





# Aspiration Statement

Caribbean Finance Company Limited aims to be the leader in the non-bank financial sector of Trinidad & Tobago, by offering quality financial facilities to its clients through personalized and efficient service at all levels in our institution.

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# Chairman's Report

As we reflect on our 41st year of operations, our results are a clear indication of proper management and a dedicated team effort. Our loan portfolio now stands at a Nett figure of \$331 million and with continued consumer confidence; our customer deposits have now surpassed \$200 million with an increase of \$13 million. This has produced a Profit before tax of \$24.5million, an increase of 12.7% over the previous year and earnings per share improving to \$1.22 at the close of 2012.

These excellent results are due to working closely with our customers and continuous operational and policy improvements to ensure that profitability and performance continues to meet our expectations. The ability to create equilibrium in generating new business whilst adhering to the regulatory framework, particularly the Anti-money laundering oversight required, allow us to distinguish ourselves amongst the non-bank financial institutions.

Our successful business model is testament to the leadership role of Mr. Brian Sheppard, Managing Director, and the support of a strong management team providing guidance to our entire staff.

In May 2012, Mr. Joseph "Sonny" Franklin passed away. Mr. Franklin was a board member since 1978 and also a member of the Asset and Credit committee. His presence will surely be missed at board level and his contribution over the years that have shaped Caribbean Finance will not be forgotten.

I take this opportunity to give recognition to both our new and repeat customers, who have supported CFC over the years and thank them for their confidence in us. I also thank my fellow board members for their contribution over the past year and our loyal and dedicated staff for their vigor and energy.



A handwritten signature in black ink, appearing to read 'Reyaz Ahamad', written over a horizontal line.

Reyaz Ahamad  
Chairman

# Directors' Report

The Directors have pleasure in submitting their Report and the Financial Statements for the year ended 31 December 2012.

<b>Financial Results</b>	<b>\$</b>
Profit before taxation	24,590,414
Less: Taxation	<u>(6,332,036)</u>
Profit after taxation	18,258,378
Retained earnings at beginning of year	92,817,344
Dividends	<u>(5,500,000)</u>
Retained earnings at end of year	<u>105,575,722</u>

## Auditors

PricewaterhouseCoopers retire and being eligible, offer themselves for re-appointment.

By Order of the Board



A blue ink signature is written over a blue horizontal line. Above the signature is the Aegis Business Solutions Limited logo, which consists of a stylized 'A' followed by the text 'Aegis Business Solutions Limited'. Below the signature, the word 'Secretary' is printed in blue.

Aegis Business Solutions Limited  
Secretary

# Corporate Information

## Registered Office

22 Kew Place, Port of Spain

## Head Office

17-19 Tragarete Road, Port of Spain

## Branch

27-31 Ciperó Road, San Fernando

## Classes of Business

- 1 Finance House/Finance Company
- 2 Mortgage Institution
- 3 Confirming House or Acceptance House
- 4 Leasing Corporation

## Directors

Reyaz Ahamad  
Chairman  
22 Kew Place, Port of Spain

Brian Sheppard  
Managing Director  
17-19 Tragarete Road, Port of Spain

Russell Martineau  
50 Pembroke Street, Port of Spain

Anthony Agostini  
18 Victoria Avenue, Port of Spain

Steve Mathura  
29 Alberto Street, Woodbrook

Gillian Pollidore  
5 Fitt Street, Woodbrook

## Secretary

Aegis Business Solutions Limited  
18 Scott Bushe Street  
Port of Spain

## Bankers

Scotiabank Trinidad and Tobago Limited  
56-58 Richmond Street  
Port of Spain

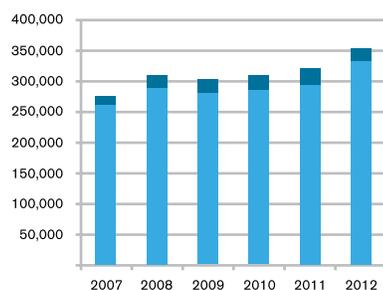
## Attorney at Law

MG Daly & Partners  
115A Abercromby Street  
Port of Spain

## Auditors

PricewaterhouseCoopers  
11-13 Victoria Avenue  
Port of Spain

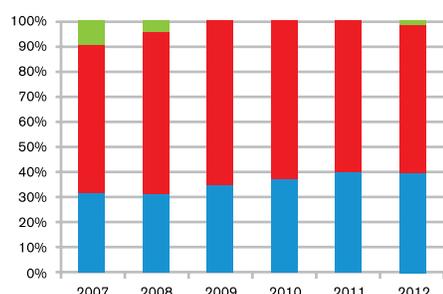
# Financial Highlights



**Loans and other receivables**

**Cash and investments**

	<u>December 2007</u>	<u>December 2008</u>	<u>December 2009</u>	<u>December 2010</u>	<u>December 2011</u>	<u>December 2012</u>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Loans and other receivables	259,406	288,300	279,330	282,340	292,544	331,345
Cash and investments	15,085	18,225	21,757	26,211	24,854	19,707

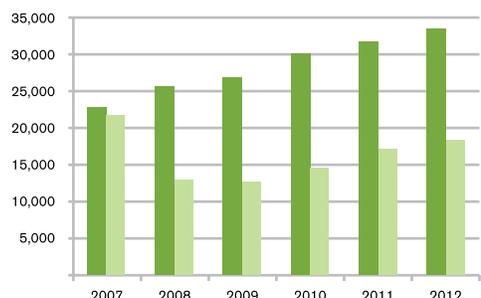


**Shareholders' equity**

**Customers' deposits**

**Bank borrowings**

	<u>December 2007</u>	<u>December 2008</u>	<u>December 2009</u>	<u>December 2010</u>	<u>December 2011</u>	<u>December 2012</u>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Shareholders' equity	85,764	94,840	103,425	113,353	125,342	138,140
Customers' deposits	157,521	194,888	193,718	190,779	188,121	201,016
Bank borrowings	26,077	12,266	--	--	--	7,084



**Net interest income**

**Profit after tax**

	<u>December 2007</u>	<u>December 2008</u>	<u>December 2009</u>	<u>December 2010</u>	<u>December 2011</u>	<u>December 2012</u>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Net interest income	22,646	25,473	26,717	29,936	31,500	33,249
Profit after tax	21,577	12,846	12,615	14,392	16,900	18,258

Ratios	2012	2011	
	%	%	
Profit Margin	79.87	78.08	Measures the Company's Total Expense Management
Efficiency Ratio	27.91	32.31	Indicates Non-Interest Expense Management
Return on Assets	5.43	5.36	Measures the Profitable use of Assets
Return on Equity	13.86	14.15	Is the Profitable use of Owner's Equity
Capital Adequacy	41.33	42.43	The Company's capital to its risk adjusted Assets

# Statement of Management Responsibility

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It is management's responsibility to apply the appropriate accounting policies and make accounting estimates that are reasonable.

Management is responsible for ensuring that the statements presented are a fair and true presentation of the state of affairs of the company which includes ensuring that the controls over the information from which the statements are derived are designed and properly monitored in a manner which would allow accurate information to be provided.

