



*Quality solutions for your financial needs.*



# Investing in the Future

ANNUAL REPORT <sup>20</sup>/<sub>16</sub>

## Vision

To be the leading regional finance company shaping Caribbean communities, through financial education, innovation and trusted financial solutions.

## Mission

To lead the finance company market and maximize shareholder value, by providing high quality innovative financial solutions and an excellent customer experience through empowered, motivated employees.

## Our Core Values

### INTEGRITY

We exhibit integrity by always interacting with others ethically and honourably.

### TRUST

We promise to exemplify trustworthiness in all our dealings.

### RESPECT

We promise always to exhibit respect by empathizing and fully considering the diverse needs of others.

### COMMITMENT

We are fully committed to achieving success for our customers, our community, our staff and ourselves.



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## Board of Directors



**Sir Geoffrey Cave**  
K.A., C.B.E., B.C.H, LL.D (Hon.)  
Chairman



**Steven Whittingham**  
Director,  
GraceKennedy



**Mariame McIntosh  
Robinson**  
Director,  
GraceKennedy



**John Williams**  
Director,  
Cave Shepherd



**Howard Hall**  
Director, Massy United  
Insurance



**Dwight Richardson**  
Director,  
Independent



**Desirée Cherebin**  
Director,  
Independent



**Peter Hall**  
Director,  
Independent

## Management Team



**Paul Ashby**  
Chief Executive Officer



**Jacqueline Holder**  
Chief Operating Officer



**Renee Trotman**  
Chief Financial Officer (Ag.)



**Ayesha Maycock**  
Commercial & Investment  
Manager



**Carol Prescod**  
Client Services Manager

## Signia Teams



**Deborah Clarke**  
Assistant Manager  
Deposits



**Tracia Grant**  
Assistant Manager  
Retail Banking



**Samantha Inniss**  
Business Development Officer  
& Foreign Exchange Trader



**Quetta Rawlins**  
Assistant Manager  
Internal Control



**Sacha Simmons**  
Senior Relationship  
Officer



**Tanya Allen**  
Credit Control Officer



**Elisia Alleyne**  
Personal Banking  
Assistant



**Sherika Armstrong**  
Commercial & Investment  
Assistant



**Cherian Austin**  
Commercial Officer



**Shontel Barrow**  
Reconciliations Officer



**Cherie Belgrave**  
Administrative Assistant  
- Client Services



**Chelsey Best**  
Administrative Assistant  
- Client Services



**Caroline Bowen**  
Internal Control  
Assistant



**Ramon Boyce**  
Commercial & Investment  
Assistant

# Signia Teams



**Andrea Branford**  
Client Services Officer



**Joan Brewster**  
Regulatory Officer



**Mario Chandler**  
Project Analyst



**Orrie Chandler**  
Commercial Officer



**Donelle Daniel**  
Client Services Officer



**Bhari Dyall**  
Internal Control  
Officer



**Carolyn Edey**  
Regulatory Officer



**Ada Holder**  
Office Attendant



**Jalissa Hurdle**  
Administrative Assistant  
- Client Services



**Ann Johnson**  
Office Attendant



**Karen Johnson**  
Commercial & Investment  
Assistant



**Timothy Johnson**  
Client Services Officer



**Kiera Jones**  
Accountant (Ag.)



**Jamera Kirton**  
Client Services Officer

## Signia Teams



**David Knight**  
Administrative Assistant



**Shekita McCollin**  
Administrative Assistant



**Nadia Mongerie**  
Deposits Assistant



**Salena Rice**  
Jr. Relationship Officer



**Michelle Roachford**  
Internal Control Assistant



**Lauriel Small**  
Personal Banking  
Assistant



**Shana Sobers**  
Control Officer



**Natalie Stowe**  
Relationship Officer



**Akeisha Thompson**  
Foreign Exchange Officer



**Shanise Walkes**  
Client Services Officer



**Sonia Weekes**  
Relationship Officer



**Terry Williams**  
Investment & Relationship  
Officer





## Signia in the Community

The year began with support for one of the island's longest-standing comedy shows, Laff-it-Off, which played to sold-out audiences for every performance. This was our show of support for one of the culturally rich displays of the art of comedy, drama and live performance in Barbados.



2016 was a momentous year for Barbados, as the country celebrated fifty years of Independence. In the spirit of this, the company spear-headed a concurrent celebration, by presenting prizes monthly to customers who were celebrating their 50th birthday.

One of the great moments of the financial year was the island's celebration of its second-ever Pic-O-De-Crop Queen in a male-dominated arena. Young Aziza – who has been supported by Signia Financial for over two years - won the coveted prize and represented the Company to thousands of Barbadians at home and abroad. This support in the arts is one of the hallmarks of the brand itself. The company demonstrated this commitment to the arts in its continued sponsorship of Barbados Gospelfest in 2016, with the Signia Workshop and training of young artistes who had the potential to become better performers.



## Signia in the Community

Attention to the plight of the disabled in our community is also a self-imposed mandate for Signia. This year, the company sponsored the first prize for a competition initiated by the Barbados Council for the Disabled, with students submitting entries on the topic, “Life as It Is: Living with a Disability in Barbados.” It is with the same realization that children are future adults and decision-makers that we also donated back-to-school baskets to selected winners.

A major highlight for the Company was the Signia Footstep Challenge, which represented one of Signia’s major goals for 2016. It was the first 5K Walk/Run ever hosted by the Company, with the vision for a healthier Barbados. Minister Esther Byer-Suckoo and members of the disabled community were among the event’s participants, along with numerous young children. The 5K event was hosted in collaboration with the 50th Anniversary of Independence Celebrations Secretariat and garnered national attention. Proceeds from the Footstep Challenge were presented to the Cystic Fibrosis and Diabetes Foundations of Barbados. In line with the vision of a healthier people, Signia Financial also selected one school from each parish as a part of their Healthy Lifestyle outreach programme. Here, the company selected presenters to speak with students on healthy living and also distributed water and fruits among the children.

Community outreach is one of the trademarks of Signia Financial, as we believe that uplifting and building communities create a stronger nation and make us a better company.



## Invest

*to use, give, or devote (time, talent, etc.),  
as for a purpose or to achieve something:*

An investment to us is not about money, but the long lasting effects of your achievements gained through dedication and discipline.

## Chairman's/CEO's Report

Signia Financial Group Inc. has been able to realize a satisfactory performance for the financial year ended December 31, 2016. The Company recognized a Net Profit of \$3.7M, which is in line with the prior year performance of \$3.7M.

The economy continued to experience very challenging times as there were multiple downgrades by international credit rating agencies during 2016. Moody's rating went as low as **Caa1** and the Standard & Poor's to **B-**, these are at the lower end of the spectrum and are well-below investment grade. These indicators are representative of the on the ground realities of a very challenged business climate.

The Central Bank of Barbados recorded real economic growth for the year at 1.6%. Unemployment has seen a year on year decrease but remained relatively high at 10.0% for 2016. In an economic environment with many recovering states in the Caribbean, the International Monetary Fund has given only a moderate assessment of the Barbadian economy's performance in 2016, citing the dependence on the tourism industry, which slowed in growth during the final quarter of the year.

Over the period, the Barbadian government authorities implemented many fiscal adjustments. These included the rescission of the Municipal Solid Waste Tax, an increase in the Bank Asset Tax from 0.2% to 0.35% and the introduction of the Social Responsibility tax as a 2% importation levy.

The Central Bank's removal of the 2.5% minimum savings rate in 2015, has continued to influence market interest rate levels on all financial products. As market rates declined, Signia has remained cognizant of its interest rate spread as it aimed towards continued competitiveness and profitability.

Despite the environment created by these policy adjustments, Signia has been able to grow its loan portfolios, with individual loans increasing from \$129.3M to \$144.6M, and corporate loans increasing from \$40.4M to \$47.2M. To accompany this, Signia also increased its deposit holdings throughout the year from \$185.3M to \$187.8M. This increase in portfolio size has been achieved without sacrificing Net Interest Income, which increased by 7.1% on prior year numbers to \$11.3M.

Over the last 5 years, delinquency has become a much greater concern for Barbados' financial institutions, with market levels of non-performing loans recorded to be 9.6% as at June 2016. Through stringent risk assessment practices and a proactive approach to managing delinquency levels, Signia has been able to restrict its non-performing loans to below the market average, realizing a rate of 4.6% as at December 2016.

The Company has also remained strongly capitalized with a capital adequacy ratio of 19.9% at the year end, which is in excess of the regulatory minimum of 8%.

Based on the forecasted recovery and potential expansion of the tourism sector, the International Monetary Fund expects the Barbadian economy to grow marginally in 2017 by 1.7%. Taking this into consideration, Signia is confident that it will be able to improve on this year's overall performance, expanding their portfolio and diminishing delinquency in the process.

On behalf of the Board of Directors, we wish to thank our loyal customers for their unwavering support and to congratulate the Management and Staff of Signia for their dedication and commitment to the Company's success.



