



**SIGNIA**  
FINANCIAL GROUP INC.

**ANNUAL REPORT 2012**

BUILDING A NATION ONE CUSTOMER AT A TIME

**A Banking & Investment Company from Cave Shepherd, GraceKennedy & United Insurance**

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## 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.



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

# Board of Directors



**Geoffrey Cave**  
Chairman



**Paul Ashby**  
Director & CEO



**Don Wehby**  
Director, GraceKennedy



**Roger Cave**  
Director, Cave Shepherd



**Frere Delmas**  
Director, United Insurance



**John Williams**  
Director, Cave Shepherd



**Dwight Richardson**  
Director, Independent



**Desirée Cherebin**  
Director, Independent



**Courtney Campbell**  
Director, GraceKennedy



**Frank James**  
Director, GraceKennedy



Thanks to the heroic sons and daughters of our country, who have made sacrifices... they began the nation-building process we are engaged in.

We simply must have faith in each other, faith in our ability to govern ourselves, and faith in the future of this Nation.





# Signia's Team

## Management Team



**Paul Ashby**  
Chief Executive  
Officer



**Jacqueline Holder**  
Chief Operating  
Officer



**Margaret Wharton**  
Retail Banking  
Manager



**Ayesha Maycock**  
Commercial &  
Investment  
Manager



**Damian Branford**  
Chief Financial  
Officer

## Assistant Managers



**Tracia Grant**  
Assistant Manager,  
Banking



**Deborah Clarke**  
Assistant Manager,  
Deposits



**Quetta Rawlins**  
Assistant Manager,  
Internal Control



**Carol Prescod**  
Assistant Manager,  
Recoveries &  
Customer Service  
Experience



**Renee Troiman**  
Financial  
Accountant

## Sales Team



**Cherian Reifer**  
Commercial Officer



**Orrie Chandler**  
Commercial  
Officer



**Natalie Stowe**  
Personal Banking  
Assistant  
/Relationship Officer



**Samantha Inniss**  
Business  
Development  
Officer



**Sonia Bishop**  
Personal Banking  
Assistant  
/Relationship Officer



**Terry Williams**  
Investment &  
Wealth  
Management  
Officer

# Signia's Team

## Administrative Team



**Shana Sobers**  
Credit Control  
Officer



**Kiera Jones**  
Reconciliations  
Officer



**Joan Brewster**  
Regulatory  
Officer



**Andrea Harewood**  
Internal Control  
Assistant



**Krystal Clarke**  
Commercial &  
Investment  
Assistant



**Ada Holder**  
Office Attendant



**Sherika Armstrong**  
Commercial &  
Investment  
Assistant



**Karen Johnson**  
PA/Administrative  
Assistant



**Caroline Bowen**  
Administrative  
Assistant



**Lauriel Small**  
Administrative  
Assistant



**Donelle Michael**  
Recoveries  
Assistant



**Tanya Allen**  
Recoveries  
Assistant



**Salena Rice**  
Personal Banking  
Assistant



**Akeisha Thompson**  
Credit Control  
Assistant



**Shivram Bhajan**  
Reconciliations  
Officer

# Signia gives back...



**Signia Financial Group Inc. made Christmas brighter for children and families affected by HIV.** The employees of Signia Financial demonstrated their generosity and community spirit with a big-hearted donation to the Barbados HIV Foundation. Signia's staff made the presentation of a barrel of much needed food and supplies along with Christmas gifts for the children, just in time for the holidays. The barrel was appropriately titled "Love, Kindness & Affection – Pass it on".

**During the month of May, 2012 Signia also sponsored Gospel Fest,** one of the caribbeans top gospel music and arts festivals.

**The Save Foundation held two community events which were funded by Signia.** One event was held at Eden Lodge and the other at Bush Hall. The funds donated were used to raise awareness and further aid the organisation in counselling victims of domestic violence.



**Above right: The presentation was made to Stacia Whittaker (right), Food Bank Manger of the HIV Foundation by Chad Scantlebury, Internal Control Assistant (left).**

We must therefore carefully reflect on the leadership of this country as well as the management of our diversity as a nation.



# Chairman's/CEO's Report

Signia Financial Group Inc. has performed creditably for the financial year ended December 31, 2012. Though the economic environment has been challenging, the company achieved a \$4.1Mil profit before tax compared to \$4.8Mil for the 15 month period in 2011.

The Barbadian economy performed sluggishly, reflecting a flat growth, due to the protracted decline in revenue obtained from the tourism and International business sectors. The continued decline of the country's main revenue sources has created some uncertainty in the market which resulted in a reduction in commercial loan demand, increased delinquency and an increase in liquidity.

The reduction in loan demand has resulted in a decline in loan balances from \$138Mil to \$136Mil or 1.45%, this decrease is specifically attributed to the commercial portfolio. However, retail demand remained strong and buoyant, increasing from \$94MIL in 2011 to \$100Mil in 2012. The liquidity has increased investor appetite for fixed income investments, thus effecting a growth in deposits from \$135Mil to \$142Mil or 5.19%.

Credit risk continued to be a primary focus in 2012, especially operating within an economy which has grown in delinquency from 11.1% to 12.7%. Management has been prudent and proactive, working with customers in these difficult times and recognizing provisions where necessary. In 2012, loan impairment increased from \$2.2Mil to \$2.8Mil.

Net interest income decreased from \$10MIL in 2011 to \$8Mil in 2012 or 20%. The strong performance of Interest income and interest expenses which resulted from studious management of interest margins has been overshadowed by the comparative period of 12 months in 2012 compared to 15 months in 2011.

The company continues to be well capitalized above the minimum capital adequacy ratio of 8%, reflecting 15.76% as at December 31st, 2012.

We expect 2013 to be another challenging year, as national revenue sectors have shown little or no signs of recovery. In this regard, Signia will extend efforts to build on the measures implemented to manage delinquency and focus on growing the loan portfolio in vehicle loans, renewable energy loans and small business loans, through innovative financial solutions and continued excellence in customer service.

On behalf of the board of directors, we wish to thank our customers for their continued support and to commend the management and staff of Signia for their commitment and noteworthy performance in this challenging economic environment.