In addition, management is responsible for ensuring that the information presented is free from material misstatement whether due to fraud or error.

Management accepts responsibility for the annual financial statements as well as the responsibility for the maintenance of the accounting records and internal controls which form the basis of the financial statements. The financial statements of Caribbean Finance Company Limited are prepared in accordance with International Financial Reporting Standards and the appropriate accounting policies have been established and applied in a manner which gives a true and fair view of the Company's financial affairs and operating results.

In addition, nothing has come to the attention of management to indicate that the Company will not remain a going concern for the next twelve months from the date of this statement.



Managing Director  
18 March 2013



Head – Finance  
18 March 2013

# Independent Auditor's Report

To the shareholders of  
Caribbean Finance Company Limited

## Report on the Financial Statements

We have audited the accompanying financial statements of Caribbean Finance Company Limited, which comprise the statement of financial position as at 31 December 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 information, as set out on pages 8 to 39.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

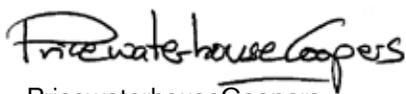
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 Caribbean Finance Company Limited as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



PricewaterhouseCoopers  
18 March 2013  
Port of Spain  
Trinidad, West Indies

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**CB Wharfe (Senior Partner), F Aziz Mohammed, WK Daniel, A Gopaulsingh, BA Hackett,  
H Mohammed, F Parsotan, S Ragobar, SW Ramirez, A West**

*PricewaterhouseCoopers, PO Box 550, 11-13 Victoria Avenue, Port of Spain, Trinidad, West Indies  
T: (868) 299 0700, F: (868) 623 6025, www.pwc.com/tt*

"PwC" refers to the Trinidad and Tobago firm of PricewaterhouseCoopers.

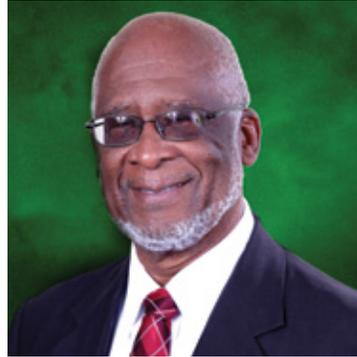
## Board of Directors



**Reyaz Ahamad**  
Chairman



**Brian Sheppard**  
Managing Director



**Russell Martineau, S.C.**



**Gillian Pollidore**

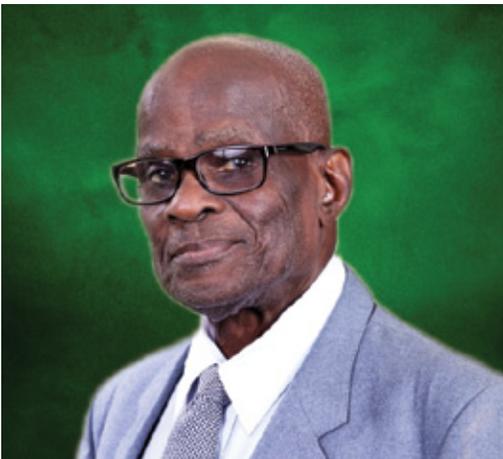


**Anthony Agostini**



**Steve Mathura**

## A TRIBUTE TO A LIFE WELL LIVED



In 2012 we were deeply saddened by the passing of Mr. Joseph Franklin. Mr. Franklin joined our Board of Directors on September 9, 1978 and fulfilled his role with dedication and commitment. His contribution to our company's success will not be forgotten.

# Caribbean Finance Company Limited

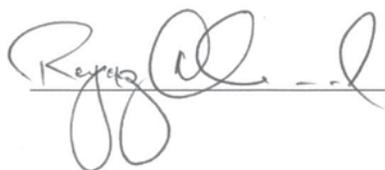
## Statement of Financial Position

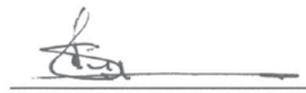
(Expressed in Trinidad and Tobago dollars)

	Notes	31 December	
		2012 \$	2011 \$
<b>ASSETS</b>			
Cash resources	4	445,026	5,650,746
Statutory deposit with Central Bank	5	18,434,216	18,434,216
Investments available-for-sale	6	827,923	768,963
Loans and other receivables	7	331,345,312	292,543,943
Property and equipment	8	1,502,387	1,635,663
Other assets		103,748	119,283
Taxation recoverable		86,615	--
Deferred tax asset	9	<u>395,149</u>	<u>373,745</u>
<b>TOTAL ASSETS</b>		<u><b>353,140,376</b></u>	<u><b>319,526,559</b></u>
<b>LIABILITIES</b>			
Short term financing	10	4,969,516	--
Customers' deposits	11	201,015,653	188,121,448
Bank overdraft	12	2,114,952	--
Other liabilities		1,400,113	725,485
Taxation payable		--	438,003
Dividends		<u>5,500,000</u>	<u>4,900,000</u>
<b>TOTAL LIABILITIES</b>		<u><b>215,000,234</b></u>	<u><b>194,184,936</b></u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	13	15,000,000	15,000,000
Statutory reserve	14	15,000,000	15,000,000
General banking reserve	14	2,500,000	2,500,000
Retained earnings		105,575,722	92,817,344
Investment revaluation reserve		<u>64,420</u>	<u>24,279</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u><b>138,140,142</b></u>	<u><b>125,341,623</b></u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>353,140,376</b></u>	<u><b>319,526,559</b></u>

The notes on pages 12 to 39 form an integral part of these financial statements.

On 18 March 2013, the Board of Directors of Caribbean Finance Company Limited authorised these financial statements for issue.

 Director

 Director

# Caribbean Finance Company Limited

## Statement of Comprehensive Income

(Expressed in Trinidad and Tobago dollars)

	Notes	Year Ended 31 December	
		2012 \$	2011 \$
Interest income	15	41,628,040	40,345,408
Interest expense	16	<u>(8,379,333)</u>	<u>(8,845,146)</u>
<b>Net Interest Income</b>		33,248,707	31,500,262
Other income	17	<u>860,505</u>	<u>718,663</u>
<b>Total Net Income</b>		<u>34,109,212</u>	<u>32,218,925</u>
Impairment expense on loans and other financing, net of recoveries	7.3	(40,860)	(1,100,175)
Operating expenses	18	<u>(9,477,938)</u>	<u>(9,309,120)</u>
<b>Total Non-Interest Expenses</b>		<u>(9,518,798)</u>	<u>(10,409,295)</u>
<b>Profit Before Taxation</b>		24,590,414	21,809,630
Taxation	19	<u>(6,332,036)</u>	<u>(4,909,649)</u>
<b>Profit After Taxation</b>		<u>18,258,378</u>	<u>16,899,981</u>
<b>Other Comprehensive Income</b>			
Fair value gain/(losses) on investments available-for-sale	6.2	<u>40,141</u>	<u>(11,362)</u>
<b>Other Comprehensive Income/(Loss) For The Year</b>		<u>40,141</u>	<u>(11,362)</u>
<b>Total Comprehensive Income For The Year</b>		<u>18,298,519</u>	<u>16,888,619</u>
<b>Earnings Per Share</b>	20	<u>\$ 1.22</u>	<u>\$ 1.13</u>

The notes on pages 12 to 39 form an integral part of these consolidated financial statements.