Sir Geoffrey Cave  
Chairman  
April 26, 2017  
Bridgetown, Barbados



Paul Ashby  
Chief Executive Officer  
April 26, 2017  
Bridgetown, Barbados

## Five Year Highlights

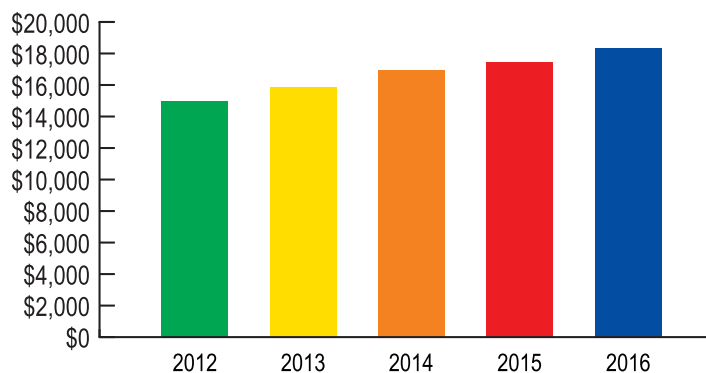
*Expressed in thousands of Barbados dollars*

<b>Operating Results</b>	<b>2016</b> \$	<b>2015</b> \$	<b>2014</b> \$	<b>2013</b> \$	<b>2012</b> \$
Interest income	<b>18,272</b>	17,502	16,955	15,821	14,826
Interest expense	<b>6,954</b>	6,934	7,064	6,323	6,063
Net interest income	<b>11,318</b>	10,568	9,891	9,498	8,763
Profit before tax	<b>4,768</b>	4,810	4,397	4,336	4,160
Profit after tax	<b>3,675</b>	3,667	3,266	3,274	3,125

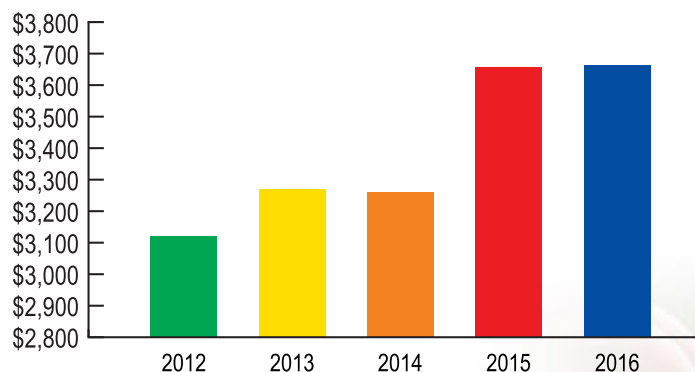
### Financial Position

Loans and advances to customers	<b>191,798</b>	169,786	163,262	153,050	136,613
Total assets	<b>223,081</b>	220,046	194,759	186,252	167,280
Due to customers	<b>187,766</b>	185,266	164,190	158,362	141,800
Total liabilities	<b>191,264</b>	190,353	167,583	161,196	144,305

### Interest Income 2012-2016



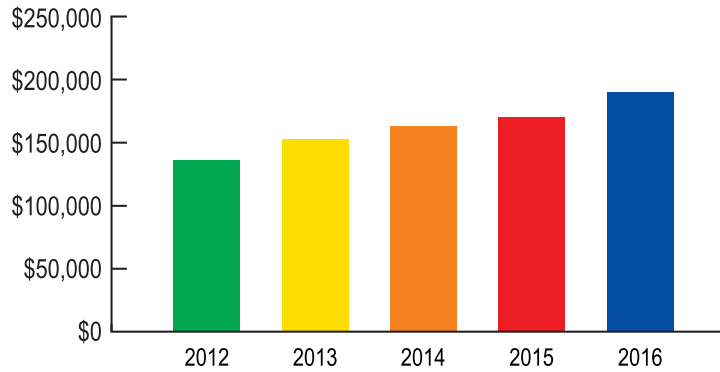
### Net Income 2012-2016



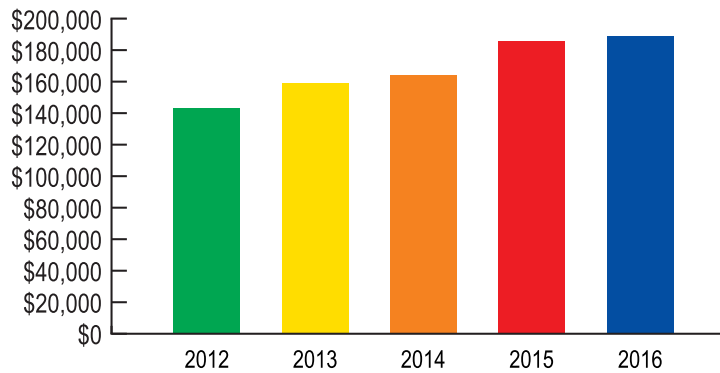
# Five Year Highlights

*Expressed in thousands of Barbados dollars*

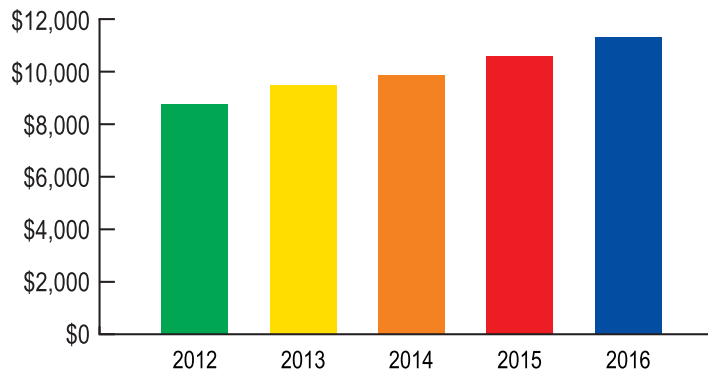
## Loans 2012-2016



## Deposits 2012-2016



## Net Interest Income 2012-2016





## **Independent auditor's report**

To the Shareholder of Signia Financial Group Inc.

### **Our opinion**

In our opinion, the financial statements present fairly, in all material respects the financial position of Signia Financial Group Inc. (the Company) as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **What we have audited**

The Company's financial statements comprise:

- the balance sheet as at December 31, 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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### **Basis for opinion**

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

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

### **Independence**

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

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### **Other information**

Management is responsible for the other information. The other information comprises the Chairman's/CEO's Report for the year ended December 31, 2016 and the Five Year Highlights but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.





- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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**Other matter**

This report is made solely to the Company's shareholder, as a body corporate, in accordance with Section 147 of the Companies Act of Barbados. Our audit work has been undertaken so that we might state to the Company's shareholder those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law and subject to any enactment or rule of law to the contrary, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder as a body corporate, for our audit work, for this report, or for the opinion we have formed.

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A handwritten signature in black ink that reads 'PricewaterhouseCoopers SRL'.

PricewaterhouseCoopers SRL  
Bridgetown, Barbados  
April 28, 2017

# Balance Sheet

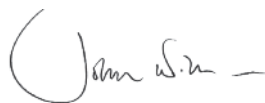
As at December 31, 2016  
(Amounts in Barbados dollars)

	Notes	December 31 2016 \$	December 31 2015 \$
<b>Assets</b>			
Cash resources	4	21,366,282	38,845,584
Due from parent company	5	39,398	88,485
Financial investments	6	4,314,649	7,471,650
Loans and advances to customers	7	191,797,615	169,786,267
Property, plant and equipment	8	535,707	452,844
Intangible assets	9	22,957	510
Operating lease assets	10	293,867	474,581
Other assets	11	4,510,651	2,800,138
Deferred tax assets	12	199,900	126,286
<b>Total assets</b>		<b>223,081,026</b>	<b>220,046,345</b>
<b>Liabilities</b>			
Due to customers	13	187,765,748	185,265,723
Other liabilities	14	2,750,608	4,357,118
Asset tax payable	15	191,200	142,452
Current tax payable		556,530	588,076
<b>Total liabilities</b>		<b>191,264,086</b>	<b>190,353,369</b>
<b>Equity</b>			
Share capital	16	9,210,857	9,210,857
Statutory and other reserves	17	4,987,554	4,436,374
Retained earnings		17,618,529	16,045,745
		<b>31,816,940</b>	<b>29,692,976</b>
<b>Total liabilities and equity</b>		<b>223,081,026</b>	<b>220,046,345</b>

Approved by the Board of Directors on April 26, 2017



Director



Director

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

## Statement of Changes in Equity

For the year ended December 31, 2016

(Amounts in Barbados dollars)

	Share capital \$	Statutory and other reserves \$	Retained earnings \$	Total \$
<b>Balance at December 31, 2014</b>	<b>9,210,857</b>	<b>3,886,334</b>	<b>14,078,852</b>	<b>27,176,043</b>
Dividends (12.49 cents per share)	-	-	(1,150,000)	(1,150,000)
Profit and total comprehensive income for the year	-	-	3,666,933	3,666,933
Transfer to statutory reserves (note 17)	-	550,040	(550,040)	-
<b>Balance at December 31, 2015</b>	<b>9,210,857</b>	<b>4,436,374</b>	<b>16,045,745</b>	<b>29,692,976</b>
Dividends (16.83 cents per share)	-	-	(1,550,569)	(1,550,569)
Profit and total comprehensive income for the year	-	-	3,674,533	3,674,533
Transfer to statutory reserves (note 17)	-	551,180	(551,180)	-
<b>Balance at December 31, 2016</b>	<b>9,210,857</b>	<b>4,987,554</b>	<b>17,618,529</b>	<b>31,816,940</b>

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

# Statement of Comprehensive Income

For the year ended December 31, 2016

(Amounts in Barbados dollars)

		December 31 2016 \$	December 31 2015 \$
	<b>Notes</b>		
Interest income		18,271,891	17,502,234
Interest expense		(6,953,700)	(6,934,192)
<b>Net interest income</b>	18	<b>11,318,191</b>	10,568,042
Impairment losses on loans and advances	7	(1,644,585)	(1,374,404)
<b>Net interest income after loan impairment charges</b>		<b>9,673,606</b>	9,193,638
Fee and commission income	19	132,533	95,391
Fee and commission expense	19	(52,239)	(46,684)
<b>Net fee and commission income</b>		<b>80,294</b>	48,707
Net lease income	20	68,206	61,074
Other operating income	21	242,044	298,154
Foreign exchange and brokerage income	22	686,264	1,133,766
Fair value gain on financial investments		313,565	-
Asset tax	15	(689,813)	(407,063)
Operating expenses	23	(5,606,302)	(5,518,336)
<b>Profit before corporation tax</b>		<b>4,767,864</b>	4,809,940
Corporation tax expense	12	(1,093,331)	(1,143,007)
<b>Profit and total comprehensive income for the year</b>		<b>3,674,533</b>	3,666,933