**Geoffrey Cave**

*Chairman*

March 25, 2013, Bridgetown



**Paul Ashby**

*Chief Executive Officer*

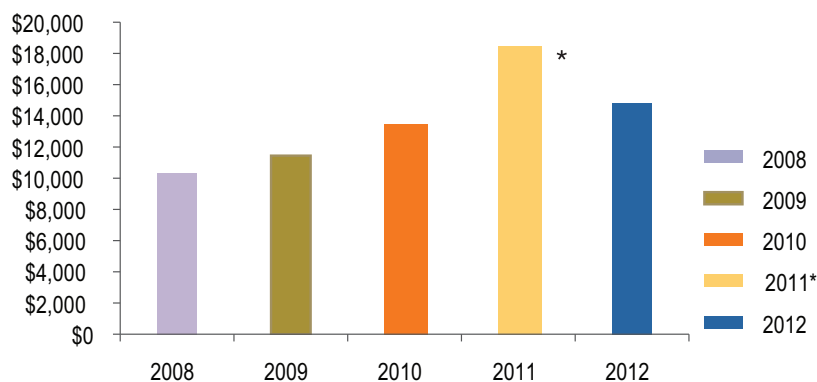
March 25, 2013, Bridgetown

# Five Year Highlights

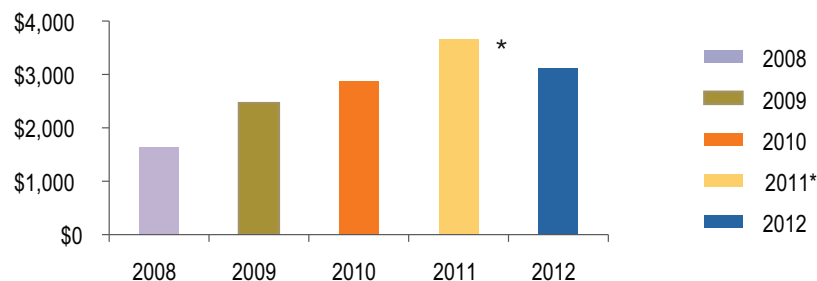
Expressed in thousands of Barbados dollars.

Operating Results	2012	2011	2010	2009	2008
<b>Interest Income</b>	\$14,826	\$18,474	\$13,472	\$11,447	\$10,341
<b>Interest Expense</b>	\$ 6,063	\$ 7,562	\$ 5,578	\$ 4,911	\$ 5,144
<b>Net interest income</b>	\$ 8,762	\$10,911	\$ 7,893	\$ 6,535	\$ 5,197
<b>Profit before Tax</b>	\$ 4,160	\$ 4,823	\$ 3,858	\$ 3,317	\$ 2,131
<b>Profit after tax</b>	\$ 3,125	\$ 3,661	\$ 2,884	\$ 2,463	\$ 1,639
Financial Position	2012	2011	2010	2009	2008
<b>Loans and advances to customers</b>	\$136,613	\$138,067	\$128,758	\$106,013	\$ 84,582
<b>Total Assets</b>	\$167,280	\$159,779	\$150,482	\$128,029	\$105,152
<b>Deposits from Customers</b>	\$141,800	\$135,205	\$128,440	\$110,009	\$ 88,894
<b>Total Liabilities</b>	\$144,305	\$138,679	\$133,043	\$112,474	\$ 91,259

## Interest Income 2008 - 2012



## Net Income 2008 - 2012

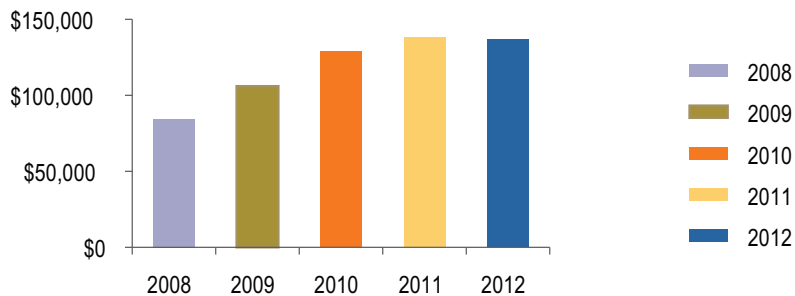


\*2011 is a 15 month period. Other comparatives are 12 months

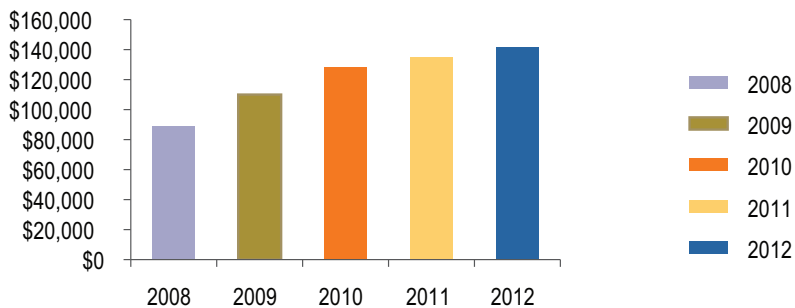
# Five Year Highlights

Expressed in thousands of Barbados dollars.

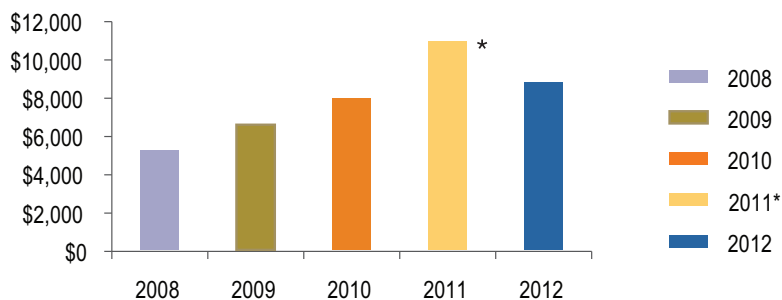
## Loans 2008 - 2012



## Deposits 2008 - 2012



## Net Interest Income 2008 - 2012



\*2011 is a 15 month period. Other comparatives are 12 months



In our personal ambitions we are individualists. But in our seeking for economic and political progress as a nation, we all go up, or else all go down as one people.





Independent Auditor's  
Report followed by  
Financial Statements for  
Signia Financial Group Inc.  
2012

# Independent Auditor's Report

## To the Shareholders of Signia Financial Group Inc.

We have audited the accompanying financial statements of **Signia Financial Group Inc.**, which comprise the balance sheet as of December 31, 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

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



March 25, 2013  
Bridgetown, Barbados

# Balance Sheet

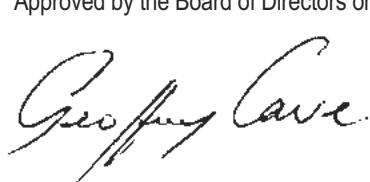
As of December 31, 2012

(Amounts in Barbados dollars)