# Caribbean Finance Company Limited

## Statement of Changes in Equity

(Expressed in Trinidad and Tobago dollars)

	Notes	Share Capital \$	Statutory Reserve \$	General Banking Reserve \$	Retained Earnings \$	Investment Revaluation Reserve \$	Total Shareholders Equity \$
<b>Year ended 31 December 2012</b>							
Balance at 1 January 2012		15,000,000	15,000,000	2,500,000	92,817,344	24,279	125,341,623
Profit after taxation		--	--	--	18,258,378	--	18,258,378
Other comprehensive income for the year		--	--	--	--	40,141	40,141
Dividends	21	--	--	--	(5,500,000)	--	(5,500,000)
Balance at 31 December 2012		<u>15,000,000</u>	<u>15,000,000</u>	<u>2,500,000</u>	<u>105,575,722</u>	<u>64,420</u>	<u>138,140,142</u>
<b>Year ended 31 December 2011</b>							
Balance at 1 January 2011		15,000,000	15,000,000	2,544,260	80,773,103	35,641	113,353,004
Profit after taxation		--	--	--	16,899,981	--	16,899,981
Other comprehensive loss for the year		--	--	--	--	(11,362)	(11,362)
Adjustment to general banking reserve	14	--	--	(44,260)	44,260	--	--
Dividends	21	--	--	--	(4,900,000)	--	(4,900,000)
Balance at 31 December 2011		<u>15,000,000</u>	<u>15,000,000</u>	<u>2,500,000</u>	<u>92,817,344</u>	<u>24,279</u>	<u>125,341,623</u>

The notes on 12 to 39 form an integral part of these financial statements.

# Caribbean Finance Company Limited

## Statement of Cash Flows

(Expressed in Trinidad and Tobago dollars)

	Notes	Year Ended 31 December	
		2012 \$	2011 \$
<b>Cash Flows From Operating Activities</b>			
Profit before taxation		24,590,414	21,809,630
Adjustments for		40,860	1,100,175
Impairment losses on loans			
Depreciation	8	329,034	351,528
Loss on disposal of fixed assets		<u>79,252</u>	<u>25,731</u>
<b>Profit Before Changes In Operating Assets and Liabilities</b>		25,039,560	23,287,064
(Increase)/decrease in operating assets			
Loans and other receivables		(38,842,229)	(11,304,442)
Other assets		15,535	135,825
Increase/(decrease) in operating liabilities			
Customers' deposits		12,894,205	(2,657,674)
Other liabilities		<u>674,628</u>	<u>(281,590)</u>
Cash (used in)/generated from operating activities		(218,301)	9,179,183
Corporation tax paid		(6,831,866)	(5,607,968)
Green fund levy paid		<u>(46,192)</u>	<u>(44,297)</u>
<b>Net Cash (Used In)/Generated From Operating Activities</b>		<u>(7,096,359)</u>	<u>3,526,918</u>
<b>Cash Flows From Investing Activities</b>			
Purchase of fixed assets		(348,924)	(403,170)
Proceeds from sale of fixed assets		73,914	42,609
Net additions/disposals of investments available-for-sale		<u>(18,819)</u>	<u>(19,533)</u>
<b>Net Cash Used In Investing Activities</b>		<u>(293,829)</u>	<u>(380,094)</u>
<b>Financing Activities</b>			
Dividends paid		(4,900,000)	(4,500,000)
Proceeds on short term financing		<u>4,969,516</u>	<u>--</u>
<b>Net Cash Generated From/(Used In) Financing Activities</b>		<u>69,516</u>	<u>(4,500,000)</u>
<b>Net Decrease In Cash And Cash Equivalents</b>		(7,320,672)	(1,353,176)
<b>Cash And Cash Equivalents At Beginning Of Year</b>		<u>5,650,746</u>	<u>7,003,922</u>
<b>Cash And Cash Equivalents At End Of Year</b>		<u>(1,669,926)</u>	<u>5,650,746</u>
<b>Represented By:</b>			
Cash resources	4	445,026	5,650,746
Bank overdraft		<u>(2,114,952)</u>	<u>--</u>
		<u>(1,669,926)</u>	<u>5,650,746</u>

The notes on pages 12 to 39 form an integral part of these consolidated financial statements.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### 1 Incorporation and Activities

Caribbean Finance Company Limited is a limited liability company incorporated in the Republic of Trinidad and Tobago on 17 June 1971. It is licensed under the Financial Institutions Act, 2008.

The Company is a subsidiary of Universal Investments Limited a company incorporated in the Republic of Trinidad and Tobago. Its ultimate parent company is The Southern Company Limited a company incorporated in the Republic of Trinidad and Tobago.

The principal activities of the Company are lending through hire purchase agreements and mortgage bills of sale on motor vehicles and the acceptance of deposits for fixed terms. The Company also provides credit through trade financing, mortgage loans and leasing.

The address of its registered office is 22 Kew Place, Port of Spain.

#### 2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### 2.1 Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention as modified by the revaluation of investments available-for-sale.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting 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.

(a) *New and amended standards adopted by the Company*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Company.

(b) *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2012 and not early adopted by the Company*

- IAS 1 (amendment), 'Financial statement presentation' regarding other comprehensive income. This amendment requires entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). This standard is not applicable until 1 July 2012 but is available for early adoption. The standard is not expected to have a material impact on the Company's financial statements.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

## 2 Summary of Significant Accounting Policies (Continued)

### 2.1 Basis of preparation (continued)

(b) *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2012 and not early adopted by the Company (Continued)*

- IFRS 9, 'Financial instruments'. IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. This standard is not applicable until 1 January 2015 but is available for early adoption. The standard is not expected to have a material impact on the Company's financial statements.
- IFRS 13, 'Fair value measurement'. IFRS 13 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. This standard is not applicable until 1 January 2013 but is available for early adoption. The standard is not expected to have a material impact on the Company's financial statements.

### 2.2 Foreign currency translation

#### Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Trinidad and Tobago dollars which is the Company's functional and presentation currency.

#### Transactions and balances

Foreign currency transactions are translated into the reporting currency at 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 of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in other comprehensive income.

### 2.3 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, balances with banks net of bank overdraft.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

## 2 Summary of Significant Accounting Policies (Continued)

### 2.4 Financial assets

The Company classifies its financial assets as “investments available-for-sale” and “loans and other receivables”. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

a) Investments available-for-sale

Investments available-for-sale are those intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates.

All purchases and sales of investments available-for-sale are recognised on the trade date, which is the date on which the Company commits to purchase or sell the investment. Investments available-for-sale are derecognised when the rights to receive cash flows from the investment have expired or the Company has transferred substantially all risks and rewards of ownership.