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

# Statement of Cash Flows

For the year ended December 31, 2016

(Amounts in Barbados dollars)

	December 31 2016 \$	December 31 2015 \$
<b>Cash flows from operating activities</b>		
Profit before corporation tax	4,767,864	4,809,940
Adjustments for:		
Depreciation of property, plant and equipment and operating lease assets and amortisation of intangible assets	340,328	493,067
Impairment losses on loans and advances	1,644,585	1,374,404
Gain on disposal of property, plant and equipment	(9,401)	(67,923)
Fair value gain on financial investments	(313,565)	-
Interest income	(18,271,891)	(17,502,234)
Interest expense	6,953,700	6,934,192
Gain on sale of operating lease assets and repossessed stock	(17,553)	(6,005)
	<b>(4,905,933)</b>	<b>(3,964,559)</b>
<b>Changes in working capital</b>		
Increase in restricted cash	(70)	(500,035)
Decrease/(Increase) in due from parent company	49,087	(69,007)
Increase in loans and advances to customers	(23,522,309)	(7,900,155)
Net change in operating lease assets	(5,022)	(220,891)
Increase in other assets	(1,659,977)	(220,381)
Increase in due to customers	2,838,658	20,642,719
(Decrease)/Increase in other liabilities	(1,641,594)	1,796,982
Increase/(Decrease) in asset tax payable	48,749	(86,157)
Fees received	566,990	470,424
Taxation paid	(1,198,493)	(1,172,590)
Interest paid	(7,292,330)	(6,501,243)
Interest received	17,610,276	17,030,127
<b>Net cash (used in)/generated from operating activities</b>	<b>(19,111,968)</b>	<b>19,305,234</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(361,240)	(216,660)
Proceeds from the sale of property, plant and equipment	72,755	67,923
Purchase of treasury bills	(26,283,650)	(29,756,800)
Maturity of treasury bills	29,755,300	29,756,800
Purchase of investments	(18,500,000)	(18,500,000)
Maturity of investments	18,500,000	18,500,000
<b>Net cash generated from/(used in) investing activities</b>	<b>3,183,165</b>	<b>(148,737)</b>

## Statement of Cash Flows *...continued*

For the year ended December 31, 2016

(Amounts in Barbados dollars)

	December 31 2016 \$	December 31 2015 \$
<b>Cash flows from financing activities</b>		
Payment of dividends	(1,550,569)	(1,150,000)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(17,479,372)</b>	18,006,497
<b>Cash and cash equivalents - beginning of year</b>	<b>33,066,292</b>	15,059,795
<b>Cash and cash equivalents - end of year</b>	<b>15,586,920</b>	33,066,292
<b>Represented by:</b>		
Cash at bank (Note 4)	11,071,697	27,040,387
Short term deposits (Note 4)	4,515,223	6,025,905
	<b>15,586,920</b>	33,066,292

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

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 1. Incorporation, ownership and principal activities

Signia Financial Group Inc. (the Company) was incorporated under the Laws of Barbados on September 13, 1996. On January 2, 1998 the Company was granted a licence under the Financial Institutions Act 1996 to carry on business as a finance company. Its principal activities are the provision of term finance, motor vehicle leasing and the acceptance of deposits. The Company is also an authorised foreign exchange dealer and licensed stock broker.

The Company is wholly-owned by CSGK Finance Holdings Limited (CSGK), which is a company incorporated under the Laws of Barbados and is a joint venture between Cave Shepherd & Co. Limited and Massy United Insurance Company Limited, companies incorporated under the Laws of Barbados, and First Global Holdings Limited, a subsidiary of Grace Kennedy & Company Limited, a company incorporated in Jamaica.

The Company's principal place of business is located on the First Floor, Carlisle House, Hincks Street, Bridgetown, Barbados.

## 2. Summary of significant accounting policies

These financial statements are prepared in accordance with International Financial Reporting Standards, ("IFRS"). Significant accounting policies are set out below and have been consistently applied to all the years presented, unless otherwise stated.

### a) Basis of preparation

The financial statements comprise the balance sheet, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow and the notes to the financial statements.

These financial statements are prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 2. Summary of significant accounting policies ...continued

### a) Basis of preparation ...continued

#### *Standards, amendments and interpretations effective in 2016*

The following amendments to published standards are mandatory for accounting periods beginning on or after January 1, 2016.

Annual improvements 2014 (effective annual periods on or after January 1, 2016.) These set of amendments impacts 4 standards:

- IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
- IFRS 7, 'Financial Instruments: Disclosures' (with consequential amendments to IFRS 1) regarding servicing contracts.
- IAS 19, 'Employee benefits' regarding discount rates.
- IAS 34, 'Interim financial reporting' regarding disclosure of information.
- Amendment to IAS 1 'Presentation of financial statements' on the disclosure initiative effective January 1, 2016. These amendments are a part of the IASB initiative to impose presentation and disclosure in financial reports and seek to clarify the guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of the financial statements and the disclosure of the accounting policies.

#### *New standards, amendments and interpretations to published standards that are not yet effective but have been early adopted by the Company*

There are no standards that are not yet effective that have been early adopted by the Company.

#### *New standards, amendments and interpretations to published standards that are not yet effective but will be relevant to the Company*

- Amendments to IAS 7 'Statement of Cash Flows' effective for annual periods beginning on or after January 1, 2017, introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The company is yet to assess the full impact of the amendment.



# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 2. Summary of significant accounting policies ...continued

### a) Basis of preparation ...continued

*New standards, amendments and interpretations to published standards that are not yet effective but will be relevant to the Company ...continued*

- Amendments to IFRS 15 ‘Revenue from contracts with customers’ effective for annual periods beginning on or after January 1, 2018, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The Company is yet to assess the full impact of the amendment.
- IFRS 9 ‘Financial Instruments’ effective for annual periods beginning on or after January 1, 2018, simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value where the basis of classification depends on the Company’s business model and the contractual cash flow characteristics of the financial asset. The Company is yet to assess the full impact of the standard.
- IFRS 16 ‘Leases’ effective for annual periods beginning on or after January 1, 2019 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. The company is yet to assess the full impact of this standard.

### b) Foreign currency translation

#### i) *Functional and presentation currency*

Items included in the Company’s financial statements are measured using the currency of the economic environment in which the Company operates. The statements are presented in Barbados Dollars which is the Company’s functional and presentation currency.

#### ii) *Transactions and balances*

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

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 2. Summary of significant accounting policies ...continued

### c) Financial assets

The Company classifies its financial assets in accordance with the following IAS 39 categories: loans and receivables and available-for-sale. Management determines the classification of its financial instruments at initial recognition.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are designated in this category. They are included in financial investments on the balance sheet.

#### Recognition and measurement

Purchases and sales of financial assets are recognised on settlement date, the date on which the Company settles the purchase or sells the asset. Loans and receivables are reported in the balance sheet as loans and advances to financial institutions or customers or as financial investments. Financial assets are initially recognised at fair value plus transaction costs for all financial assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost. Available-for-sale financial assets are initially measured at fair value and are subsequently re-measured at fair value using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

Changes in the fair value of financial assets classified as available-for-sale are recognised in other comprehensive income. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously recognised in other comprehensive income are included in the statement of comprehensive income as gains and losses from financial investments.

#### Fair value

Fair value amounts represent the price (or estimates thereof) that would be agreed upon in an orderly transaction between market participants at valuation date.

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 2. Summary of significant accounting policies ...continued

### d) Financial liabilities

Financial liabilities are measured at amortised cost, and are primarily deposits from customers or banks.

### e) Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired, individually or collectively.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income.

The criteria that the Company uses to determine whether there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 2. Summary of significant accounting policies ...continued

### e) Impairment of financial assets ...continued

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statement of comprehensive income.

For an available-for-sale equity security, an impairment loss is recognised in the statement of comprehensive income if there has been a significant or prolonged decline in its fair value below its cost. Determination of what is significant or prolonged requires judgement which includes consideration of the volatility of the fair value, and the financial condition and financial viability of the investee.

Impairment losses on equity instruments that were recognised in the statement of comprehensive income are not reversed in a subsequent period.

### f) Current and deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment and operating lease assets and the collective allowance for impairment losses.

Income tax payable on profits, based on the applicable tax law is recognised as an expense in the period in which the profits arise. The tax effects of tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available to utilise against these losses.

### g) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate. All other repairs and maintenance are charged to the statement of comprehensive income during the period in which they are incurred.

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 2. Summary of significant accounting policies ...continued

### g) Property, plant and equipment ...continued

Depreciation is provided on the straight-line method at the following annual rates considered appropriate to write off the cost of the assets over their estimated useful lives as follows:

Leasehold improvements	- 20% or over the term of the lease
Computer	- 14% - 33%
Furniture and equipment	- 10% - 50%
Motor vehicles	- 20%
Leased vehicles and equipment	- Over the term of the lease agreement.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

### h) Intangible assets

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years.

### i) Leases

#### i) *The Company is the lessor*

The leases entered into by the Company are primarily finance leases. When assets are held subject to a finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 2. Summary of significant accounting policies ...continued

### i) Leases ...continued

#### ii) *The Company is the lessee*

The total 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 an operating lease is terminated before the lease period has expired, any payment required to be made by the lessee by way of penalty is recognised as an expense in the period in which termination has taken place.

### j) Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans or leases that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'Other assets'.

### k) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and balances with three months or less maturity from the date of acquisition, including, amounts due from other banks.

### l) Share capital

#### i) *Share issue costs*

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax from the proceeds.

#### ii) *Dividends*

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's directors.

### m) Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees are recognised over the life of the loan. Commission and fees arising from third party transactions such as the collection of payments for service providers are recognised on completion of the transactions.