		December 31 2012 \$	December 31 2011 \$
	<b>Notes</b>		
<b>Assets</b>			
Cash resources	4	20,489,154	11,569,813
Treasury bills		5,471,642	4,972,442
Due from parent company	5	79,775	56,256
Loans and advances to customers	6	136,613,101	138,067,044
Property, plant and equipment	7	552,079	536,844
Intangible assets	8	296,681	–
Operating lease assets	9	1,470,709	2,259,092
Other assets	10	2,307,290	2,317,443
<b>Total assets</b>		<b>167,280,431</b>	<b>159,778,934</b>
<b>Liabilities</b>			
Due to customers	11	141,799,777	135,204,888
Other liabilities	12	2,053,289	2,439,270
Current tax payable		350,979	917,603
Deferred tax liability	13	101,391	116,824
<b>Total liabilities</b>		<b>144,305,436</b>	<b>138,678,585</b>
<b>Equity</b>			
Share capital	14	9,210,857	9,210,857
Statutory and other reserves	15	2,905,357	2,436,660
Retained earnings		10,858,781	9,452,832
		<b>22,974,995</b>	<b>21,100,349</b>
<b>Total liabilities and equity</b>		<b>167,280,431</b>	<b>159,778,934</b>

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

Approved by the Board of Directors on March 25, 2013



Director



Director

# Statement of Changes in Equity

For the 12 months ended December 31, 2012 with comparatives for the fifteen months ended December 31, 2011

(Amounts in Barbados dollars)

	Share capital	Statutory and other reserves	Retained earnings	Total
	\$	\$	\$	\$
<b>Balance at September 30, 2010</b>	<b>9,210,857</b>	<b>2,144,741</b>	<b>6,083,354</b>	<b>17,438,952</b>
Net income and total comprehensive income for the period	–	–	3,661,397	3,661,397
Transfer to general loan reserves (note 15)	–	(257,291)	257,291	–
Transfer to statutory reserves (note 15)	–	549,210	(549,210)	–
<b>Balance at December 31, 2011</b>	<b>9,210,857</b>	<b>2,436,660</b>	<b>9,452,832</b>	<b>21,100,349</b>
Dividends (13.57 cents per share)	–	–	(1,250,000)	(1,250,000)
Net income and total comprehensive income for the year	–	–	3,124,646	3,124,646
Transfer to statutory reserves (note 15)	–	468,697	(468,697)	–
<b>Balance at December 31, 2012</b>	<b>9,210,857</b>	<b>2,905,357</b>	<b>10,858,781</b>	<b>22,974,995</b>

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

# Statement of Comprehensive Income

For the 12 months ended December 31, 2012 with comparatives for the fifteen months ended December 31, 2011

(Amounts in Barbados dollars)

		December 31 2012 \$	December 31 2011 \$
	<b>Notes</b>		
Interest income		14,825,836	18,473,540
Interest expense		(6,063,338)	(7,562,139)
<b>Net interest income</b>	16	<b>8,762,498</b>	10,911,401
Impairment losses on loans and advances	6	(1,133,160)	(2,187,879)
Net interest income after loan impairment charges		<b>7,629,338</b>	8,723,522
Fee and commission income	17	139,574	154,798
Fee and commission expense	17	(37,140)	(55,656)
<b>Net fee and commission income</b>		<b>102,434</b>	99,142
Net lease income	18	161,190	254,097
Other operating loss	19	(466,860)	(45,838)
Foreign exchange and brokerage income	20	1,160,272	1,912,677
Operating expenses	21	(4,426,554)	(6,099,395)
<b>Profit before loss from associated company</b>		<b>4,159,820</b>	4,844,205
Share of loss from associated company		–	(21,265)
<b>Profit before corporation tax</b>		<b>4,159,820</b>	4,822,940
Corporation tax expense	13	(1,035,174)	(1,161,543)
<b>Net income and total comprehensive income for the period</b>		<b>3,124,646</b>	3,661,397

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

# Statement of Cash Flows

For the 12 months ended December 31, 2012 with comparatives for the fifteen months ended December 31, 2011

(Amounts in Barbados dollars)

	December 31 2012 \$	December 31 2011 \$
<b>Cash flows from operating activities</b>		
Profit before taxation	4,159,820	4,822,940
Adjustments for:		
Depreciation of property, plant and equipment and operating lease assets	748,364	966,141
Share of loss of associated company	–	21,265
Impairment loss on loans	1,133,160	2,187,879
Provision on VAT recoverable	–	23,625
Gain on disposal of property, plant and equipment	(42,394)	(27,399)
Non credit (gains)/losses	–	1,501
Interest income	(14,825,836)	(18,473,540)
Interest expense	6,063,338	7,562,139
Loss/(gain) on sale of operating leased assets and repossessed stock	99,145	(29,441)
	(2,664,403)	(2,944,890)
<b>Changes in working capital</b>		
Increase in restricted cash	(47)	(1,737,443)
(Increase) in due from parent company	(23,519)	(31,163)
Decrease/(increase) in loans and advances to customers	286,509	(11,376,262)
Decrease/(increase) in other assets	797,858	(683,042)
Net change in leased assets	(595,893)	(446,793)
Increase in due to customers	4,871,349	6,777,224
Increase/(decrease) in other liabilities	1,283,692	(1,312,939)
Fees received during the year	366,716	501,186
Taxation paid	(1,617,228)	(1,338,159)
Interest paid	(5,978,007)	(7,191,607)
Interest received	14,456,627	17,833,970
<b>Net cash generated from operating activities</b>	11,183,654	(1,949,918)
<b>Cash flows used in investing activities</b>		
Purchase of property, plant and equipment	(565,695)	(336,096)
Proceed from sale of property, plant and equipment	45,235	88,533
Purchase of treasury bills	(18,835,100)	(26,082,181)
Maturity of treasury bills	18,341,200	23,802,930
Purchase of investments	(12,545,448)	(16,954,329)
Maturity of investments	12,545,448	16,940,995
<b>Net cash used in investing activities</b>	(1,014,360)	(2,540,148)

# Statement of Cash Flows

For the 12 months ended December 31, 2012 with comparatives for the fifteen months ended December 31, 2011

(Amounts in Barbados dollars)

## Cash flows from financing activities

Payment of dividend	(1,250,000)	–
Net increase/(decrease) in cash	8,919,294	(4,490,066)
Cash and cash equivalents - beginning of year	7,080,330	11,570,396
Cash and cash equivalents - end of year	15,999,624	7,080,330
Represented by:		
Cash at bank (Note 4)	10,948,754	7,080,330
Short term deposits	5,050,870	–
	15,999,624	7,080,330

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

# Notes to Financial Statements

December 31, 2012

*(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 authorized foreign exchange dealer and licensed stock broker.

The Company is wholly-owned by CSGK Finance Holdings Limited, which is a company incorporated under the Laws of Barbados and is a joint venture between Cave Shepherd & Company Limited, United Insurance Company Limited, companies incorporated under the Laws of Barbados, and GraceKennedy & Company Limited, a company incorporated in Jamaica.