Investments available-for-sale are initially recognised at fair value plus transaction costs. Subsequent to initial recognition, investments available-for-sale are carried at fair value. Gains and losses arising from changes in the fair value of investments available-for-sale are recognised directly in other comprehensive income until the investment is derecognised, sold or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for an investment, the Company establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

b) Loans and other receivables

Loans and other receivables are non-derivative financial assets with fixed determinable payments that are not quoted in an active market, other than:

- (i) those the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates at fair value through the profit or loss;
- (ii) those that the entity upon initial recognition designates as available-for-sale; or
- (iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and other receivables are carried at amortised cost using the effective interest method. Interest on loans is included in profit or loss and is reported as 'Interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in profit or loss as 'Impairment expense on loans and other financing, net of recoveries'

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

## 2 Summary of Significant Accounting Policies (Continued)

### 2.5 Impairment of financial assets

#### a) *Financial assets carried at fair value*

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

#### b) *Financial assets carried at amortised cost*

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

- (i) significant financial difficulty of the issuer or debtor;
- (ii) a breach of contract, such as default or delinquency in payments;
- (iii) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- (iv) the disappearance of an active market for that financial asset because of financial difficulties;
- (v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of individual assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on assets in the group.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

## 2 Summary of Significant Accounting Policies (Continued)

### 2.5 Impairment of financial assets (continued)

#### b) *Financial assets carried at amortised cost (continued)*

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are 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.

If there is objective evidence that an impairment loss on loans and other 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 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 profit or loss. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

When a loan is uncollectible, it is written off against the related allowance for impairment losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If in the subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

### 2.6 Leases

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable and included under loans and other financing. The difference between the gross receivable and the present value of the receivable is recognised as unearned interest.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

## 2 Summary of Significant Accounting Policies (Continued)

### 2.7 Property and equipment

Property and equipment are stated at historical cost less accumulated 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, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on assets is computed using the following methods to allocate their cost to their residual values over their estimated useful lives, as follows:

#### Reducing balance basis

Leasehold improvements	– 10%
Furniture and fittings	– 10%
Motor vehicles	– 25%
Office and computer equipment	– 12% – 20%
Computer software	– 12% – 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

## 2 Summary of Significant Accounting Policies (Continued)

### 2.8 Short term financing

Short term financing is recognised initially at fair value net of transaction costs incurred. Short term financing is subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

### 2.9 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### 2.10 Income tax

#### (a) Current income tax

Income tax payable (receivable) is calculated on the basis of the applicable tax law in Trinidad and Tobago and is recognised in profit or loss for the period.

#### (b) Deferred income tax

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of the assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantially enacted at the statement of financial position date are used to determine deferred tax.

The principal temporary differences arise from accelerated tax depreciation and revaluation of investments available-for-sale.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is recognised in profit or loss for the period except to the extent that it relates to taxable items that are charged or credited in other comprehensive income. In these circumstances, the associated deferred tax is charged or credited to other comprehensive income (for example, in the case of a taxable available-for-sale investment).

### 2.11 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

## 2 Summary of Significant Accounting Policies (Continued)

### 2.12 Revenue recognition

#### a) *Interest income and expense*

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or where appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transactions costs, and all other premiums and discounts.

#### b) *Fees and commissions*

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, are recognised on completion of the underlying transaction.

### 2.13 Defined contribution plan

The Company has a defined contribution plan. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions are charged to profit or loss on the accrual basis.

### 2.14 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved by the Company's directors.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### 3 Critical Accounting Estimates and Judgements

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.

a) Impairment losses on loans

The Company reviews its underlying portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in profit or loss, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the underlying portfolios. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on financial assets in the group. Management uses estimates based on historical loss experience for financial assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The following is a sensitivity analysis of the key assumptions used in developing this estimate:

- In arriving at the specific provision for impairment losses for collateralised financial assets, the Company estimated cash flows from foreclosure less costs for obtaining and selling the collateral. Had collateral values been 5% lower/higher in aggregate, the specific provision for impairment losses would have been \$187,547 higher/lower.
- In arriving at the portfolio provision for impairment losses, the Company estimated loss percentages for the portfolio by considering industry, economic and other factors by sector. Had the loss percentages been 0.1% higher/lower, the portfolio provision for impairment losses would have been \$317,365 higher/lower.

b) Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### 4 Cash Resources

	2012 \$	2011 \$
Cash on hand and in bank	293,103	4,517,922
Money market mutual funds	151,923	1,132,824
Included in cash and cash equivalents	<u>445,026</u>	<u>5,650,746</u>

Cash at bank and money market mutual funds were neither past due nor impaired as of the statement of financial position dates. These are held with local financial institutions which have not defaulted in the past and are considered to be credit worthy.

#### 5 Statutory Deposit With Central Bank

The Financial Institutions Act, 2008 (the Act) requires that every non-banking financial institution licensed under the Act in the Republic of Trinidad and Tobago hold a non-interest bearing deposit account with the Central Bank of Trinidad and Tobago equivalent to 9% of the total deposit liabilities of that institution. As at 31 December 2012, the Company was in compliance with this requirement.

#### 6 Investments Available-for-sale

Trinidad and Tobago Unit Trust Corporation - First Unit Scheme (Note 6.1)	33,823	33,823
Roytrin Mutual Funds	794,100	735,140
	<u>827,923</u>	<u>768,963</u>
Balance at beginning of year	768,963	772,672
Net additions/disposals of investments available-for-sale	18,819	19,533
Net fair value gains/(losses) recognised in other comprehensive income (Note 6.2)	40,141	(23,242)
Balance at end of year	<u>827,923</u>	<u>768,963</u>

6.1 This represents an investment in the initial capital of the Trinidad and Tobago Unit Trust Corporation.

6.2 Net fair value gains/ (losses) were recognised in other comprehensive income as follows:

Net fair value gains/(losses) on investments available-for-sale	40,141	(23,242)
Tax on fair value adjustments:		
- Adjustment to prior year's estimates	--	11,880
Amount recognised in other comprehensive income	<u>40,141</u>	<u>(11,362)</u>

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

<b>7 Loans and Other Receivables</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Instalment loans	323,201,904	283,174,749
Finance leases (Note 7.4)	1,338,858	2,767,664
Trade financing	6,983,095	6,546,146
Mortgage loans	<u>4,650,308</u>	<u>5,671,519</u>
	336,174,165	298,160,078
Provision for impaired loans and other receivables	<u>(4,828,853)</u>	<u>(5,616,135)</u>
	<u><u>331,345,312</u></u>	<u><u>292,543,943</u></u>
Non-current portion	308,160,814	272,736,892
Current portion	<u>28,013,351</u>	<u>25,423,186</u>
	<u><u>336,174,165</u></u>	<u><u>298,160,078</u></u>
<b>7.1 Analysis of loans and other receivables</b>		
Current	295,220,416	244,011,276
Past due but not impaired	29,127,854	32,947,555
Impaired	<u>11,825,895</u>	<u>21,201,247</u>
	<u><u>336,174,165</u></u>	<u><u>298,160,078</u></u>
<b>7.2 Reconciliation of provision for impaired loans and other receivables</b>		
Balance at start of year	5,616,135	5,546,615
Loans written off, net of recoveries	(1,309,128)	(1,340,155)
Charge for the year	<u>521,846</u>	<u>1,409,675</u>
Balance at end of year	<u><u>4,828,853</u></u>	<u><u>5,616,135</u></u>
Specific provision	3,750,950	3,559,351
Portfolio provision	<u>1,077,903</u>	<u>2,056,784</u>
	<u><u>4,828,853</u></u>	<u><u>5,616,135</u></u>
<b>7.3 Impairment expense on loans and other receivables</b>		
Charge for the year	521,846	1,409,675
Amounts not previously provided for now written off, net of recoveries	<u>(480,986)</u>	<u>(309,500)</u>
	<u><u>40,860</u></u>	<u><u>1,100,175</u></u>
<b>7.4 Finance leases</b>		
Gross investment in finance leases	1,464,478	3,067,858
Unearned finance charges	<u>(125,620)</u>	<u>(300,194)</u>
Net investment in finance leases	<u><u>1,338,858</u></u>	<u><u>2,767,664</u></u>
<b>Gross investment in finance leases</b>		
Not later than 1 year	269,310	417,256
Later than 1 year and not later than 5 years	<u>1,195,168</u>	<u>2,650,602</u>
	<u><u>1,464,478</u></u>	<u><u>3,067,858</u></u>