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 2. Summary of significant accounting policies ...continued

### n) Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all interest bearing financial instruments using the effective interest method. Income from leasing of motor vehicles and from term deposits and investments is recognised using the effective interest method.

Once a financial asset has been written down as a result of impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring its impairment loss.

### o) Employee retirement benefits

The Company's employees are members of the Cave Shepherd Group Defined Contribution Pension Plan. The plan is administered by Trustees and investments are held by an independent Custodial Trustee. Contributions to the plan are based on pensionable salary and are recognised as an employee benefit expense.

### p) Provisions

Provisions for legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events; if it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The Company recognises no provisions for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 3. Critical accounting estimates, and judgments in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 3. Critical accounting estimates and judgments in applying accounting policies ...continued

### a) Impairment losses on loans and advances

The Company reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Company makes judgments as to whether there is a measurable decrease in the estimated future cash flows from individual loans before the decrease can be identified with the collective loans in that portfolio. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience. To the extent management's estimate of cash flows differ by +/- 5%, the net income for the year would have increased by **\$162,856** (2015 - \$190,226) and decreased by **\$173,264** (2015 - \$195,951).

### b) Valuation of equity investments

The Company uses internally developed models to estimate market values for unquoted equity investments. The estimated market value is based on best estimate assumptions and may vary substantially as these assumptions are varied. The models used for equity investments are based on value in use calculations, adjusted as appropriate for marketability restrictions and market risk factors. Information about the fair value techniques and sensitivity is disclosed in Note 27.

### c) Corporation taxes

The Company is subject to corporation taxes in the jurisdiction in which it operates. Estimates are required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences are recognised in the statement of comprehensive income.

### d) Tax on assets

The Company is subject to a tax of **0.35%** (2015 - 0.2%) of its average domestic assets which was enacted through an amendment to the Tax on Assets Act 2015. Where the final asset tax outcome is different from the amount initially recorded, such differences are recognised in the statement of comprehensive income.



# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 4. Cash resources

	December 31 2016 \$	December 31 2015 \$
Cash	11,071,697	27,040,387
Short term deposits	4,515,223	6,025,905
Restricted cash	5,779,362	5,779,292
Total cash resources	<u>21,366,282</u>	<u>38,845,584</u>

The Company is required to maintain mandatory reserve deposits with the Central Bank of Barbados representing a percentage of deposit liabilities as cash or deposits. These funds are not available to finance the Company's day to day operations and as such, are excluded from cash resources to arrive at cash and cash equivalents. At December 31, 2016 mandatory deposits amounted to **\$5,508,354** (2015 - \$5,566,990).

## 5. Due from parent company

Amounts due from parent company bear no interest and have no stated terms of repayment.

## 6. Financial investments

	December 31 2016 \$	December 31 2015 \$
Treasury bills	3,996,084	7,471,650
Equity investments	318,565	-
Total financial investments	<u>4,314,649</u>	<u>7,471,650</u>

Equity investments are comprised of shares issued to the Company by the Barbados Stock Exchange (BSE) upon the demutualisation of the BSE in 2016. Prior to the demutualisation of the BSE the Company was classified as an ordinary member of the BSE and a contribution of \$5,000 was recorded within Other assets.

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 7. Loans and advances to customers

	Corporate 2016 \$	Individual 2016 \$	Total December 2016 \$
Gross loans and advances	47,685,390	146,901,430	194,586,820
Less: impairment losses	(473,053)	(2,316,152)	(2,789,205)
<b>Balance, end of year</b>	<b>47,212,337</b>	<b>144,585,278</b>	<b>191,797,615</b>

	Corporate 2015 \$	Individual 2015 \$	Total December 2015 \$
Gross loans and advances	41,751,831	131,373,845	173,125,676
Less: impairment losses	(1,312,953)	(2,026,456)	(3,339,409)
<b>Balance, end of year</b>	<b>40,438,878</b>	<b>129,347,389</b>	<b>169,786,267</b>

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 7. Loans and advances to customers ...continued

### Analysis of loans by industry sector

	December 31 2016 \$	December 31 2015 \$
Education	105,092	161,452
Electricity, gas and water supply	-	2,305
Other financial corporations	5,533,836	377,706
Manufacturing	1,577,602	1,675,727
Transport, storage and communication	4,919,357	2,542,931
Hotels and restaurants	701,985	819,731
Agriculture	665,565	1,744,143
Health and social work	1,494,989	1,800,159
Construction	2,422,455	2,534,850
Real estate, renting and other business	31,043,958	30,092,827
Individuals and individual trusts	146,121,981	131,373,845
	<u>194,586,820</u>	<u>173,125,676</u>
Receivable 12 months or less after the reporting period	43,823,140	39,523,688
Receivable more than 12 months after the reporting period	150,763,680	133,601,988
	<u>194,586,820</u>	<u>173,125,676</u>

Loans and advances to customers are predominantly secured by the vehicles and title deeds relating to property financed under the individual contracts.

### Impairment losses on loans and advances

	December 31 2016 \$	December 31 2015 \$
Increase in impairment losses on loans and advances	1,615,088	1,451,932
Amounts written off during the year as uncollectible	188,356	59,216
	<u>1,803,444</u>	<u>1,511,148</u>
Amounts received on loans previously written off	(158,859)	(136,744)
	<u>1,644,585</u>	<u>1,374,404</u>

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 7. Loans and advances to customers ...continued

### Allowance for impairment losses

Movement in allowance for impairment losses:

	December 31			December 31		
	2016	2016	2016	2015	2015	2015
	\$	\$	\$	\$	\$	\$
	Specific	Collective	Total	Specific	Collective	Total
Balance, beginning of year	2,377,920	961,489	3,339,409	2,377,206	945,549	3,322,755
Increase in impairment losses	1,346,545	268,543	1,615,088	1,435,992	15,940	1,451,932
Loans written off during the year as uncollectible	(2,299,817)	-	(2,299,817)	(1,343,278)	-	(1,343,278)
Net movement on loans transferred to inventory	134,525	-	134,525	(92,000)	-	(92,000)
Balance, end of year	1,559,173	1,230,032	2,789,205	2,377,920	961,489	3,339,409

At December 31, 2016, non-accrual loans amounted to **\$6,017,862** (2015 - \$6,146,193).

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 7. Loans and advances to customers ...continued

Loans and advances to customers include finance lease receivables as follows:

Gross investment in finance lease receivables:

	December 31 2016 \$	December 31 2015 \$
No later than 1 year	2,920,246	2,420,935
Later than 1 year but no later than 5 years	7,317,886	5,179,266
	<u>10,238,132</u>	7,600,201
Unearned future finance income on finance leases	(1,401,703)	(1,084,541)
Net investment in finance lease receivables	<u>8,836,429</u>	6,515,660

The net investment in finance lease receivables may be analysed as follows:

No later than 1 year	2,351,521	1,957,576
Later than 1 year but no later than 5 years	6,484,908	4,558,084
	<u>8,836,429</u>	6,515,660

The carrying amount of finance lease receivables includes **\$3,313,162** (2015 - \$2,532,212) of unguaranteed residual value accruing to the benefit of the company.

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 8. Property, plant and equipment

	Leasehold Improvements \$	Computers \$	Furniture & equipment \$	Motor vehicles \$	Total \$
<b>At December 31, 2014</b>					
Cost	370,308	577,786	509,994	512,817	1,970,905
Accumulated depreciation	(344,648)	(442,983)	(372,349)	(345,013)	(1,504,993)
Net book value	25,660	134,803	137,645	167,804	465,912
<b>Year ended December 31, 2015</b>					
Opening net book amount	25,660	134,803	137,645	167,804	465,912
Additions	-	53,500	-	163,160	216,660
Depreciation charge	(24,612)	(59,761)	(50,243)	(95,112)	(229,728)
Closing net book value	1,048	128,542	87,402	235,852	452,844
<b>At December 31, 2015</b>					
Cost	370,308	628,981	508,408	480,117	1,987,814
Accumulated depreciation	(369,260)	(500,439)	(421,006)	(244,265)	(1,534,970)
Net book value	1,048	128,542	87,402	235,852	452,844
<b>Year ended December 31, 2016</b>					
Opening net book amount	1,048	128,542	87,402	235,852	452,844
Additions	-	66,615	107,220	159,910	333,745
Disposals	-	(141)	-	(63,214)	(63,354)
Depreciation charge	(1,048)	(73,921)	(36,016)	(76,541)	(187,527)
<b>Closing net book value</b>	<b>-</b>	<b>121,094</b>	<b>158,605</b>	<b>256,007</b>	<b>535,707</b>
<b>At December 31, 2016</b>					
Cost	370,308	661,416	614,561	432,413	2,078,699
Accumulated depreciation	(370,308)	(540,322)	(455,955)	(176,407)	(1,542,993)
<b>Net book value</b>	<b>-</b>	<b>121,094</b>	<b>158,605</b>	<b>256,007</b>	<b>535,707</b>

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 9. Intangible assets

Computer software

	December 31 2016 \$	December 31 2015 \$
<b>Cost</b>		
Beginning of year	377,076	377,076
Additions	27,495	-
End of year	<u>404,571</u>	<u>377,076</u>
<b>Accumulated amortisation</b>		
Beginning of year	376,566	328,285
Charge for the year	5,048	48,281
End of year	<u>381,614</u>	<u>376,566</u>
<b>Net book value</b>		
End of year	<u>22,957</u>	510
Beginning of year	<u>510</u>	48,791

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 10. Operating lease assets

Leased vehicles	December 31 2016 \$	December 31 2015 \$
<b>Cost</b>		
Beginning of year	669,784	833,853
Additions	194,870	416,311
Transfer to repossessed stock	(98,631)	(133,282)
Disposals	(344,722)	(447,098)
End of year	421,300	669,784
<b>Accumulated depreciation</b>		
Beginning of year	195,203	310,895
Charge for the year	147,753	215,058
Transfer to repossessed stock	(43,095)	(73,068)
Disposals	(172,427)	(257,682)
End of year	127,434	195,203
<b>Net book value</b>		
End of year	293,867	474,581
Beginning of year	474,581	522,958