On July 27, 2011 the Board of Directors approved a change in year end from September 30, to December 31. As a result of this change, the prior year results represent fifteen months of operations and therefore the amounts presented are not entirely comparable.

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, statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes.

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 judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.



# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

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

#### **Standards, amendments and interpretations effective in 2012**

The following amendments to published standards are mandatory for the Company's accounting periods beginning on or after January 1, 2012.

The amendments below were not relevant or did not have a significant impact on the financial statements:

- IFRS 7 (amendment) - 'Financial Instruments'
- IFRS 1 (amendment) - 'First time Adoption of International Financial Reporting Standards'
- IFRS 12 (amendment) - 'Income Taxes'

#### **Standards, amendments and interpretations not yet effective but will be relevant to the Company**

- IFRS 9 - 'Financial instruments part 1: Classification and measurement.' IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
  - While adoption of IFRS 9 is mandatory from January 1, 2015, earlier adoption is permitted.
- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after January 1, 2013.

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

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

#### ***Standards, amendments and interpretations not yet effective but will be relevant to the Company ...continued***

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after January 1, 2013.

The Company is currently evaluating the standards and the impact on the financial statements.

#### ***Standards, interpretations and amendments to existing standards that are not yet effective and not relevant to the Company's operations***

- IFRS 10 - Consolidated Financial Statements effective from January 1, 2013.
- IFRS 11 - Joint Arrangements effective from January 1, 2013.

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

### 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, 2012

(Amounts in Barbados dollars)

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

### c) Financial assets

The Company classifies its financial assets in accordance with IAS 39 categories. 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.

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 investment securities. 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.

### d) Financial liabilities

Financial liabilities are measured at amortised cost, and are 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.

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

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 income statement.

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

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

The criteria that the Company uses to determine that 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;
- 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 recognized are not included in a collective assessment of impairment.

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 income statement.

### f) Investment in associated company

Associates are entities over which the company has significant influence but not control generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

### g) 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, operating lease assets and tax losses carried forward.

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 against which these losses can be utilised.

### h) 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 income statement during the period in which they are incurred.

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 life of the lease
Computer	-	14% - 25%
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.

### i) 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.

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

### j) 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 lease payments is recognised as a receivable. The difference between the gross receivable and the present values 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.

#### 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.

### k) 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'.

### l) Cash and cash equivalents

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

### m) 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.

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

### n) 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.

### o) 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 recognized using the rate of interest used to discount the future cash flows for the purpose of measuring its impairment loss.

### p) Employee retirement benefits

The Company's employees are members of the Fortress Caribbean Pension Fund which is a defined contribution plan. The plan is administered by Duty Free Caribbean and investments are held by an independent Custodial Trustee. Contributions to the plan are based on pensionable salary adjusted to reflect National Insurance contributions and are recognised as an employee benefit expense when they are due.

### q) Provisions

Provisions for legal claims are recognized when the company has a present legal or constructive obligation as a result of past events; 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 recognizes 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 recognized as interest expense.

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 3 Critical accounting estimates, and judgements 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 judgements 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.

### 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 income statement, the company makes judgements 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 \$126,259, (2011 - \$117,584) and (decreased) by, \$130,363 (2011 - \$132,449).

### b) 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.

### c) Provision

The Company is subject to VAT and recognises a liability or receivable during assessment periods. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of VAT receivable or payable in the period in which such determination is made. Where the actual final outcome differs from management's estimates by 10%, the company will need to decrease or increase the VAT receivable by \$54,463.



# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 4 Cash resources

	December 31 2012 \$	December 31 2011 \$
Cash	10,948,754	7,080,330
Short term deposits	5,050,870	–
Restricted Cash	4,489,530	4,489,483
<b>Total cash resources</b>	<b>20,489,154</b>	<b>11,569,813</b>

The Company is required to maintain mandatory reserve deposits with the Central Bank of Barbados representing a percentage of deposits liabilities as cash or deposits with the central bank. 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, 2012 mandatory deposits amounted to \$4,287,484 (2011 - \$4,076,234)

## 5 Due from parent company

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

## 6 Loans and advances to customers

	Corporate 2012 \$	Individual 2012 \$	Total December 2012 \$
Gross loans and advances	36,895,895	102,554,587	139,450,482
Less: impairment	(739,548)	(2,097,833)	(2,837,381)
<b>Balance, end of year</b>	<b>36,156,347</b>	<b>100,456,754</b>	<b>136,613,101</b>
	Corporate 2011 \$	Individual 2011 \$	Total December 2011 \$
Gross loans and advances	44,654,225	95,662,342	140,316,567
Less: impairment	(693,526)	(1,555,997)	(2,249,523)
<b>Balance, end of year</b>	<b>43,960,699</b>	<b>94,106,345</b>	<b>138,067,044</b>

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

Analysis of Loans by industry sector

	December 31 2012 \$	December 31 2011 \$
Recreational, personal and community work	16,639	23,129
Education	10,290	37,304
Electricity gas and water supply	39,170	90,916
Other financial corporations	573,662	725,870
Manufacturing	698,436	1,020,645
Transport, storage and communication	1,145,786	1,596,112
Hotels and restaurants	1,953,039	1,914,882
Agriculture	2,280,626	2,298,426
Health and social work	2,225,764	2,690,447
Construction	2,314,416	2,760,090
Real estate, renting and other business	25,562,681	27,984,297
Individuals and individual trusts	102,629,973	99,174,449
	<b>139,450,482</b>	140,316,567
Receivable 12 months or less after the reporting period	34,006,144	39,559,017
Receivable more than 12 months after the reporting period	105,444,338	100,757,550
	<b>139,450,482</b>	140,316,567

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

### Impairment losses on loans and advances

	December 31 2012 \$	December 31 2011 \$
Increase in impairment losses on loans and advances	1,091,545	2,139,813
Amounts written off during the year as uncollectible	103,669	152,373
	<b>1,195,214</b>	2,292,186
Amounts received on loans previously written off	(62,054)	(104,307)
	<b>1,133,160</b>	2,187,879

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

### Allowance for impairment

Movement in allowance impairment:

	December 31			December 31		
	2012	2012	2012	2011	2011	2011
	\$	\$	\$	\$	\$	\$
	Specific	Collective	Total	Specific	Collective	Total
Balance, beginning of year	1,287,464	962,059	2,249,523	901,836	304,392	1,206,228
Increase/decrease in impairment losses	1,072,557	(70,982)	1,001,575	1,250,075	657,667	1,907,742
Loans written off during the year as uncollectible	(413,017)	–	(413,017)	(864,447)	–	(864,447)
Amounts recovered during the year	(700)	–	(700)	–	–	–
Balance, end of year	<b>1,946,304</b>	<b>891,077</b>	<b>2,837,381</b>	1,287,464	962,059	2,249,523

At December 31, 2012, non-accrual loans amounted to \$2,132,225 (2011 - \$2,453,180). There were no corporate loans written off during 2012.