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### 8 Property and Equipment

	Leasehold Improvements	Furniture and Fittings	Motor Vehicles	Office and Computer Equipment	Computer Software	Total
	\$	\$	\$	\$	\$	\$
<b>Year ended 31 December 2012</b>						
Opening net book value	146,693	149,560	427,069	497,531	414,810	1,635,663
Additions	15,000	5,808	149,918	178,198	--	348,924
Disposals	--	(12,169)	(53,419)	(66,744)	(20,834)	(153,166)
Depreciation charge	(16,064)	(15,598)	(118,015)	(102,347)	(77,010)	(329,034)
Closing net book value	145,629	127,601	405,553	506,638	316,966	1,502,387
<b>At 31 December 2012</b>						
Cost	250,775	291,030	993,557	977,403	828,205	3,340,970
Accumulated depreciation	(105,146)	(163,429)	(588,004)	(470,765)	(511,239)	(1,838,583)
Net book value	145,629	127,601	405,553	506,638	316,966	1,502,387
<b>Year ended 31 December 2011</b>						
Opening net book value	162,868	141,650	496,988	449,261	401,594	1,652,361
Additions	1,150	24,679	110,000	151,788	115,553	403,170
Disposals	--	--	(42,483)	(25,857)	--	(68,340)
Depreciation charge	(17,325)	(16,769)	(137,436)	(77,661)	(102,337)	(351,528)
Closing net book value	146,693	149,560	427,069	497,531	414,810	1,635,663
<b>At 31 December 2011</b>						
Cost	235,775	326,198	954,819	900,640	985,646	3,403,078
Accumulated depreciation	(89,082)	(176,638)	(527,750)	(403,109)	(570,836)	(1,767,415)
Net book value	146,693	149,560	427,069	497,531	414,810	1,635,663
<b>At 31 December 2010</b>						
Cost	234,625	301,519	1,012,747	856,265	870,093	3,275,249
Accumulated depreciation	(71,757)	(159,869)	(515,759)	(407,004)	(468,499)	(1,622,888)
Net book value	162,868	141,650	496,988	449,261	401,594	1,652,361

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### 9 Deferred Tax Asset

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 25%.

The movement in the net deferred income tax asset is as follows:

	2012 \$	2011 \$
At beginning of year	373,745	(161,999)
Amount recognised in profit or loss (Note 19):		
- Current year	58,748	(45,316)
- Adjustment to prior year's estimates	(37,344)	569,180
Amount recognised in other comprehensive income:		
- Adjustment to prior year's estimates	--	11,880
At end of year	<u>395,149</u>	<u>373,745</u>

The net deferred tax asset is attributable to:

Accelerated depreciation on leased assets, property and equipment	<u>395,149</u>	<u>373,745</u>
Net deferred tax asset	<u>395,149</u>	<u>373,745</u>

#### 10 Short Term Financing

Short term financing	4,945,129	--
Accrued interest	<u>24,387</u>	<u>--</u>
	<u>4,969,516</u>	<u>--</u>

The Company maintained short term facilities in the form of bankers acceptances with financial institutions. Interest rates as at 31 December 2012 were 4.5%.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

<b>11 Customers' Deposits</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Deposit balances	198,455,438	185,412,272
Accrued interest	<u>2,560,215</u>	<u>2,709,176</u>
	<u><b>201,015,653</b></u>	<u><b>188,121,448</b></u>
Current portion	167,373,537	179,937,795
Non-current portion	<u>33,642,116</u>	<u>8,183,653</u>
	<u><b>201,015,653</b></u>	<u><b>188,121,448</b></u>

#### 11.1 Sectoral analysis

	<b>2012</b>		<b>2011</b>	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Consumers	187,320,167	94.4	176,290,945	95.1
Commercial	<u>11,135,271</u>	<u>5.6</u>	<u>9,121,327</u>	<u>4.9</u>
	<u><b>198,455,438</b></u>	<u><b>100</b></u>	<u><b>185,412,272</b></u>	<u><b>100</b></u>

All deposits have fixed interest rates.

#### 12 Bank Overdraft

The Company maintains an overdraft facility which bears interest at 7% per annum (2011 – 7.25%). This overdraft facility together with the short term financing through bankers' acceptances, totals \$25 million, all of which is secured by a debenture over the assets of the Company.

<b>13 Share Capital</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Authorised		
An unlimited number of shares of no par value		
Issued and fully paid		
15,000,000 ordinary shares of no par value	<u><b>15,000,000</b></u>	<u><b>15,000,000</b></u>

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### 14 Reserves

##### Statutory reserve

The Financial Institutions Act, 2008 requires financial institutions to transfer annually a minimum of 10% of its profit after taxation to a reserve fund until the balance on this reserve is equal to the paid up capital of the institution.

##### General banking reserve

In keeping with the Financial Institutions (Prudential Criteria) Regulations, 1994, the Company has set aside a reserve out of retained earnings to provide against unforeseen losses on the loan portfolio.

#### 15 Interest Income

Loans and other receivables	41,585,655	40,304,614
Cash resources and investments available-for-sale	<u>42,385</u>	<u>40,794</u>
	<u><u>41,628,040</u></u>	<u><u>40,345,408</u></u>

#### 16 Interest Expense

Customers' deposits	7,914,337	8,496,213
Bank overdraft and short term financing	<u>464,996</u>	<u>348,933</u>
	<u><u>8,379,333</u></u>	<u><u>8,845,146</u></u>

#### 17 Other Income

Fees and commissions	759,043	556,209
Profit on disposal of assets under finance leases	<u>101,462</u>	<u>162,454</u>
	<u><u>860,505</u></u>	<u><u>718,663</u></u>

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

<b>18 Operating Expenses</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Staff costs (Note 18.1)	4,643,571	3,929,237
Administrative and other expenses	2,843,466	3,472,989
Depreciation	329,034	351,528
Directors' fees	187,500	210,000
Deposit insurance premium*	370,779	375,076
Office rent	655,986	642,005
Professional fees	368,350	302,554
Loss on disposal of property and equipment	<u>79,252</u>	<u>25,731</u>
	<u><u>9,477,938</u></u>	<u><u>9,309,120</u></u>

\*Statutory regulations governing the operations of banks and other financial institutions in the Republic of Trinidad and Tobago stipulate that an annual premium be paid to the Deposit Insurance Corporation amounting to 0.2% of average deposit liabilities outstanding at the end of each quarter of the preceding year.

