driven by an 11.5% decrease in personnel costs to TT $8.5 million in 2020 from TT $9.5 million in the prior year due to a lower staff complement in 2020 relative to 2019. There was also a 30.2% fall in legal and professional expenses to TT $1.8 million from TT $2.6 million in 2019. The overall decline in operating expenses, which outweighed the fall in total income resulted in an improvement in BSL's efficiency as measured by the cost to income ratio to 40.5% from 43.2% in the prior year. BSL continued to benefit from income tax credits[5] for the 4th consecutive year, to the tune of TT $3.2 million, which also supported its profitability in 2020.

For the 3 months ended March 2020, BSL continued to display good financial performance with adjusted PAT improving significantly to TT $5 million compared to a loss after tax of TT $11.7 million for the same period a year earlier. For the period, total income recorded a small increase of 1.6% to TT $9.2 million from TT $9 million previously, supported by increases in net investment and trading income, as well as fee-based income. These increases were slightly offset by a 4.8% fall in the Company's NII to TT $5.7 million from TT $6 million in the prior year period, reflecting a larger y-o-y increase in BSL's interest bearing liabilities, driving an increase in interest expenses. For the period BSL also recorded a significant y-o-y decline in operating expenses to TT $2.4 million from TT $3.4 million previously. This decline reflected lower staff expenses, as the Company continued to operate with a smaller staff complement than in the previous year, as well as lower general administrative expenses. As global and local macroeconomic conditions improve over the next 12 to 15 months, we expect BSL to remain profitable, well-capitalised and to meet all its obligations as they come due over the period.

[5] *While the tax expense was calculated at a rate of 30% on a consolidated basis, the 1% tax rate of 1 of its subsidiaries, Bourse International Asset Management (BIAM), gave rise to an income tax credit in 2017-2020.*

Table 2

Summary Financial Performance for the 3-month period ended March 2018-2021

	As at March 31, 2021 (TT$ '000)	Y-O-Y Chg	As at March 31, 2020 (TT$ '000)	Y-O-Y Chg	As at March 31, 2019 (TT$ '000)	Y-O-Y Chg	As at March 31, 2018 (TT$ '000)	3-Year CAGR
Interest Income	10,030	0.1%	10,024	13.7%	8,812	227.3%	2,692	55.0%
Interest Expense	4,315	7.3%	4,022	15.7%	3,476	252.0%	987	63.5%
Net Interest Income (NII)	5,715	-4.8%	6,002	12.5%	5,336	213.0%	1,705	49.7%
Non-Interest Income	3,460	14.3%	3,027	28.5%	2,356	48.6%	1,586	29.7%
Total Income	9,175	1.6%	9,029	17.4%	7,692	133.8%	3,291	40.7%
Total Operating Expenses	2,391	-30.3%	3,430	-25.9%	4,631	329.0%	1,080	30.3%
Adjusted Profit After Tax (PAT) [a]	5,047	143.1%	-11,717	-363.8%	4,441	103.4%	2,183	32.2%
Tangible Net Worth (TNW) [b]	323,775	33.7%	242,078	-9.9%	268,780	3.3%	260,200	7.6%
Investments	802,833	8.4%	740,315	1.7%	727,661	19.9%	606,797	9.8%
Total Assets [b]	1,016,054	23.8%	820,779	6.0%	774,499	12.5%	688,629	13.8%
Total Interest-Bearing Liabilities (TIBL)	602,290	11.4%	540,885	10.6%	488,997	18.8%	411,566	13.5%
	As at March 31, 2021		As at March 31, 2020		As at March 31, 2019		As at March 31, 2018	3-Year Average
Total Investment Yield [c]	1.1%		1.3%		1.2%		0.4%	1.2%
Funding Costs [e]	0.8%		0.8%		0.8%		0.2%	0.8%
Net Interest Rate Spread [c]	0.4%		0.5%		0.5%		0.2%	0.5%
Cost to Income	26.1%		36.6%		58.4%		31.0%	40.3%
ROA	0.5%		-1.5%		0.6%		0.3%	-0.1%
ROCE	1.2%		-2.9%		1.3%		0.6%	-0.1%
TNW to Total Assets	31.9%		29.5%		34.7%		37.8%	32.0%
Gearing (times)	1.9x		2.2x		1.8x		1.6x	2.0x

Source: BSL's Consolidated Financial Statements

[a] PAT has been adjusted to exclude the unrealised fair value investment gains earned.

[b] Total Assets and Tangible Net Worth have been adjusted to exclude Intangible Assets and Revaluation Reserves.