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

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

Gross investment in finance leases receivable:

	December 31 2012	December 31 2011
	\$	\$
No later than 1 year	2,957,152	3,987,447
Later than 1 year and no later than 5 years	4,495,756	5,865,172
	<u>7,452,908</u>	9,852,619
Unearned future finance income on finance leases	(890,800)	(1,193,824)
	<u>6,562,108</u>	<u>8,658,795</u>

The net investment in finance leases may be analysed as follows:

No later than 1 year	2,518,617	3,409,113
Later than 1 year and no later than 5 years	4,043,491	5,249,682
	<u>6,562,108</u>	<u>8,658,795</u>

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 7 Property, plant and equipment

	Leasehold improvements \$	Computers \$	Furniture & equipment \$	Motor vehicles \$	Total \$
<b>At 30 September 2010</b>					
Cost	225,719	414,984	317,614	466,691	1,425,008
Accumulated depreciation	(201,042)	(369,335)	(170,241)	(182,848)	(923,466)
<b>Net book value</b>	<b>24,677</b>	<b>45,649</b>	<b>147,373</b>	<b>283,843</b>	<b>501,542</b>
<b>Period ended December 2011</b>					
Opening net book amount	24,677	45,649	147,373	283,843	501,542
Additions	133,815	26,311	98,005	77,965	336,096
Disposals	–	–	(4,266)	(56,868)	(61,134)
Depreciation charge	(49,277)	(28,062)	(54,123)	(108,198)	(239,660)
<b>End of year</b>	<b>109,215</b>	<b>43,898</b>	<b>186,989</b>	<b>196,742</b>	<b>536,844</b>
<b>At 31 December 2011</b>					
Cost	359,534	441,295	405,809	374,614	1,581,252
Accumulated depreciation	(250,319)	(397,397)	(218,820)	(177,872)	(1,044,408)
<b>Net book value</b>	<b>109,215</b>	<b>43,898</b>	<b>186,989</b>	<b>196,742</b>	<b>536,844</b>
<b>Year ended December 2012</b>					
Opening net book amount	109,215	43,898	186,989	196,742	536,844
Additions	–	21,871	6,748	160,000	188,619
Disposals	–	(2,839)	–	–	(2,839)
Depreciation charge	(28,067)	(19,948)	(41,686)	(80,844)	(170,545)
<b>End of year</b>	<b>81,148</b>	<b>42,982</b>	<b>152,051</b>	<b>275,898</b>	<b>552,079</b>
<b>At 31 December 2012</b>					
Cost	359,534	459,997	412,557	433,825	1,665,913
Accumulated depreciation	(278,386)	(417,015)	(260,506)	(157,927)	(1,113,834)
<b>Net book value</b>	<b>81,148</b>	<b>42,982</b>	<b>152,051</b>	<b>275,898</b>	<b>552,079</b>

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 8 Intangible assets

Computer software

	December 31 2012 \$	December 31 2011 \$
<b>Cost</b>		
Beginning of period	–	–
Additions	377,076	–
Disposals	–	–
End of period	<u>377,076</u>	–
<b>Accumulated depreciation</b>		
Beginning of period	–	–
Charge for the period	80,395	–
Disposals	–	–
End of period	<u>296,681</u>	–
<b>Net book values</b>		
<b>End of period</b>	<u>296,681</u>	–
Beginning of period	–	–

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 9 Operating lease assets

Leased vehicles and equipment

	December 31 2012 \$	December 31 2011 \$
<b>Cost</b>		
Beginning of period	3,250,055	3,770,597
Additions	595,891	581,406
Transfer to repossessed stock	(1,311,158)	(582,606)
Disposals	(99,145)	(519,342)
End of period	<u>2,435,643</u>	<u>3,250,055</u>
<b>Accumulated depreciation</b>		
Beginning of period	990,963	1,016,980
Charge for the period	497,425	726,481
Transfer to repossessed stock	(523,454)	(338,174)
Disposals	–	(414,324)
End of period	<u>964,934</u>	<u>990,963</u>
<b>Net book values</b>		
<b>End of period</b>	<b>1,470,709</b>	<b>2,259,092</b>
Beginning of period	2,259,092	2,753,617

## 10 Other assets

	December 31 2012 \$	December 31 2011 \$
VAT recoverable	124,852	265,143
Prepaid expenses	287,230	323,363
Other receivables	437,760	472,272
Repossessed or end of lease stock	1,457,448	1,256,665
	<u>2,307,290</u>	<u>2,317,443</u>
Receivable 12 months or less after the reporting period	2,295,305	2,305,458
Receivable more than 12 months after the reporting period	11,985	11,985

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 11 Due to customers

	December 31 2012 \$	December 31 2011 \$
<b>Financial institutions</b>		
Payable at fixed dates	23,204,063	21,023,648
<b>Individuals</b>		
Payable with notice	992,861	690,541
Payable at fixed dates	66,498,662	62,976,848
<b>Business and government</b>		
Payable with notice	3,638,914	3,958,027
Payable at fixed dates	43,387,957	42,473,163
<b>Other</b>		
Payable at fixed dates	4,077,320	4,082,661
Deposits due to customers	141,799,777	135,204,888
Payable with notice	4,631,775	4,648,568
Payable at fixed dates	137,168,002	130,556,320
	141,799,777	135,204,888
Payable 12 months or less after the reporting period	94,220,900	85,509,451
Payable more than 12 months after the reporting period	47,578,877	49,695,437
	141,799,777	135,204,888

The rates of interest on fixed deposits vary in accordance with the length and value of the deposit from 3.5% to 6.65% (2011 - 3.5% to 7%). \$7,772,324 (2011 - \$6,576,291) of these deposits are held as security on loans and advances.



# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 12 Other liabilities

	December 31 2012 \$	December 31 2011 \$
Due to brokers and related customers	309,828	145,702
ICF loan	1,382,692	1,638,210
Other payables	360,769	655,358
	<b>2,053,289</b>	<b>2,439,270</b>
Payable 12 months or less after the reporting period	800,017	1,056,578
Payable more than 12 months after the reporting period	1,253,272	1,382,692

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 3.25% per annum.