<b>18.1 Staff Costs</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Salaries	4,157,026	3,498,399
National insurance	168,127	143,716
Pension contributions	130,530	108,354
Other long term benefits	<u>187,888</u>	<u>178,768</u>
	<u><u>4,643,571</u></u>	<u><u>3,929,237</u></u>
 Average number of employees during the year	 <u><u>27</u></u>	 <u><u>27</u></u>

<b>19 Taxation</b>		
Corporation tax		
- Current year	6,213,385	5,626,153
- Adjustments to prior year's estimates	93,863	(236,937)
Deferred tax (credit)/charge (see Note 9)		
- Current year	(58,748)	45,316
- Adjustments to prior year's estimates	37,345	(569,180)
Green fund levy		
- Current year	<u>46,191</u>	<u>44,297</u>
	<u><u>6,332,036</u></u>	<u><u>4,909,649</u></u>

The tax on the operating profit differs from the theoretical amount that would arise using the statutory rate of 25% as follows:

Profit before taxation	<u><u>24,590,414</u></u>	<u><u>21,809,630</u></u>
Corporation tax calculated at a tax rate of 25%	6,147,604	5,452,408
Expenses not deductible for tax purposes	17,198	228,479
Income not assessable for tax	(10,164)	(9,418)
Adjustments to prior year's estimates	131,207	(806,117)
Green fund levy	<u>46,191</u>	<u>44,297</u>
	<u><u>6,332,036</u></u>	<u><u>4,909,649</u></u>

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

<b>20 Earnings Per Share</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Profit after taxation	<u>18,258,378</u>	<u>16,899,981</u>
Number of ordinary shares in issue	<u>15,000,000</u>	<u>15,000,000</u>
Earnings per share	<u>\$1.22</u>	<u>\$1.13</u>
<b>21 Dividends</b>		
Proposed and declared- \$0.37 per share (2011 – \$0.33)	<u>5,500,000</u>	<u>4,900,000</u>

### **22 Related Party Transactions**

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

A number of transactions are entered into with related parties in the normal course of business. These include loans and deposits. These transactions were carried out on commercial terms and conditions and at market rates. The outstanding balances at the year-end are as follows:

**(a) Outstanding balances at year-end arising from related party transactions and related income and expense for the year are as follows:**

Loans and other receivables

Affiliated companies	<u>651,774</u>	<u>813,992</u>
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Customers' deposits

Directors and key management personnel	<u>36,154,618</u>	<u>34,491,023</u>
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Interest income

Affiliated companies	<u>88,925</u>	<u>101,770</u>
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Interest expense

Directors and key management personnel	<u>776,128</u>	<u>744,872</u>
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**(b) Key management compensation**

Salaries and other short term benefits	<u>1,786,992</u>	<u>1,314,031</u>
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# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### 23 Financial Risk Management

##### 23.1 Financial risk factors

The Company's activities expose it to a number of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risks is core to the financial business and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects in the Company's financial performance.

The Company's risk management system serves to identify the various risks specific to the activities and operations of the Company and to document policies and procedures to address these risks. These risk management policies set appropriate risk limits and controls and monitor the risks and adherence to limits by means of reliable and up to date management systems.

The Board of Directors is responsible for the overall risk management approach and for approving risk strategies and principles. The Board of Directors discharges its responsibilities through the Asset/Liability/Credit Committee (ALCCO) which has overall responsibility to oversee the implementation of policies for identifying, evaluating and monitoring significant risks to which the Company is exposed. The main types of risks the Company is exposed to are credit risk, liquidity risk, interest rate risk and operational risk.

The Audit Committee oversees how management monitors compliance with the Company's policies and procedures. The Audit Committee is assisted in its oversight role by the Internal Auditors. The Internal Auditors undertake regular reviews of management's controls and procedures, the results of which are reported to the Audit Committee.

##### 23.1.1 Credit risk

a) Definition

The Company takes on credit risk which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation.

b) Management of risk

Credit risk is the most important risk for the Company's business which principally arises in lending activities that lead to loans and other receivables. In order to effectively manage credit risk, the following is considered:

- (i) Proper judgment of the creditworthiness of the borrower when analysing the loan application;
- (ii) Adequate collateral held as security for funds advanced;
- (iii) Maintenance of a strict and aggressive collection policy;
- (iv) Monthly review of the risk ratios for the measurement of credit risk;
- (v) Maintenance of a prudent loan provisioning policy;
- (vi) Monitor exposures against limits to any one borrower or borrower group;
- (vii) The Asset/Liability/Credit Committee to be informed of any large exposures to any one borrower or borrower group in default;
- (viii) The information technology system for reporting, monitoring and controlling risks is properly maintained and updated;
- (ix) Regular reporting to the Board of Directors on the performance of the loan portfolio.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### 23 Financial Risk Management (Continued)

##### 23.1 Financial risk factors (continued)

##### 23.1.1 Credit risk (continued)

c) Maximum exposure to credit risk before collateral held or other credit enhancements

	2012	2011
	\$	\$
Instalment loans	323,201,904	283,174,749
Finance leases	1,338,858	2,767,664
Trade financing	6,983,095	6,546,146
Mortgage loans	<u>4,650,308</u>	<u>5,671,519</u>
	336,174,165	298,160,078
Less provision for impaired loans and other receivables	<u>(4,828,853)</u>	<u>(5,616,135)</u>
	331,345,312	292,543,943
Cash resources	445,026	5,650,746
Statutory deposit with Central Bank	<u>18,434,216</u>	<u>18,434,216</u>
	<u><u>350,224,554</u></u>	<u><u>316,628,905</u></u>

The above table represents a worst case scenario of credit risk exposure to the Company as at 31 December 2012 and 2011 without taking into account any collateral held.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### 23 Financial Risk Management (Continued)