## 11. Other assets

	December 31 2016 \$	December 31 2015 \$
Prepaid expenses	321,346	397,895
Other receivables	2,533,329	506,977
Repossessed or end of lease stock	1,406,579	1,894,737
VAT recoverable	249,397	529
	4,510,651	2,800,138
Receivable 12 months or less after the reporting period	4,501,780	2,786,267
Receivable more than 12 months after the reporting period	8,871	13,871
	4,510,651	2,800,138



# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 12. Taxation

	December 31 2016 \$	December 31 2015 \$
Current tax charge	1,166,946	1,162,190
Deferred tax credit	(73,615)	(19,183)
	1,093,331	1,143,007

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

	December 31 2016 \$	December 31 2015 \$
Profit before corporation tax	4,767,864	4,809,940
Corporation tax at a tax rate of 25% (2015 - 25%)	1,191,966	1,202,485
Income subject to tax at different rate	(30,098)	(30,161)
Income not subject to tax	(82,499)	12,901
Expenses not deductible for tax	9,061	-
Prior year under (over) provision	4,901	(42,218)
Taxation charge for the year	1,093,331	1,143,007

The movement on the deferred tax account is as follows:

	December 31 2016 \$	December 31 2015 \$
Balance - beginning of year	126,286	107,103
Deferred tax credit for the year	73,615	19,183
Balance - end of year	199,900	126,286

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 12. Taxation ...continued

The deferred tax asset consists of the following components:

	December 31 2016 \$	December 31 2015 \$
Accelerated tax depreciation	430,433	456,347
Collective allowance for impairment losses	(1,230,032)	(961,489)
	<u>(799,599)</u>	<u>(505,142)</u>
Deferred tax asset at corporation tax rate of 25% (2015 - 25%)	<u>(199,900)</u>	<u>(126,286)</u>

## 13. Due to customers

	December 31 2016 \$	December 31 2015 \$
<b>Financial institutions</b>		
Payable at fixed dates	24,160,043	27,762,804
<b>Individuals</b>		
Payable with notice	4,393,734	3,745,246
Payable at fixed dates	112,505,463	105,903,717
<b>Business and government</b>		
Payable with notice	5,677,936	4,435,483
Payable at fixed dates	38,760,213	40,807,329
<b>Other</b>		
Payable at fixed dates	<u>2,268,359</u>	<u>2,611,144</u>
Deposits due to customers	<u>187,765,748</u>	<u>185,265,723</u>
Payable with notice	10,071,670	8,180,729
Payable at fixed dates	<u>177,694,078</u>	<u>177,084,994</u>
	<u>187,765,748</u>	<u>185,265,723</u>
Payable 12 months or less after the reporting period	103,094,203	101,276,138
Payable more than 12 months after the reporting period	<u>84,671,546</u>	<u>83,989,585</u>
	<u>187,765,748</u>	<u>185,265,723</u>

The rates of interest on fixed deposits vary in accordance with the length and value of the deposit from **1.5% to 5.5%** (2015 - 2.75% to 5.5%). **\$7,269,654** (2015 - \$10,767,509) of these deposits are held as security on loans and advances.

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 14. Other liabilities

	December 31 2016 \$	December 31 2015 \$
Due to brokers and related customers	1,218,076	2,814,492
ICF loan	889,236	1,029,472
Other payables	643,296	513,154
	<b>2,750,608</b>	<b>4,357,118</b>
Payable 12 months or less after the reporting period	2,001,592	3,467,866
Payable more than 12 months after the reporting period	749,016	889,252

Industrial Credit Fund (ICF) loan represents variable rate loans on special terms due to the Central Bank of Barbados used to finance specific loans in designated sectors of the economy. Interest on amounts advanced is charged at **2% - 3%** (2015 - 2% - 3%) per annum.

## 15. Asset tax payable

	December 31 2016 \$	December 31 2015 \$
Beginning of year	142,452	228,609
Asset tax expense	689,813	407,063
Asset tax paid	(641,064)	(493,220)
	<b>191,200</b>	<b>142,452</b>

## 16. Share capital

Authorised:

The Company is authorised to issue an unlimited number of common shares of no par value.

Issued:

	December 31 2016 \$	December 31 2015 \$
9,210,857 common shares issued (2015 - 9,210,857)	<b>9,210,857</b>	<b>9,210,857</b>

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 17. Statutory and other reserves

	December 31 2016 \$	December 31 2015 \$
Balance, beginning of year	4,436,374	3,886,334
Transfer from retained earnings	551,180	550,040
	<hr/>	<hr/>
Balance, end of year	4,987,554	4,436,374

Section 33 of the Financial Institutions Act, 1996 requires that a minimum of 15% of annual net income be appropriated to a reserve fund until the balance of such fund equals the Company's share capital.

## 18. Net interest income

	December 31 2016 \$	December 31 2015 \$
<b>Interest income</b>		
Cash and other short term funds	94,485	70,402
Investment securities	407,163	428,741
Finance lease income	726,351	720,339
Credit related fees	641,175	581,978
Loans and advances	16,402,717	15,700,774
	<hr/>	<hr/>
	18,271,891	17,502,234
<b>Interest expense</b>		
Due to customers	(6,953,700)	(6,934,192)
	<hr/>	<hr/>
<b>Net interest income</b>	11,318,191	10,568,042

At December 31, 2016, interest income accrued on impaired financial assets amounted to **\$11,562** (2015 - \$7,144).

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 19. Net fee and commission income

	December 31 2016 \$	December 31 2015 \$
<b>Fee and commission income</b>		
Creditor life and other commissions	<u>132,533</u>	<u>95,391</u>
<b>Fee and commission expense</b>		
Dealer commissions	<u>52,239</u>	<u>46,684</u>
	<u>80,294</u>	<u>48,707</u>

## 20. Net lease income

	December 31 2016 \$	December 31 2015 \$
Operating lease income	218,745	285,276
Depreciation expense	(147,753)	(215,058)
Lease repair expense	(2,786)	(9,144)
	<u>68,206</u>	<u>61,074</u>

## 21. Other operating income

	December 31 2016 \$	December 31 2015 \$
Profit on sale of operating lease assets and repossessed stock	230,768	281,767
Lease and other charges	11,276	16,387
	<u>242,044</u>	<u>298,154</u>

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 22. Foreign exchange and brokerage income

	December 31 2016 \$	December 31 2015 \$
Foreign exchange transaction gains and losses	509,358	767,241
Brokerage fees	176,906	366,525
	686,264	1,133,766

## 23. Operating expenses

	December 31 2016 \$	December 31 2015 \$
Staff costs (Note 24)	3,050,838	2,974,523
Administrative expenses	2,362,888	2,265,804
Depreciation of property, plant and equipment and intangible assets	192,576	278,009
	5,606,302	5,518,336

## 24. Staff costs

	December 31 2016 \$	December 31 2015 \$
Salaries and wages	2,675,648	2,651,261
National insurance contributions	182,521	160,173
Pension costs:		
- defined contribution plan	64,133	67,288
Other	128,536	95,801
	3,050,838	2,974,523



# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 25. Related party transactions

A number of transactions are entered into with related parties in the normal course of business. These include loans and advances, deposits, and administrative services. The volumes of related party transactions and outstanding balances at year end and related income and expenses for the year are as follows:

	<b>Directors and key management personnel</b>	
	<b>December 31 2016</b>	<b>December 31 2015</b>
	\$	\$
<b>Loans and advances</b>		
Loans and advances outstanding at beginning of year	<b>140,825</b>	149,392
Loans and advances issued during the year	<b>14,000</b>	68,218
Loan repayments during the year	<b>(47,215)</b>	(76,785)
	<b>107,610</b>	140,825
Loans and advances outstanding at end of year		
Interest income earned	<b>7,206</b>	9,602

No provisions have been recognised in respect of loans given to related parties in 2016 and 2015.

Interest is payable at **6%** (2015 - 6.5%) per annum. These loans are secured predominantly by vehicles and have fixed terms of repayment.

### Amounts due from parent company

	<b>December 31 2016</b>	<b>December 31 2015</b>
	\$	\$
CSGK Finance Holdings Ltd.	<b>39,398</b>	88,485

Amounts due from parent company bear no interest and have no stated terms of repayment.

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 25. Related party transactions ...continued

	Directors and key management personnel	
	December 31 2016 \$	December 31 2015 \$
<b>Deposits</b>		
Deposits at beginning of year	596,887	297,180
Deposits received during the year	51,443	358,671
Deposits repaid during the year	(99,310)	(58,964)
	549,020	596,887
Deposits at end of year		
Interest expense on deposits	23,270	14,723

Included in amounts due to customers is **\$1,000,000** (2015 - \$3,082,196) placed by a shareholder of the parent company. Included in loans and advances are finance leases held by a related party in the amount of **\$111,114** at year end (2015 - \$Nil).

	December 31 2016 \$	December 31 2015 \$
<b>Key management compensation</b>		
Salaries and benefits	1,074,591	1,152,895

### *Directors' remuneration*

In 2016, the total remuneration to the directors was **\$60,000** (2015 - \$48,000).

## 26. Contingent liabilities and commitments

### *a) Legal proceedings*

No contingent liabilities associated with legal action have been disclosed as professional advice indicates that it is unlikely that any significant loss will arise.



# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 26. Contingent liabilities and commitments ...continued

### b) Commitments

Rental commitment is as follows:

	December 31 2016 \$	December 31 2015 \$
Within one year	275,943	99,118
Later than one year but no later than five years	855,951	10,000
	1,131,894	109,118

The Company had loan commitments as follows:

	December 31 2016 \$	December 31 2015 \$
Loan commitments	6,770,238	14,507,939

## 27. Financial instruments, financial risk and capital management

By its nature, the Company's activities expose it to a variety of financial risks such as credit risk, market risk (predominantly cash flow interest rate risk) and liquidity risk. The Company accepts deposits from customers at fixed interest rates over varying terms of maturity and seeks to earn the appropriate interest margin through lending to commercial and retail borrowers at fixed and variable rates over varying terms of maturity and by investing funds in high quality assets. This note presents information about the Company's exposure to each of the above financial risks, the Company's objectives, policies and procedures for measuring and managing these risks, as well as the Company's management of its capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Credit Committee and the Asset and Liability Committee ("ALCO") both of which include non-executive members and regularly report to the Board of Directors on their activities. In addition, the Board has established an Audit Committee to assist the directors in overseeing the reliability of the Company's financial statements, compliance with legal and regulatory requirements, external and internal auditor independence, as well as business practices and ethical standards. The Audit Committee also oversees compliance with the Company's risk management policies and procedures, as well as reviews the adequacy of the risk management framework in relation to the potential risks which the Company faces.

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### a) Credit risk:

Credit risk arises from the possibility that counterparties may default on their obligations to the Company resulting in a financial loss to the Company. Credit risk is considered to be the most significant of the financial risks which the Company faces and as a result, the Company's financial risk management focuses heavily on managing its exposure to credit risk. Credit risk arises primarily from the Company's lending activities that result in loans and advances to customers, including finance leases, as well as investment activities that bring fixed income securities into the Company's investment portfolio.

The Board of Directors has delegated the responsibility for and oversight of credit risk management and control to the Credit Committee. In addition, the Credit Committee has responsibility for:

- reviewing internal credit policies and establishing approval limits;
- establishing portfolio composition limits;
- monitoring and assessing the loan portfolio to ensure that the Company's lending policies and practices are adhered to;
- reviewing and vetting the Company's lending policies and procedures for submission to the Board of Directors;
- approving or declining loan applications submitted to the Committee;
- reviewing and analysing delinquency statistics; and
- providing general guidance on lending practices.

The Company has formulated commercial and retail lending credit policies and guidelines. These policies and guidelines measure, manage, limit and control credit risk and the potential for concentration therein. These policies also cover collateral requirements, credit evaluations and ongoing credit assessments, risk grading and reporting, documentary and legal procedures, as well as compliance with regulatory requirements.

Authorised lending limits are established by the Credit Committee and approved by the Board of Directors. The Chief Executive Officer assigns lending limits to selected credit officers within which they can approve loans that conform to the Company's credit policies and guidelines. Management closely monitors the composition of the loan portfolio by industry sector and potential concentration of credit risk therein on a monthly basis - see Note 7 for analysis of loans by industry sector as of December 31, 2016 and December 31, 2015. All loans and advances are made to customers located within Barbados and as a result, there is no need to monitor the loan portfolio by geographic sector.

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### a) Credit risk: ...continued

Exposure to credit risk from loans and advances to customers, including net investment in finance leases, is further managed through the regular analysis of the ability of potential and existing borrowers to meet their contractual obligations. The Company's maximum exposure to credit risk is indicated by the carrying amount of its financial assets. The following table illustrates the worst case scenario of credit risk exposure to the Company at December 31, 2016 and December 31, 2015, without taking into account any collateral held or other credit enhancements which may be in place. This table also includes the impact of loan commitments which are not recognised on the balance sheet.

	December 31 2016 \$	December 31 2015 \$
<b>Credit risk exposure relative to financial assets reported on the balance sheet are as follows:</b>		
Cash resources	21,366,282	38,845,584
Treasury bills	3,996,084	7,471,650
Due from parent company	39,398	88,485
Loans and advances to customers	191,797,615	169,786,267
Other assets	2,481,614	395,879
	219,680,993	216,587,865
<b>Credit risk exposure relative to off-balance sheet items are as follows:</b>		
Loan commitments	6,770,238	14,507,939
	226,451,231	231,095,804

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### a) Credit risk: ...continued

The Company's main source of credit risk arises from its loans and advances which are inclusive of net investment in finance lease receivables and when combined with loan commitments, represent **88%** (2015 - 80%) of the Company's maximum exposure to credit risk. As mentioned previously, the analysis does not take into account any security or collateral which is normally required by the Company on loans in an attempt to mitigate credit risk. The Company has specific policies in place detailing the requirement for acceptable collateral. Loans and advances to customers are typically secured by bills of sale on the underlying vehicles and mortgages over the underlying properties, as well as other forms of security such as stocks, bonds, mutual funds and the cash surrender values on borrower's life insurance policies. In order to further minimise credit risk, the Company may seek additional collateral from a borrower as soon as there is objective evidence of impairment or other similar indicators. The Company has not issued any financial guarantees.

Cash and cash equivalents as well as short term deposits are all placed with reputable financial institutions which have been pre-approved by the ALCO committee and which are considered to be financially secure. The level of credit risk arising from the remaining financial assets is not considered to be significant.

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### a) Credit risk: ...continued

Loans and advances to customers are summarised as follows:

December 31, 2016

	Loans and advances		Finance leases		Total
	Corporate	Individual	Corporate	Individual	
	\$	\$	\$	\$	\$
Neither past due nor impaired	22,647,958	96,301,184	5,002,771	92,112	124,044,025
Past due but not impaired	16,082,688	46,637,415	3,234,127	30,190	65,984,420
Impaired	519,357	3,136,908	495,058	120,333	4,271,656
	39,250,003	146,075,507	8,731,956	242,635	194,300,101
Less: allowances for impairment losses	(608,670)	(2,042,372)	(127,441)	(10,722)	(2,789,205)
	38,641,333	144,033,135	8,604,515	231,913	191,510,896
Other loans and advances					286,719
<b>Total loans and advances to customers</b>					<b>191,797,615</b>

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### a) Credit risk: ...continued

December 31, 2015

	Loans and advances		Finance leases		Total
	Corporate	Individual	Corporate	Individual	
	\$	\$	\$	\$	\$
Neither past due nor impaired	20,394,261	84,692,298	4,258,756	41,187	109,386,502
Past due but not impaired	12,827,564	43,179,167	1,785,727	41,923	57,834,381
Impaired	1,928,094	3,224,992	563,631	6,810	5,723,527
	35,149,919	131,096,457	6,608,114	89,920	172,944,410
Less: allowances for impairment losses	(1,340,679)	(1,816,357)	(175,563)	(6,810)	(3,339,409)
	33,809,240	129,280,100	6,432,551	83,110	169,605,001
Other loans and advances					181,266
<b>Total loans and advances to customers</b>					<b>169,786,267</b>

All other classes of financial assets are considered to be neither past due nor impaired.

The Company currently utilises the Central Bank of Barbados Asset Classification and Provisioning Guidelines rating system to assess its loan portfolio. Under this system, customers are segmented into the five rating categories, as summarised in the table below, which reflect the full range of default probabilities. The Company assesses the probability of default of individual customers based on the aging of the portfolio of loans and advances which is then mapped to the Central Bank of Barbados' rating categories. This exercise is supplemented by the judgment of experienced credit officers within the Company. The table below shows the Company's internal rating and the associated impairment provision on loans and advances at December 31.

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### a) Credit risk: ...continued

Company's rating	Description	Impairment Allowance			
		2016 \$	2016 %	2015 \$	2015 %
1	Pass	-	-	-	-
2	Special mention	-	-	-	-
3	Substandard	468,878	30	839,823	35
4	Doubtful	311,749	20	327,213	14
5	Loss	778,546	50	1,210,884	51

Over time, exposures to default can migrate between classes as the probability of default increases for selected customers. The provisioning guidelines of the Central Bank of Barbados, while used internally for credit rating, can be contrasted with the impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date rather than expected impairment losses.

The category of Pass typically includes loans which are current and loans where the financial condition of the borrower is generally sound. The Special Mention category includes loans which although up to date, may present credit challenges in the future either as a result of a potential deterioration in the borrower's ability to service the loan or through the impairment of the collateral associated with the loan. Loans are assigned to the Substandard category where well defined credit weaknesses exist such as insufficient cash flow to service the loan and where the Company may have to renegotiate the terms of the loan or obtain the collateral. The Doubtful category consists of loans where the collection of the full contractual amounts due is questionable or improbable. In this category, the possibility of incurring a financial loss exists but other factors may be present which could improve the current situation. Finally, the category of Loss is used where the loan is deemed uncollectible and it is not considered practical or desirable to pursue further recovery efforts.

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### a) Credit risk: ...continued

Based on this system, the credit quality of the Company's loans and advances to customers which are neither past due nor impaired can be categorised as follows:

#### December 31, 2016

	Loans and advances		Finance leases		Total
	Corporate	Individual	Corporate	Individual	
	\$	\$	\$	\$	\$
<b>Internal rating scheme</b>					
1. Pass	17,896,065	86,835,800	5,002,771	92,112	109,826,748
2. Special Mention	4,751,893	9,411,648	-	-	14,163,541
3. Sub-standard	-	53,736	-	-	53,736
4. Doubtful	-	-	-	-	-
5. Loss	-	-	-	-	-
	<b>22,647,958</b>	<b>96,301,184</b>	<b>5,002,771</b>	<b>92,112</b>	<b>124,044,025</b>

#### December 31 2015

	Loans and advances		Finance leases		Total
	Corporate	Individual	Corporate	Individual	
	\$	\$	\$	\$	\$
<b>Internal rating scheme</b>					
1. Pass	17,324,736	80,308,692	4,105,053	41,187	101,779,668
2. Special Mention	3,065,663	4,321,678	-	-	7,387,341
3. Sub-standard	3,862	61,928	153,703	-	219,493
4. Doubtful	-	-	-	-	-
5. Loss	-	-	-	-	-
	<b>20,394,261</b>	<b>84,692,298</b>	<b>4,258,756</b>	<b>41,187</b>	<b>109,386,502</b>



# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### a) Credit risk: ...continued

65% (2015 - 64%) of the Company's overall portfolio of loans and advances to customers are categorised within the two top grades of the internal rating system.