## 13 Taxation

	December 31 2012 \$	December 31 2011 \$
Current tax	1,050,607	1,333,305
Deferred tax (credit)	(15,433)	(171,762)
	<b>1,035,174</b>	<b>1,161,543</b>

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

	December 31 2012 \$	December 31 2011 \$
Profit before taxation	4,159,820	4,822,940
Corporation tax at a tax rate of 25% (2011 - 25%)	1,039,956	1,205,735
Income subject to tax at different rate	(20,512)	(25,697)
Expenses not deductible for tax	15,508	32,637
Prior year under/(over) provision	222	(51,132)
Taxation charge for the year	<b>1,035,174</b>	<b>1,161,543</b>

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 13 Taxation ...continued

The movement on the deferred tax account is as follows:

	December 31 2012 \$	December 31 2011 \$
Balance - beginning of year	116,824	288,586
Credit for the year	(15,433)	(171,762)
Balance - end of year	<u>101,391</u>	<u>116,824</u>

The deferred tax liability consists of the following components:

	December 31 2012 \$	December 31 2011 \$
Accelerated tax depreciation	1,296,642	1,429,357
Bad debt provision	(891,076)	(962,059)
	<u>405,566</u>	<u>467,298</u>
Deferred tax liability at corporation tax rate of 25% (2011 - 25%)	<u>101,391</u>	<u>116,824</u>

## 14 Share capital

Authorised:

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

Issued:

	December 31 2012 \$	December 31 2011 \$
9,210,857 common shares issued (2011 - 9,210,857)	<u>9,210,857</u>	<u>9,210,857</u>

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 15 Statutory and other reserves

### Statutory reserve fund

	December 31 2012	December 31 2011
	\$	\$
Balance, beginning of year	2,436,660	1,887,450
Transfer from retained earnings	468,697	549,210
Balance, end of year	2,905,357	2,436,660

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.

### General loan reserve fund

	December 31 2012	December 31 2011
	\$	\$
Balance, beginning of year	–	257,291
Transfer (to)/from retained earnings	–	(257,291)
Balance, end of year	–	–

	December 31 2012	December 31 2011
	\$	\$
<b>Total reserves</b>	2,905,357	2,436,660

The general loan reserve represents transfers from retained earnings to meet qualifying loan impairment requirements under the Financial Institutions Act, 1996. The amount transferred is the excess of Financial Institutions Act, 1996 provisioning requirement over the IAS 39 provisioning requirement.

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 16 Net interest income

	December 31 2012 \$	December 31 2011 \$
<b>Interest income</b>		
Cash and other short term funds	118,248	139,287
Investment securities	278,952	329,305
Finance lease income	754,855	1,153,035
Credit related fees	513,064	655,819
Loans and advances	13,160,717	16,196,094
	<u>14,825,836</u>	<u>18,473,540</u>
<b>Interest expense</b>		
Customers	(6,063,338)	(7,562,139)
	<u>8,762,498</u>	<u>10,911,401</u>

At December 31, 2012, interest income accrued on impaired financial assets amounted to \$21,443 (2011 - \$7,672).

## 17 Fee and commission income

	December 31 2012 \$	December 31 2011 \$
<b>Fee and commission income</b>		
Creditor life and other commission	139,574	154,798
	<u>139,574</u>	<u>154,798</u>
<b>Fee and commission expense</b>		
Dealer commissions	37,140	55,656
	<u>37,140</u>	<u>55,656</u>

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 18 Net lease income

	December 31 2012 \$	December 31 2011 \$
Operating lease income	659,143	990,672
Depreciation expense	(497,425)	(726,481)
Lease repair expenses	(528)	(10,094)
	<u>161,190</u>	<u>254,097</u>

## 19 Other operating (loss)/income

	December 31 2012 \$	December 31 2011 \$
Loss on sale of operating leased assets & repossessed stock	(472,753)	(56,291)
Lease penalty and other charges	5,893	10,453
	<u>(466,860)</u>	<u>(45,838)</u>

## 20 Foreign exchange and brokerage income

	December 31 2012 \$	December 31 2011 \$
Foreign exchange transaction gains and losses	1,039,980	1,676,074
Brokerage fees	120,292	236,603
	<u>1,160,272</u>	<u>1,912,677</u>

## 21 Operating expenses

	December 31 2012 \$	December 31 2011 \$
Staff costs (Note 22)	2,400,308	3,431,051
Administrative expenses	1,775,306	2,405,059
Provision for VAT recoverable	—	23,625
Depreciation of property, plant and equipment	250,940	239,660
	<u>4,426,554</u>	<u>6,099,395</u>

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 22 Staff costs

	December 31 2012 \$	December 31 2011 \$
Salaries and wages	2,202,994	3,125,495
National insurance contributions	83,792	132,861
Pension costs:		
- defined contribution plan	50,679	75,361
Other	62,845	97,334
	2,400,310	3,431,051

## 23 Related party transactions

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

	Directors and key management personnel	
	December 31 2012 \$	December 31 2011 \$
<b>Loans</b>		
Loans outstanding at beginning of period	35,649	160,310
Loans issued during the period	40,000	29,056
Loan repayments during the period	(16,903)	(153,717)
	58,746	35,649
Loans outstanding at end of period	58,746	35,649
Interest income earned	3,665	14,041

No provisions have been recognised in respect of loans given to related parties in 2012 and 2011.

Interest is payable at 7.75% per annum (2011 - 7.5% and 8.75%). These loans are secured predominantly by vehicles and have fixed terms of repayment.

### Amounts due from parent company

	December 31 2012 \$	December 31 2011 \$
CSGK Finance Holdings Ltd	79,775	56,256
Amounts due from parent company bear no interest and have no stated terms of repayment.		

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 23 Related party transactions ...continued

	Directors and key management personnel	
	December 31 2012	December 31 2011
	\$	\$
<b>Deposits</b>		
Deposits at beginning of period	373,464	213,023
Deposits received during the period	87,728	164,441
Deposits repaid during the period	(155,140)	(4,000)
Deposits at end of period	<u>306,052</u>	<u>373,464</u>
Interest expense on deposits	9,553	19,830
	December 31 2012	December 31 2011
	\$	\$
<b>Key management compensation</b>		
Salaries and benefits	<u>1,014,154</u>	<u>1,835,033</u>
Directors' remuneration		

In 2012, the total remuneration to the directors was \$51,000 (2011 - \$36,000).

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 24 Contingent liabilities and commitments

a) *Legal proceedings*

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

b) *Commitments*

Operating lease rental expense is as follows:

	December 31 2012 \$	December 31 2011 \$
Within one year	220,230	244,869
Later than one year no later than five years	494,059	679,308
	<u>714,289</u>	<u>924,177</u>

At December 31, 2012, the Company had loan commitments as follows:

	December 31 2012 \$	December 31 2011 \$
Loan commitments	9,177,381	4,968,785
	<u>9,177,381</u>	<u>4,968,785</u>



# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 25 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 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 contain 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 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.