##### 23.1 Financial risk factors (continued)

##### 23.1.1 Credit risk (continued)

##### d) Analysis of financial assets

	<u>Past due but not impaired</u>					<u>Total</u>
	<u>Current</u>	<u>1 – 30 days</u>	<u>31- 90 days</u>	<u>&gt; 90 days</u>	<u>Impaired</u>	
	\$	\$	\$	\$	\$	\$
<b>At 31 December 2012</b>						
Cash resources	445,026	--	--	--	--	445,026
Statutory deposit with Central Bank	18,434,216	--	--	--	--	18,434,216
<u>Loans and other receivables:</u>						
- Instalment loans	285,220,018	25,978,585	941,818	218,640	10,842,843	323,201,904
- Finance leases	760,155	267,895	--	--	310,808	1,338,858
- Trade financing	6,983,095	--	--	--	--	6,983,095
- Mortgages	2,257,148	1,720,917	--	--	672,243	4,650,308
	<u>295,220,416</u>	<u>27,967,397</u>	<u>941,818</u>	<u>218,640</u>	<u>11,825,894</u>	<u>336,174,165</u>
	<u>314,099,658</u>	<u>27,967,397</u>	<u>941,818</u>	<u>218,640</u>	<u>11,825,894</u>	<u>355,053,407</u>
<b>At 31 December 2011</b>						
Cash resources	5,650,746	--	--	--	--	5,650,746
Statutory deposit with Central Bank	18,434,216	--	--	--	--	18,434,216
<u>Loans and other receivables:</u>						
- Instalment loans	231,219,376	29,015,053	1,210,711	1,209,105	20,520,504	283,174,749
- Finance leases	1,296,023	673,872	117,026	--	680,743	2,767,664
- Trade financing	6,546,146	--	--	--	--	6,546,146
- Mortgages	4,949,731	721,788	--	--	--	5,671,519
	<u>244,011,276</u>	<u>30,410,713</u>	<u>1,327,737</u>	<u>1,209,105</u>	<u>21,201,247</u>	<u>298,160,078</u>
	<u>268,096,238</u>	<u>30,410,713</u>	<u>1,327,737</u>	<u>1,209,105</u>	<u>21,201,247</u>	<u>322,245,040</u>

##### e) **Loans and other receivables past due but not impaired – credit quality**

These relate to loans which have exceeded the contractual payment period. Loans within this category are continuously monitored by the Company's management to ensure all collection options are exercised to bring these accounts up to date.

##### f) **Loans and other receivables past due and/or impaired – description of collateral held**

Collateral on these loans comprise mortgages over real estate, hire purchase agreements and chattel mortgages over equipment and vehicles.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### 23 Financial Risk Management (Continued)

##### 23.1 Financial risk factors (continued)

##### 23.1.1 Credit risk (continued)

g) Loans and other receivables individually impaired – fair value of collateral held

	Carrying value (before provisions) 2012 \$	Fair value of collateral 2012 \$	Carrying value (before provisions) 2011 \$	Fair value of collateral 2011 \$
Instalment loans	10,842,843	7,434,023	20,520,504	17,105,032
Finance leases	310,808	187,769	680,743	536,864
Mortgage loans	<u>672,243</u>	<u>453,153</u>	<u>--</u>	<u>--</u>
	<u>11,825,894</u>	<u>8,074,945</u>	<u>21,201,247</u>	<u>17,641,896</u>

h) Repossessed collateral

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. As at the statement of financial position date, there were no repossessed properties.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### 23 Financial Risk Management (Continued)

##### 23.1 Financial risk factors (continued)

##### 23.1.1 Credit risk (continued)

i) Allowance for impairment losses on loans and other receivables

	Instalment loans \$	Finance leases \$	Mortgage loans \$	Total \$
<b>At 31 December 2012</b>				
Balance at beginning of year	5,472,256	143,879	--	5,616,135
Amounts written off net of recoveries	(912,901)	(101,559)	(294,657)	(1,309,125)
Charge for the year	<u>(378,000)</u>	<u>80,719</u>	<u>819,127</u>	<u>521,846</u>
Balance at end of year	<u>4,181,347</u>	<u>123,039</u>	<u>524,470</u>	<u>4,828,856</u>
Charge for the year	(378,000)	80,719	819,127	521,846
Amounts directly written off, net of recoveries	<u>(417,826)</u>	<u>(63,160)</u>	<u>--</u>	<u>(480,986)</u>
Impairment losses	<u>(795,826)</u>	<u>(63,160)</u>	<u>--</u>	<u>(480,986)</u>
<b>At 31 December 2011</b>				
Balance at beginning of year	5,285,805	260,810	--	5,546,615
Amounts written off net of recoveries	(1,060,932)	(279,223)	--	(1,340,115)
Charge for the year	1,247,383	162,292	--	1,409,675
Balance at end of year	5,472,256	143,879	--	5,616,135
Charge for the year	1,247,383	162,292	--	1,409,675
Amounts directly written off, net of recoveries	<u>(210,982)</u>	<u>(98,518)</u>	<u>--</u>	<u>(309,500)</u>
Impairment losses	<u>1,036,401</u>	<u>63,774</u>	<u>--</u>	<u>1,100,175</u>

These amounts comprise specific and portfolio allowances.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### 23 Financial Risk Management (Continued)

##### 23.1 Financial risk factors (continued)

##### 23.1.1 Credit risk (continued)

j) <u>Concentration risks of loans and other receivables</u>					
	Instalment loans \$	Finance leases \$	Trade financing \$	Mortgage loans \$	Total \$
<b>At 31 December 2012</b>					
Consumer	87,930,150	--	--	82,115	88,012,265
Manufacturing	17,796,690	82,617	--	--	17,879,307
Communications	54,463,365	339,731	--	1,720,916	56,524,012
Real estate	1,929,271	--	--	--	1,929,271
Hotel and restaurant	13,616,552	--	--	--	13,616,552
Energy	3,835,633	--	--	--	3,835,633
Distribution	13,777,708	--	6,983,095	--	20,760,803
Construction	44,875,427	113,173	--	672,243	45,660,843
Private sector	1,082,367	--	--	2,175,034	3,257,401
Agriculture	14,702,422	--	--	--	14,702,422
Utilities	577,162	--	--	--	577,162
Other	33,598,836	803,337	--	--	34,402,173
Security services	10,620,117	--	--	--	10,620,117
Hardware	4,395,823	--	--	--	4,395,823
Air/Con, Maint, Environ	10,241,936	--	--	--	10,241,936
Equipment rentals	4,951,476	--	--	--	4,951,476
Safety equipment	4,806,969	--	--	--	4,806,969
	<u>323,201,904</u>	<u>1,338,858</u>	<u>6,983,095</u>	<u>4,650,308</u>	<u>336,174,165</u>
<b>At 31 December 2011</b>					
Consumer	65,565,006	--	--	111,968	65,676,974
Manufacturing	17,492,060	178,130	--	--	17,670,190
Communications	50,526,608	676,784	--	2,294,775	53,498,167
Real estate	1,689,794	--	--	--	1,689,794
Hotel and restaurant	14,000,508	--	--	--	14,000,508
Energy	949,167	--	--	--	949,167
Distribution	12,089,785	--	6,546,146	--	18,635,931
Construction	37,443,747	584,550	--	721,788	38,750,085
Private sector	1,692,064	--	--	2,542,988	4,235,052
Agriculture	15,556,646	--	--	--	15,556,646
Utilities	356,275	--	--	--	356,275
Other	33,093,627	1,328,200	--	--	34,421,827
Security services	10,112,427	--	--	--	10,112,427
Hardware	3,242,403	--	--	--	3,242,403
Air/Con, Maint, Environ	10,850,604	--	--	--	10,850,604
Equipment rentals	6,508,948	--	--	--	6,508,948
Safety equipment	2,005,080	--	--	--	2,005,080
	<u>283,174,749</u>	<u>2,767,664</u>	<u>6,546,146</u>	<u>5,671,519</u>	<u>298,160,078</u>

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### **23 Financial Risk Management (Continued)**