[c] Calculated as Total Interest Income/ Average Total Earning Assets; Net Interest Rate Spread based on Total Investment Yield

[d] Calculated as Total Interest Income/ Average Total Fixed Income Investment Securities; Interest Rate Spread based on Fixed Income Investment Yield

[e] Calculated as Interest Expense/ Average Interest-Bearing Liabilities

Comfortable risk-adjusted capitalization level reflected in strong capital adequacy ratios and good coverage of total assets

As of December 31st, 2020, BSL's capitalization strengthened as demonstrated by its risk-adjusted capital adequacy ratio of 110.6%, up from the 75.1% recorded in 2019. The Company's risk-adjusted capital has consistently remained significantly above the minimum requirement of 10%[6]. The Company's ratio of tangible net worth (TNW) to assets averaged 32.4% over the last 3 years (2018-2020), with TNW growing at a 3-year compound annual growth rate (CAGR) of 7.4%. TNW, which continues to be bolstered by significant retained earnings, grew by 3% to TT $292.7 million in 2020 from TT $284.2 million previously. BSL's TNW to total assets also continued to remain among the best when compared to its regional peers, with a TNW to total assets ratio of 31.5% as at December 2020 compared to a regional peer average of 20.7%. Subsequently, for the 3 months ending March 2020, TNW grew by 33.7% y-o-y to TT $323.8 million from TT $242.1 million. The increase in TNW resulted in a slight improvement in the ratio of TNW to Total Assets to 31.9% from 29.5% in the corresponding prior-year period. The Company's CAR increased as a result of

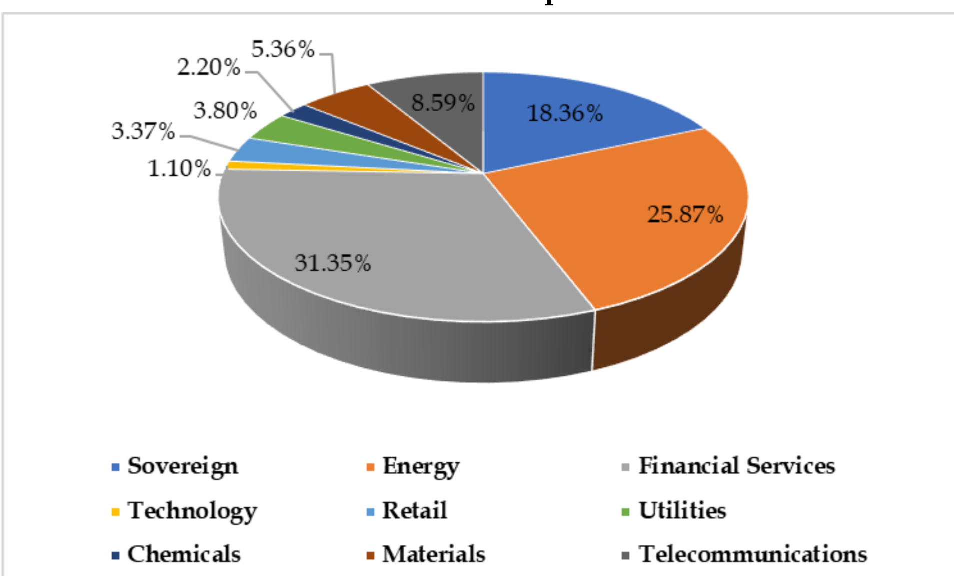
[6] *Financial Institutions (Capital Adequacy) Regulations, 2020*

its increase in cash and cash equivalents and its decisions to increase holdings of government securities over floating rate bonds. CariCRIS expects the Company's healthy capitalization to buffer the potential downside asset risks associated with a slow recovery from the COVID-19 pandemic over the next 12 to 15 months, supporting our positive outlook.

Good asset quality underpinned by a diverse investment portfolio supported by sound risk management practices

BSL's investment portfolio is well diversified and comprised of fixed-income securities (64.8%), equity securities (6.8%), mutual funds (12.3%) and cash and money market securities (16.1%). The portfolio, which grew by 1.6% to TT $790.7 million, represented 85.2% of the Company's total assets as of December 2020. The fixed income portfolio is diversified across 16 countries worldwide and is compliant with its internal maximum country and issuer exposure limits. The Company also remained compliant with its limit on USD issues. The fixed income portfolio is also well-diversified across an array of corporates (81.6% as at March 2021), with the highest sector concentration being financial services, which represented 31.4% (Chart 2). The Company continues to maintain its dual currency exposures of US$ (60%) and TT$ (40%) as at March 2021.

Chart 2
BSL's Fixed Income Portfolio Composition as of March 2021



Source: BSL

The average credit rating of the fixed income portfolio reduced somewhat to BB+ in 2020[7] (on the S&P rating scale) from BBB- in 2019, falling below the BBB lower limit defined in its Investment Policy Statement (IPS). The Company continuously monitors any potential credit risk faced by the organization and aims to return to a BBB- average by the end of 2021.