### 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 analyzing delinquency statistics; and
- providing general guidance on lending practices.

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

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

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.

Authorized 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 6 for analysis of loans by industry sector as of December 31, 2012 and December 31, 2011. 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.

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, 2012 and 2011, 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 recognized on the balance sheet.

	December 31 2012 \$	December 31 2011 \$
<b>Credit risk exposure relative to financial assets reported on the balance sheet are as follows:</b>		
Cash and cash equivalents	15,999,624	7,080,330
Treasury bills	5,471,642	4,972,442
Due from parent company	79,775	56,256
Loans and advances to customers	136,613,101	138,067,044
Other assets	341,514	372,765
	<b>158,505,656</b>	<b>150,548,837</b>
<b>Credit risk exposure relative to off-balance sheet items are as follows:</b>		
Loan commitments	9,177,381	4,968,785
	<b>167,683,037</b>	<b>155,517,622</b>

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 25 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 leases and when combined with loan commitments, represent 87% (2011 - 92%) of the Company's maximum exposure to credit risk. As mentioned before, 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 minimize 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 other 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.

Loans and advances to customers are summarized as follows:

### December 31, 2012

	Loans and advances		Finance Leases		Total
	Corporate	Individual	Corporate	Individual	
	\$	\$	\$	\$	\$
Neither past due nor impaired	11,761,360	65,650,806	3,863,027	64,688	81,339,881
Past due but not impaired	16,608,808	34,085,115	2,054,111	23,425	52,771,459
Impaired	1,644,430	2,682,596	746,185	–	5,073,211
	30,014,598	102,418,517	6,663,323	88,113	139,184,551
Less: allowances for impairment	(728,354)	(1,894,455)	(189,327)	–	(2,812,136)
Total loans and advances to customers	29,286,244	100,524,062	6,473,996	88,113	136,372,415
Other loans and Advances					240,686
<b>Total loans and advances to customers</b>					<b>136,613,101</b>

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

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

December 31, 2011

	Loans and advances		Finance Leases		Total
	Corporate	Individual	Corporate	Individual	
	\$	\$	\$	\$	\$
Neither past due nor impaired	27,906,787	65,298,335	4,448,273	78,758	97,732,153
Past due but not impaired	7,595,742	27,861,886	3,778,188	31,090	39,266,906
Impaired	368,583	2,308,060	410,638	–	3,087,281
	35,871,112	95,468,281	8,637,099	109,848	140,086,340
Less: allowances for impairment	(605,374)	(1,555,998)	(88,151)	–	(2,249,523)
Total loans and advances to customers	35,265,738	93,912,283	8,548,948	109,848	137,836,817
Other loans and advances					230,227
<b>Total loans and advances to customers</b>					<b>138,067,044</b>

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

The Company currently utilizes 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 summarized 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 judgement 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, 2012.

Company's Rating	Description	Impairment Allowance			
		2012 \$	2012 %	2011 \$	2011 %
1	Pass	–	–	–	0%
2	Special mention	–	–	–	0%
3	Substandard	542,314	28%	416,186	32%
4	Doubtful	102,926	5%	77,716	6%
5	Loss	1,275,819	67%	793,562	62%

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

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

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.

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 categorized as follows:

	Loans and advances		Finance Leases		December 31
	Corporate	Individual	Corporate	Individual	2012
	\$	\$	\$	\$	Total
<b>Internal rating scheme</b>					
1. Pass	8,221,366	63,290,452	3,863,027	64,688	75,439,533
2. Special Mention	3,535,261	2,279,830	–	–	5,815,091
3. Sub-standard	4,733	80,524	–	–	85,257
4. Doubtful	–	–	–	–	–
5. Loss	–	–	–	–	–
	<b>11,761,360</b>	<b>65,650,806</b>	<b>3,863,027</b>	<b>64,688</b>	<b>81,339,881</b>

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

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

	Loans and advances		Finance Leases		December 31
	Corporate	Individual	Corporate	Individual	Total
	\$	\$	\$	\$	\$
<b>Internal rating scheme</b>					
1. Pass	21,042,589	63,252,115	4,448,273	78,758	<b>88,821,735</b>
2. Special Mention	5,022,038	1,978,691	–	–	<b>7,000,729</b>
3. Sub-standard	1,842,160	67,529	–	–	<b>1,909,689</b>
4. Doubtful	–	–	–	–	–
5. Loss	–	–	–	–	–
	<b>27,906,787</b>	<b>65,298,335</b>	<b>4,448,273</b>	<b>78,758</b>	<b>97,732,153</b>

59% (2011 - 69%) of the Company's overall portfolio of loans and advances to customers, (i.e. not just the portion identified as neither past due nor impaired loans) are categorized within the two top grades of the internal rating system.

Included within the table above, are loans with renegotiated terms amounting to \$1,964,862 (2011 - \$627,547). 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 summarizes the carrying value of loans and advances to customers which are past due but which management, based on individual assessments, does not consider impaired:

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

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

December 31, 2012

	Corporate	Individuals	Total Loans
	\$	\$	\$
Past due 1 to 5 days	9,933,614	22,997,172	32,930,786
Past due 6 to 30 days	4,031,479	7,271,259	11,302,738
Past due 31 to 60 days	54,916	543,174	598,090
Past due 61 to 90 days	2,118,073	1,831,702	3,949,775
Past due over 90 days	470,726	1,441,807	1,912,533
	16,608,808	34,085,114	50,693,922
			Finance leases \$
Past due 1 to 5 days			1,647,011
Past due 6 to 30 days			430,524
Past due over 30 days			—
			2,077,535

December 31, 2011

	Corporate	Individuals	Total Loans
	\$	\$	\$
Past due 1 to 5 days	5,594,070	19,888,054	25,482,124
Past due 6 to 30 days	368,053	6,360,553	6,728,606
Past due 31 to 60 days	170,414	622,544	792,958
Past due 61 to 90 days	238,542	1,393,011	1,631,553
Past due over 90 days	501,911	320,476	822,387
	6,872,990	28,584,638	35,457,628
			Finance Leases \$
Past due 1 to 5 days			2,445,902
Past due 6 to 30 days			1,363,376
Past due over 30 days			—
			3,809,278

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

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

#### **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 each loan which is past due 90 days or later 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 judgement is employed.

As at December 31, 2012, the total allowance for impairment against loans and advances to customers amounted to \$2,837,381 (2011 - \$2,249,523) of which \$1,946,304 (2011 - \$1,287,464) represents individually impaired loans and the remaining amount of \$891,077 (2011 - \$962,059) represents the portfolio provision. Included within Note 6 is an analysis showing the movement in this allowance during the year ended December 31, 2012.