##### **23.1 Financial risk factors (continued)**

##### **23.1.2 Liquidity risk**

a) Definition

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

b) Management of risk

Liquidity risk arises when the Company is unable to meet its payment obligations associated with its financial liabilities, repay its depositors and its ability to lend is affected. In order to effectively manage this risk, the following is considered:

- (i) Daily monitoring of the cash flows;
- (ii) Review projections to ensure that the daily requirements can be met;
- (iii) Customers' deposit maturities are monitored to ensure the availability of funding to repay depositors;
- (iv) Scheduling of loans and other financing and customers' deposits maturities to ensure an even spread in the disbursement of funds;
- (v) Standby lines of credit established;
- (vi) The Company maintains an overdraft facility which bears interest at 7% per annum (2011 – 7.25%). This overdraft facility totals \$20 million, all of which is secured by a debenture over the assets of the Company.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### 23 Financial Risk Management (Continued)

##### 23.1 Financial risk factors (continued)

##### 23.1.2 Liquidity risk (continued)

##### c) Maturity analysis of financial instruments

The table below presents the cash flows payable by the Company under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Carrying Amount \$	Undiscounted cash flows		
		Within One Year \$	One to Five Years \$	Total \$
<b>As at 31 December 2012</b>				
<u>Financial assets</u>				
Cash and short term funds	445,026	445,026	--	445,026
Statutory deposit	18,434,216	18,434,216	--	18,434,216
Loans and other receivables	331,345,311	29,075,129	376,575,622	405,650,751
	<u>350,224,553</u>	<u>47,954,371</u>	<u>376,575,622</u>	<u>424,529,993</u>
<u>Financial liabilities</u>				
Short term financing	4,969,516	4,969,516	--	4,969,516
Customers' deposits	201,015,653	172,245,657	34,508,435	206,754,092
Bank overdraft	2,114,952	2,114,952	--	2,114,952
Other liabilities	6,900,113	6,900,113	--	6,900,113
	<u>215,000,234</u>	<u>186,230,238</u>	<u>34,508,435</u>	<u>220,738,673</u>
Net Liquidity Gap	<u>135,224,319</u>	<u>(138,275,867)</u>	<u>342,067,187</u>	<u>203,791,320</u>
<b>As at 31 December 2011</b>				
<u>Financial assets</u>				
Cash and short term funds	5,650,746	5,650,746	--	5,650,746
Statutory deposit	18,434,216	18,434,216	--	18,434,216
Loans and other receivables	292,543,943	26,288,051	329,587,188	355,875,239
	<u>316,628,905</u>	<u>50,373,013</u>	<u>329,587,188</u>	<u>379,960,201</u>
<u>Financial liabilities</u>				
Customers' deposits	188,121,448	183,878,797	8,429,402	192,308,199
Other liabilities	5,625,485	5,625,485	--	5,625,485
	<u>193,746,933</u>	<u>189,504,282</u>	<u>8,429,402</u>	<u>197,933,684</u>
Net Liquidity Gap	<u>122,881,972</u>	<u>(139,131,269)</u>	<u>321,157,786</u>	<u>182,026,517</u>

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### 23 Financial Risk Management (Continued)

##### 23.1 Financial risk factors (continued)

##### 23.1.3 Market risk

The Company is inherently exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk can be subdivided into three categories namely interest rate risk, currency risk and other price risk.

a) Interest rate risk

(i) Overview

Interest rate risk can be further subdivided into two types: 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. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Company carries all of its assets at amortised cost and as such is only exposed to cash flow interest rate risk. Financial liabilities, because of their short term nature, tend to reprice at a faster rate than the longer term financial assets thereby creating a short term interest rate mismatch.

(ii) Management of risk

The Company's interest rate risk management process includes the following:

- Monitoring of current and anticipated movements in lending and deposit rates in the market utilising market intelligence, Central Bank data, emerging trends and other relevant data sources;
- Monitoring of competitors' rates;
- Ensuring an appropriate balance between risk and return is achieved during the pricing process;
- Ensuring adherence to policies over approval of interest rates;
- Ensuring that stand by facilities at the lowest short term interest rates are available to meet short term demands for funds;
- Monitoring volatility in the market to achieve optimal balance between bank borrowings and fixed deposits.

(iii) Sensitivity analysis

For the purposes of illustrating its exposure to interest rate risk, the Company has prepared a sensitivity analysis showing what the profit before tax would have been had interest rates been 50 basis points higher or lower. In preparing this calculation, the Company assumed that the change in interest rate would have affected interest income on new loans and other receivables, interest income on cash and cash equivalents and interest expense on new/renewed deposits in the respective financial year. Similar assumptions were used for both reporting periods.

As at 31 December 2012, had interest rates been 50 basis points higher/lower, profit before taxation would have been lower/higher by \$146,771 (2011: \$175,869). This has no impact on other components of equity.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### **23 Financial Risk Management (Continued)**

##### **23.1 Financial risk factors (continued)**

##### **23.1.3 Market risk (continued)**

b) Currency risk

The Company has no significant exposure to currency risk.

c) Other price risk

The Company has very limited exposure to other price risk as it does not hold any significant investments in equities and commodities.

##### **23.2 Capital risk**

The Company's objectives when managing capital are as follows:

- (i) To comply with the capital requirements set out by the Central Bank of Trinidad and Tobago (CBTT);
- (ii) To safeguard the Company's ability to continue as a going concern so it can continue to provide returns to shareholders and benefits for other stakeholders;
- (iii) To maintain a strong capital base to support the development of its business.

The Company meets its objectives for managing capital and ensures adherence to the requirements of regulatory authorities by continuous monitoring of the regulations and by ensuring that the relevant procedures and controls are in place within the Company's systems.

The Company holds a license under the Financial Institutions Act 2008 to carry on business of a financial nature and as such has to comply with the following capital requirements.

- (i) The Company is required to have a minimum paid up share capital of TT\$15,000,000.
- (ii) The Company must transfer a minimum of 10% of its Profit After Taxation to the Statutory Reserve until the balance on the Reserve is not less than the paid up capital of the Company.
- (iii) The Company is required to have qualifying capital of not less than 8% of its risk adjusted assets.

# Caribbean Finance Company Limited

## Notes to the Financial Statements

### 31 December 2012

(Expressed in Trinidad and Tobago dollars)

#### 23 Financial Risk Management (Continued)

##### 23.2 Capital risk (continued)

The table below summarises the composition of regulatory capital and the capital adequacy ratios of the Company.

	2012 \$'000	2011 \$'000
Qualifying capital	<u>138,140</u>	<u>125,342</u>
Risk adjusted assets	<u>334,220</u>	<u>295,386</u>
Capital adequacy ratio	<u>41.33%</u>	<u>42.43%</u>

During the two years ended 2012 and 2011, the Company complied with the externally imposed capital requirements to which they are subject.

#### 24 Contingent Liabilities and Commitments

a) Loan commitments

At the statement of financial position date, there were loan commitments amounting to \$2,136,541 (2011: \$916,942) related to approved facilities not yet disbursed.

b) Capital commitments

There was no capital expenditure contracted for at the statement of financial position date but not recognised in the financial statements (2011: \$Nil).



**CARIBBEAN FINANCE  
COMPANY LIMITED**

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