BSL's investment portfolio continues to be managed in a manner that optimises risk-adjusted returns while pursuing the preservation of capital. In this regard, the Company, in an effort to attenuate the impact of the COVID-19 pandemic, sought to rebalance the investment portfolio and reduce its holdings of assets with elevated credit risk. There were no defaults in the Company's portfolio in 2020 . The Company reduced its exposure to equities in the first quarter of 2020 given COVID-19 related downturns experienced in global financial markets, reallocating to cash and income-oriented assets within the Company's investment portfolio. Asset prices have since recovered and did not have a material impact on the Company's capital adequacy position during the year. With an extended low-interest rate horizon anticipated, BSL has continued to cautiously utilize alternative assets to add diversified income-generating investments to its portfolio. BSL continued to diversify its portfolio by increasing its net exposure to structured notes to US $5.5 million in 2020 from US $4.5 million previously. These typically short-term securities enable the Company to take advantage of the highly volatile economic environment through yield enhancement opportunities. CariCRIS is of the view that the diversity offered by the asset allocation, geographic mix, and industry mix should effectively strengthen the resilience of BSL's investment portfolio to shocks to a specific asset class, country, or industry.

Sound asset-liability management practices contribute to an overall strong liquidity profile

BSL's liquidity position is actively managed, and the Company ensures that it maintains a portfolio of highly marketable and diverse assets that can be easily and quickly converted into cash. The Company also engages in ongoing client communication to aid in its cash flow forecasting, this being a key component of its proactive liquidity management. The Company's active liability management appropriately spaces known and fixed maturities to be comfortably covered by its cash and liquid asset resources. CariCRIS believes that the Company's maintenance of a highly liquid balance sheet, supported by strong cash and cash equivalents to ensure immediate funding availability, provides an effective mitigation strategy against any liquidity risk.

In 2020, net cash flow from operations decreased to TT $51.7 million from TT $166.1 million in the prior year. The decline in the Company's operating cash flow was led by a 90% y-o-y

[7] *On the Standards and Poor Rating Scale, which translates to Cari***A+** *on CariCRIS' regional rating scale (foreign currency)*

slowdown in growth in funding through promissory notes compared to 474.5% growth in 2019, as well as reduced profitability in 2020. Cash and cash equivalents of TT $118.5 million in 2020 were however 41.5% higher than the prior year's position of TT $83.7 million, as the Company slowed its asset purchases during the year and took a deliberate decision to maintain higher cash balances, given the ongoing pandemic-related uncertainties.

Additionally, the Company's favourable US$ liquidity gap affords it the flexibility to repay all short-term funding commitments if required, thereby enhancing its liquidity risk profile and overall creditworthiness. In 2020, liquid assets accounted for 97.6% of total assets which provided good coverage of funding liabilities at 1.6 times.

Sound risk management practices support strategic objectives

BSL has taken an enterprise-wide approach to risk management. This is intended to ensure that the risks undertaken in executing its strategic initiatives are adequately identified, managed, and are consistent with its risk appetite. The Company utilizes a comprehensive enterprise risk management (ERM) framework with oversight being provided by 2 committees of the Board namely the Board Investment Committee (BIC) and the Audit and Risk Committee (ARC). The BIC oversees the strategic return management given the Company's risk tolerance levels and monitors credit, liquidity, capital adequacy/leverage/solvency, and currency risk management. The ARC is responsible for all other aspects of risk management including operational risk, inclusive of Information Technology Control, reputational risk, and general documentation risks. The functioning of these committees is supported by adequate training, reporting, and communication within the Company.

BSL's continuous review of its ERM framework and the risk metrics contained therein continues to provide an appropriate structure to support the achievement of its business objectives within its stated risk tolerance, particularly in the current dynamic business environment. Bourse has also developed a robust Anti-Money Laundering (AML) Policy to ensure compliance with AML regulatory requirements of the Trinidad and Tobago Stock Exchange (TTSE) and the Trinidad and Tobago Securities and Exchange Commission (TTSEC).

The factor constraining the ratings is:

High reliance on institutional funding, though declining

BSL's funding base[8], which stood at TT $576.2 million as at December 2020 compared to TT $572.7 million a year earlier, remains somewhat concentrated, though it is fairly well-diversified across sectors. The top 10 clients were all institutional and represented 55.4% of aggregate funding liabilities in 2020, significantly down from 64.7% in 2019. Further, the top 3 clients accounted for 22.6% of the funding base in 2020, down from 38.9% in 2019. Overall exposure to the Company's single largest investor decreased to 8.8% in 2020 from 14.9% in the previous year, at TT $50.6 million, which remained well within the Board-approved limit of TT $150 million. CariCRIS notes the significant progress made by the Company over the past 3 years in reducing its funding concentration risk. Further, any remaining potential refinancing risks are mitigated by the Company through the establishment of binding fixed term liability maturities for such institutional investors to avoid bunching. In addition, the Company has in place a cap on aggregate maturities for any particular time period. As at March 2021, concentration risk was further mitigated with the Company's top 10 clients accounting for 46.4% of funding liabilities. Maintenance of this exposure below the 50% level over the next 12 to 15 months, mindful of the other risk mitigation strategies deployed by the Company, could lead to an uplift in the Company's overall creditworthiness. The Company continues to intensify its efforts in growing its non-institutional funding sources, with product development and marketing strategies increasingly focused on providing investment solutions to High-Net-Worth individuals.

June 16, 2021

[8] *Consists of promissory notes, i.e., repurchase agreements (or 'repos') and margin facilities (considered to be available lines of credit)*