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

	2012	2011
	\$	\$
Fair value of collateral	1,606,299	1,477,332



# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

### b) **Market risk:**

Market risk is the risk that changes in market prices such as interest rate, equity prices and foreign exchange rates will affect the Company's income or the value of its financial instruments. The Company is not exposed to price risk in that it holds no equity investments. Similarly, 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 amortized 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.

#### *Interest rate risk*

Assuming that the interest bearing financial assets and liabilities as at December 31, 2012 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.

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

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

#### Interest rate risk

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, 2012

	Up to	3-12	1-5	Over	Non	
	3 months	months	years	5 years	interest	Total
	\$	\$	\$	\$	bearing	\$
<b>Assets</b>						
Cash	15,999,624	–	–	–	–	15,999,624
Treasury bills	5,471,642	–	–	–	–	5,471,642
Due from parent	–	–	–	–	79,775	79,775
Loans and advances to customers	7,744,763	24,613,532	82,472,395	21,782,411	–	136,613,101
Other assets	–	–	–	–	386,664	386,664
<b>Total financial assets</b>	<b>29,216,029</b>	<b>24,613,532</b>	<b>82,472,395</b>	<b>21,782,411</b>	<b>466,439</b>	<b>158,550,806</b>
<b>Liabilities</b>						
Customer deposits	18,575,654	75,645,245	47,578,878	–	–	141,799,777
Other liabilities	1,382,696	–	–	–	569,721	1,952,417
<b>Total financial liabilities</b>	<b>19,958,350</b>	<b>75,645,245</b>	<b>47,578,878</b>	<b>–</b>	<b>569,721</b>	<b>143,752,194</b>
<b>Total repricing gap</b>	<b>9,257,679</b>	<b>(51,031,713)</b>	<b>34,893,517</b>	<b>21,782,411</b>	<b>(103,282)</b>	<b>14,798,612</b>

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

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

Interest rate risk

December 31, 2011

	Up to	3-12	1-5	Over	Non	
	3 months	months	years	5 years	interest	Total
	\$	\$	\$	\$	\$	\$
<b>Assets</b>						
Cash and short term deposits	11,569,813	–	–	–	–	11,569,813
Treasury bills	4,972,442	–	–	–	–	4,972,442
Due from parent	–	–	–	–	56,256	56,256
Loans and advances to customers	9,892,405	27,417,088	92,311,123	8,446,428	–	138,067,044
Other assets	–	–	–	–	200,075	200,075
<b>Total financial assets</b>	<b>26,434,660</b>	<b>27,417,088</b>	<b>92,311,123</b>	<b>8,446,428</b>	<b>256,331</b>	<b>154,865,630</b>
<b>Liabilities</b>						
Customer deposits	24,055,706	61,453,745	49,695,437	–	–	135,204,888
Other Liabilities	1,638,210	–	–	–	450,584	2,088,794
<b>Total financial liabilities</b>	<b>25,693,916</b>	<b>61,453,745</b>	<b>49,695,437</b>	<b>–</b>	<b>450,584</b>	<b>137,293,682</b>
<b>Total repricing gap</b>	<b>740,744</b>	<b>(34,036,657)</b>	<b>42,615,686</b>	<b>8,446,428</b>	<b>(194,253)</b>	<b>17,571,948</b>

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

## 25 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 US dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Management manages this risk by limiting its exposure to US Dollars 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 transaction and its 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, 2012, all the companies' financial assets and liabilities are denominated in BBD with the exception of \$1.430 million in cash and \$1.755 million in liabilities.

### 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;
- 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 \$8 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%. The line of credit of \$5 million currently has an effective rate of 7.7%.

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

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

No amounts have been drawn down on these facilities at December 31, 2012. 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 unrecognized 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.

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 three months \$	Three to twelve months \$	One to five years \$	Total \$
<b>As at December 31, 2012</b>				
<b>Liabilities</b>				
Due to customers	18,637,983	77,051,929	52,054,079	147,743,991
Other liabilities	43,559	129,103	1,458,089	1,630,751
Total financial liabilities	18,681,542	77,181,032	53,512,168	149,374,742
<b>As at December 31, 2011</b>				
Due to customers	25,786,192	62,960,177	54,014,366	142,760,735
Other liabilities	270,732	526,813	1,500,304	2,297,849
Total financial liabilities	26,056,924	63,486,990	55,514,670	145,058,584

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

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

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

### d) *Financial instruments by category and fair value:*

At December 31, 2012 the Company's financial assets amounting to \$158,505,656, (2011 - \$150,548,837) all fall within the IAS 39 category of 'loans and receivables' whereas the Company's financial liabilities amounting to \$143,752,193 (2011 - \$137,293,682) all fall within the IAS 39 category of 'financial liabilities measured at amortized 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:

	Carrying value		Fair value	
	December 31 2012 \$	December 31 2011 \$	December 31 2012 \$	December 31 2011 \$
<b>Financial assets</b>				
Loans and advances to customers				
Individuals	<b>100,456,754</b>	94,110,068	<b>101,151,585</b>	94,945,047
Corporate and other entities	<b>36,156,347</b>	43,956,975	<b>35,251,092</b>	44,071,075
<b>Financial liabilities</b>				
Due to customers				
Financial Institutions	<b>23,204,063</b>	21,023,648	<b>22,914,643</b>	21,005,992
Individuals	<b>67,491,523</b>	63,667,389	<b>65,906,077</b>	63,027,228
Business and government	<b>47,026,872</b>	46,431,190	<b>46,606,638</b>	46,188,236
Other	<b>4,077,320</b>	4,082,660	<b>4,068,365</b>	4,051,389

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

### d) *Financial instruments by category and fair value ...continued*

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 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.

iii) 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.

### 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 shareholders 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.

# Notes to Financial Statements

December 31, 2012

(Amounts in Barbados dollars)

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

### e) **Capital management...continued**

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, 2012, the Company's capital adequacy ratio was 15.76% (2011 - 14.58%).

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.

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

	December 31 2012 \$	December 31 2011 \$
<b>Tier 1 Capital</b>		
Common shares	9,210,857	9,210,857
Statutory and other reserves	2,905,357	2,436,660
Retained earnings	10,858,781	9,452,832
Total qualifying Tier 1 capital	<b>22,974,995</b>	21,100,349
<b>Risk-weighted assets</b>		
On-balance sheet	136,565,159	139,703,954
Off-balance sheet	9,177,381	4,968,785
Total risk-weighted assets	<b>145,742,540</b>	144,672,739
Capital adequacy ratio	<b>15.76%</b>	14.58%