Included within the table above, are loans with renegotiated terms amounting to **\$557,389** (2015 - **\$564,508**). Loans with renegotiated terms are considered to be loans which have been restructured due to deterioration in the borrower's financial position and where the Company may have made concessions that it would not otherwise consider under normal circumstances.

A financial asset is considered to be past due when a counterparty has failed to make a payment when contractually due. Impairment may not be considered appropriate where the level of security/collateral available is adequate and/or where the stage of collection efforts is sufficiently advanced. The table below summarises the carrying value of loans and advances to customers which are past due but which management, based on individual assessments, does not consider impaired:

### December 31, 2016

	Corporate \$	Individual \$	Total Loans \$
Past due 1 to 5 days	7,851,622	30,288,100	38,139,722
Past due 6 to 30 days	4,713,411	4,146,415	8,859,826
Past due 31 to 60 days	1,900,310	7,352,089	9,252,399
Past due 61 to 90 days	317,624	3,389,652	3,707,276
Past due over 90 days	1,299,721	1,461,159	2,760,880
	<b>16,082,688</b>	<b>46,637,415</b>	<b>62,720,103</b>

	Corporate \$	Individual \$	Finance Leases \$
Past due 1 to 5 days	132,962	-	132,962
Past due 6 to 30 days	2,879,658	30,190	2,909,848
Past due over 30 days	221,507	-	221,507
	<b>3,234,127</b>	<b>30,190</b>	<b>3,264,317</b>

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### a) Credit risk: ...continued

December 31, 2015

	Corporate \$	Individual \$	Total Loans \$
Past due 1 to 5 days	9,638,462	28,201,989	37,840,451
Past due 6 to 30 days	-	341,978	341,978
Past due 31 to 60 days	1,013,005	10,222,591	11,235,596
Past due 61 to 90 days	1,238,395	3,228,020	4,466,415
Past due over 90 days	937,702	1,184,589	2,122,291
	<b>12,827,564</b>	<b>43,179,167</b>	<b>56,006,731</b>
	Corporate \$	Individual \$	Finance Leases \$
Past due 1 to 5 days	11,987	-	11,987
Past due 6 to 30 days	884,031	1,151	885,182
Past due over 30 days	889,709	40,772	930,481
	<b>1,785,727</b>	<b>41,923</b>	<b>1,827,650</b>

### Impairment and provisioning policies:

Where there is objective evidence of impairment, as a result of one or more events that have occurred subsequent to the initial recognition of a loan, the Company establishes an allowance for impairment losses that represents its estimate of the incurred losses within its loan portfolio. Objective evidence that a loan is impaired includes observable data that comes to the attention of the Company that a loss event has occurred such as significant financial difficulty of a borrower or a breach of the loan agreement by way of default or delinquency in interest and principal payments. 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 groups of homogeneous loans in respect of losses that have been incurred but have not been identified on loans subject to the specific impairment assessment. The specific loss component is determined by comparing the individual carrying amount of the impaired loan with its recoverable amount. The recoverable amount is in turn calculated by comparing the fair value of the collateral to the carrying value or assessing the present value of the future expected cash flows associated with each past due loan. In determining the collective loan loss allowance, observable historical data, experience and judgment is employed.

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### a) Credit risk: ...continued

#### Impairment and provisioning policies: ...continued

As at December 31, 2016, the total allowance for impairment against loans and advances to customers amounted to **\$2,789,205** (2015 - \$3,339,409) of which **\$1,230,032** (2015 - \$961,489) represents the collective portfolio provision. Included within Note 7 is an analysis showing the movement in this allowance during the year ended December 31, 2016 and December 31, 2015.

The fair value of the collateral for individually impaired loans is as follows:

	2016 \$	2015 \$
Fair value of collateral	<u>2,235,255</u>	<u>2,957,538</u>

### b) Market risk:

Market risk is the risk that changes in market prices such as interest rates, equity prices and foreign exchange rates will affect the Company's income or the value of its financial instruments. The Company is not directly exposed to changes in foreign exchange rates given that the Company does not hold significant foreign currency denominated monetary assets or liabilities. The most significant type of market risk to which the Company is exposed is interest rate risk, which generally includes cash flow interest rate risk and fair value interest rate risk. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates, whereas fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. All of the Company's financial instruments are measured at amortised cost and as a result, the Company is not directly exposed to fair value interest rate risk. However, the Company is exposed to fluctuations in the prevailing levels of market interest rates whereby net interest margins may increase as a result of these changes or may be reduced in the event that unexpected movements take place.

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### b) Market risk: ...continued

#### Interest rate risk

Assuming that the interest bearing financial assets and liabilities as at December 31, 2016 were to remain until maturity or settlement without any action by the Company to alter the resulting interest rate risk exposure, an immediate and sustained increase/decrease of 100 basis points in market rates across all maturities would result in an insignificant increase/decrease in the net income of the following year.

Management closely monitors net interest margins, as well as other related ratios such as interest earned to average loans and interest incurred to average deposits. The ALCO Committee's responsibilities include ensuring adherence to the Company's policies and procedures concerning asset and liability management, which in addition to liquidity risk, addresses interest rate risk.

Management reserves the right to adjust interest rates to address negative interest rate exposure.

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### b) Market risk: ...continued

#### Interest rate risk ...continued

The table below summarises the Company's exposure to interest rate risks. It includes the Company's financial instruments at carrying amounts categorised by the earlier of maturity or contractual repricing:

#### December 31, 2016

	Up to 3 months \$	3-12 months \$	1-5 years \$	Over 5 years \$	Non interest bearing \$	Total \$
<b>Assets</b>						
Cash resources	15,586,920	-	-	-	5,779,362	21,366,282
Financial investments	3,996,084	-	-	-	318,565	4,314,649
Due from parent	-	-	-	-	39,398	39,398
Loans and advances to customers	9,605,999	32,188,035	112,362,742	37,640,839	-	191,797,615
Other assets	-	-	-	-	2,481,614	2,481,614
<b>Total financial assets</b>	<b>29,189,003</b>	<b>32,188,035</b>	<b>112,362,742</b>	<b>37,640,839</b>	<b>8,618,939</b>	<b>219,999,558</b>
<b>Liabilities</b>						
Customer deposits	36,635,847	66,458,356	84,671,546	-	-	187,765,748
Other liabilities	889,242	-	-	-	1,691,733	2,580,976
<b>Total financial liabilities</b>	<b>37,525,089</b>	<b>66,458,356</b>	<b>84,671,546</b>	<b>-</b>	<b>1,691,733</b>	<b>190,346,724</b>
<b>Total repricing gap</b>	<b>(8,336,086)</b>	<b>(34,270,321)</b>	<b>27,691,196</b>	<b>37,640,839</b>	<b>6,927,206</b>	<b>29,652,834</b>

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### b) Market risk: ...continued

#### Interest rate risk ...continued

December 31, 2015

	Up to 3 months \$	3-12 months \$	1-5 years \$	Over 5 years \$	Non interest bearing \$	Total \$
<b>Assets</b>						
Cash resources	33,066,292	-	-	-	5,779,292	38,845,584
Financial investments	7,471,650	-	-	-	-	7,471,650
Due from parent	-	-	-	-	88,485	88,485
Loans and advances to customers	11,729,563	25,791,927	100,006,628	32,258,149	-	169,786,267
Other assets	-	-	-	-	395,879	395,879
<b>Total financial assets</b>	<b>52,267,505</b>	<b>25,791,927</b>	<b>100,006,628</b>	<b>32,258,149</b>	<b>6,263,656</b>	<b>216,587,865</b>
<b>Liabilities</b>						
Customer deposits	27,547,035	73,729,103	83,989,585	-	-	185,265,723
Other liabilities	1,029,472	-	-	-	3,156,697	4,186,169
<b>Total financial liabilities</b>	<b>28,576,507</b>	<b>73,729,103</b>	<b>83,989,585</b>	<b>-</b>	<b>3,156,697</b>	<b>189,451,892</b>
<b>Total repricing gap</b>	<b>23,690,998</b>	<b>(47,937,176)</b>	<b>16,017,043</b>	<b>32,258,149</b>	<b>3,106,959</b>	<b>27,135,973</b>

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### b) Market risk: ...continued

#### Foreign exchange risk

The Company is exposed to foreign exchange risk arising primarily from exposure to the United States dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Management manages this risk by limiting its exposure to United States dollar which has a fixed parity to the functional currency of the Company. This fixed parity allows management to predict with relative certainty the potential outcome of foreign exchange transactions and the likely impact on the Company's performance. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. At December 31, 2016, all the Company's financial assets and liabilities are denominated in Barbados Dollars with the exception of **\$1.748** (2015 - \$1.386) million in cash and **\$1.166** (2015 - \$1.231) million in liabilities.

#### Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Company is exposed to price risk because of investments held and classified on the balance sheet as available-for-sale financial assets. The Company mitigates this risk by holding a portfolio of securities within specified limits set by the ALCO. An increase/decrease of +/-10.00% would result in an increase/decrease of \$31,857 in the carrying values of equity investments.

### c) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations as they fall due.

The Board of Directors has delegated the responsibility for and oversight of liquidity risk management to the ALCO. The ALCO's responsibilities include but are not limited to:

- monitoring management's adherence to policies and procedures that are established to ensure adequate liquidity at all times;
- establishing asset and liability pricing policies to protect the liquidity structure, as well as to assess the probability of various 'liquidity shocks' and interest rate scenarios;

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### c) Liquidity risk: ...continued

- ensuring compliance with the Company's asset and liability policies and procedures which address the management of liquidity, foreign exchange and interest rate risk;
- managing the balance sheet and ensuring that business strategies are consistent with liquidity requirements; and
- establishing and monitoring relevant liquidity and prudential ratios, as well as specific balance sheet targets.

The Company is exposed to daily requirements for its available cash resources arising from maturing customer deposits, the advancement of loans and other cash settled transactions. The Company does not maintain sufficient cash resources to meet all of these liquidity needs, as historical industry and company-specific experience has shown that a high level of reinvestment of maturing funds can be predicted with a high level of certainty. The Company, however, has two committed lines of credit in the combined amount of \$13 million upon which it can draw to meet unforeseen and unexpected liquidity needs; the line of credit of \$3 million currently has an effective rate of 6.8% (2015 - 6.8%). The line of credit of \$10 million currently has an effective rate of **7.7% (2015 - 7.7%)**.

No amounts have been drawn down on these facilities at December 31, 2016 and December 31, 2015. The table below shows the undiscounted cash flows on the basis of their earliest contractual maturities. Expected cash flows from these instruments can vary significantly from this analysis. For example, customer deposits are expected to maintain a stable or increasing balance and unrecognised loan commitments are not all expected to be drawn down immediately.

Management prepares daily cash flow forecasts to assess liquidity needs in the period ahead. These cash flow forecasts report the current level of liquid resources along with customer deposits maturing within 90 days and after 90 days and maturing investments in the period ahead. Additionally, management closely monitors net free cash flows, as well as the concentration of customer deposits.



# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### c) Liquidity risk: ...continued

The table below represents the Company's cash flows payable under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date.

	Up to 3 months \$	3 - 12 months \$	1-5 years \$	Over 5 years \$	Total \$
<b>December 31, 2016</b>					
Due to customers	36,739,387	66,932,533	94,454,544	-	198,126,464
Other liabilities	1,436,708	452,785	590,359	226,969	2,706,821
Loan commitments	6,770,238	-	-	-	6,770,238
<b>Total financial liabilities</b>	<b>44,946,333</b>	<b>67,385,318</b>	<b>95,044,903</b>	<b>226,969</b>	<b>207,603,523</b>
<b>December 31, 2015</b>					
Due to customers	27,632,161	74,484,721	94,966,955	-	197,083,837
Other liabilities	2,925,276	443,986	617,054	365,344	4,351,660
Loan commitments	14,507,939	-	-	-	14,507,939
<b>Total financial liabilities</b>	<b>45,065,376</b>	<b>74,928,707</b>	<b>95,584,009</b>	<b>365,344</b>	<b>215,943,436</b>

The Company holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Company's assets held for managing liquidity risk comprise:

- Cash resources excluding restricted cash
- Certificate of deposits
- Treasury bills
- Committed lines of available credit

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### d) Fair value:

Financial instruments carried at fair value in the financial statements are measured in accordance with a fair value hierarchy based on the degree to which the fair values are observable as follows:

- Level 1 includes those instruments which are measured based on quoted prices in active markets for identical assets or liabilities.
- Level 2 includes those instruments which are measured using inputs other than quoted prices within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is derived from prices).
- Level 3 includes those instruments which are measured using valuation techniques that include inputs for the instrument that are not based on observable market data (unobservable inputs).

The following table shows the financial assets carried at fair value at December 31, 2016 on a recurring basis by level of the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
2016	\$	\$	\$	\$
<b>Available-for-sale:</b>				
Equity investments	-	-	318,565	318,565
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>318,565</b>	<b>318,565</b>

The table below provides information about the fair value measurements using significant unobservable inputs (Level 3).

Description	Fair value at December 31,		Valuation technique	Unobservable inputs	Range of inputs		Relationship of unobservable inputs to fair value
	2016	2015			2016	2015	
Equity investments	318,565	-	Discounted cash flows	Discount for lack of marketability and liquidation	30%	-	The effect of a 1% increase in interest rates would decrease the fair value by \$3,511 and a 1% decrease in interest rates would increase the fair value by \$3,466

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### d) Fair value:

The following table presents the movement in Level 3 instruments for the year.

	December 31 2016 \$	December 31 2015 \$
Beginning of year	-	-
Additions	318,565	-
End of year	318,565	-

The fair value hierarchy of other financial instruments not carried at fair value but for which fair value disclosure is required is set out below. Of the Company's financial assets amounting to **\$219,999,558** (2015 - \$216,587,865), \$219,680,993 falls within the IAS 39 category of loans and receivables whereas \$318,565 falls within the category of available-for-sale. The Company's financial liabilities amounting to **\$190,346,724** (2015 - \$189,451,892) all fall within the IAS 39 category of financial liabilities measured at amortised cost.

The following table sets out the carrying value of the Company's loans and advances to customers and due to customers along with their estimated fair values:

	December 31, 2016		December 31, 2015	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
<b>Financial assets</b>				
Loans and advances to customers				
Individuals	144,585,278	149,655,052	129,347,389	131,364,469
Corporate and other entities	47,212,337	45,280,700	40,438,878	40,730,703
<b>Financial liabilities</b>				
Due to customers				
Financial Institutions	24,160,043	23,941,851	27,762,804	26,882,202
Individuals	116,899,197	113,807,631	109,648,963	102,340,117
Business and government	44,438,149	43,939,032	45,242,812	43,544,922
Other	2,268,359	2,251,953	2,611,144	2,528,845

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### d) Fair value: ...continued

The fair values of loans and deposits are estimated by applying current loan and deposit rates on the existing portfolio, while taking into consideration current payments and time to maturity. These fair values are classified within level 3 of the fair value hierarchy.

The following table analyses within the fair value hierarchy other assets and liabilities (by class) not measured at fair value at December 31, but for which fair value is disclosed.

### December 31, 2016

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Assets</b>				
Cash resources	21,366,282	-	-	21,366,282
Treasury bills	-	3,996,084	-	3,996,084
Due from parent company	-	39,398	-	39,398
Other assets	-	2,481,614	-	2,481,614
<b>Total</b>	<b>21,366,282</b>	<b>6,517,096</b>	<b>-</b>	<b>27,883,378</b>
<b>Liabilities</b>				
Due to brokers and related customers	-	1,218,076	-	1,218,076
ICF loan	-	889,236	-	889,236
Other payables	-	473,664	-	473,664
<b>Total</b>	<b>-</b>	<b>2,580,976</b>	<b>-</b>	<b>2,580,976</b>

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### d) Fair value: ...continued

December 31, 2015

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Assets</b>				
Cash resources	38,845,584	-	-	38,845,584
Treasury bills	-	7,471,650	-	7,471,650
Due from parent company	-	88,485	-	88,485
Other assets	-	395,879	-	395,879
<b>Total</b>	<b>38,845,584</b>	<b>7,956,014</b>	<b>-</b>	<b>46,801,598</b>
<b>Liabilities</b>				
Due to brokers and related customers	-	2,814,492	-	2,814,492
ICF loan	-	1,029,472	-	1,029,472
Other payables	-	342,205	-	342,205
<b>Total</b>	<b>-</b>	<b>4,186,169</b>	<b>-</b>	<b>4,186,169</b>

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practical to estimate fair value are as follows:

#### i) Short-term financial assets and liabilities

The carrying value of these assets and liabilities is a reasonable estimate of their fair value because of the short maturity of these instruments. Short-term financial assets and liabilities comprise cash and cash equivalents, short term deposits, treasury bills, amounts due from parent company and other liabilities.

#### ii) Longer-term financial assets and liabilities

The estimated fair value of loans and advances to customers represents the discounted amount of the estimated future cash flows expected to be received. Loans and advances are reported net of provisions for impairment losses.

The estimated fair value of customer deposits with no stated maturity, which includes non interest bearing deposits, is the amount repayable with notice. The estimated fair value of customer deposits represents the discounted amount of the principal and interest due to customers on fixed rate deposits using interest rates for new debt.

# Notes to Financial Statements

December 31, 2016

(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### e) Capital management:

The Company's objectives when managing its capital are to:

- comply with the capital requirements established by the Central Bank of Barbados;
- safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to its shareholder and benefits to other stakeholders; and
- maintain a strong capital base to support the growth and development of its business, as well as to maintain customer and market confidence.

Capital adequacy and the use of regulatory capital are reviewed and monitored monthly by the Company's management so as to ensure compliance with the capital requirements imposed externally by the Central Bank of Barbados. The required information concerning capital adequacy is reported to the ALCO and filed with the Central Bank of Barbados on a quarterly basis.

The Central Bank of Barbados requires that the Company:

- hold no less than a minimum level of stated capital of \$2,000,000; and
- maintain a ratio of regulatory capital to risk-weighted assets at or above the prescribed minimum requirement of 8%.

The Company's regulatory capital consists entirely of Tier 1 capital, which is comprised of share capital, retained earnings and other reserves created by the appropriation of retained earnings. As at December 31, 2016, the Company's capital adequacy ratio was **19.93%** (2015 - 15.87%).

Throughout the current year the Company complied with the capital requirements relevant to its licensing and there has been no material change in the Company's management of capital during the year compared with the prior year.

# Notes to Financial Statements

December 31, 2016  
(Amounts in Barbados dollars)

## 27. Financial instruments, financial risk and capital management ...continued

### e) Capital management: ...continued

The table below summarises the composition of regulatory capital of the Company.

	December 31 2016 \$	December 31 2015 \$
<b>Tier 1 Capital</b>		
Share capital	9,210,857	9,210,857
Statutory and other reserves	4,987,554	4,436,374
Retained earnings	<u>17,618,529</u>	<u>16,045,745</u>
Total qualifying Tier 1 capital	<u>31,816,940</u>	29,692,976
<b>Risk-weighted assets</b>		
On-balance sheet	152,905,162	172,574,750
Off-balance sheet	<u>6,770,238</u>	<u>14,507,939</u>
Total risk-weighted assets	<u>159,675,400</u>	187,082,689
Capital adequacy ratio	<u>19.93%</u>	15.87%

# Notes







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