CARIBBEAN FINANCE COMPANY LTD.

Providing Efficient Service Since 1971

2019

ANNUAL REPORT

• 17-19 Tragarete Road, Port of Spain Tel: (868) 625-4580/3596, 624-8511/2975 Fax: 623-3921
• 27-31 Cipero Road, San Fernando Tel: (868) 653-6861-3 Tel/Fax: (868) 652-1644

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

Caribbean Finance Company Limited Annual Report 2019

Caribbean Finance Company Limited

Directors' Report

The Directors have pleasure in submitting their Report and the Financial Statements for the year ended 31 December 2019.

Financial Results	**$**
Profit before taxation	33,720,505
Less: Taxation	(9,846,643)
Profit after taxation	23,873,862
Retained earnings at beginning of year	199,528,079
Dividends	(7,000,000)
Retained earnings at end of year	216,401,941

Auditors

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

By Order of the Board

Aegis Business Solutions Limited
Secretary

Caribbean Finance Company Limited

Corporate Information

Registered Office
22 Kew Place, Port of Spain

Head Office
17-19 Tragarete Road, Port of Spain

Branch
27-31 Cipero 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	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

Corporate Information (continued)

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

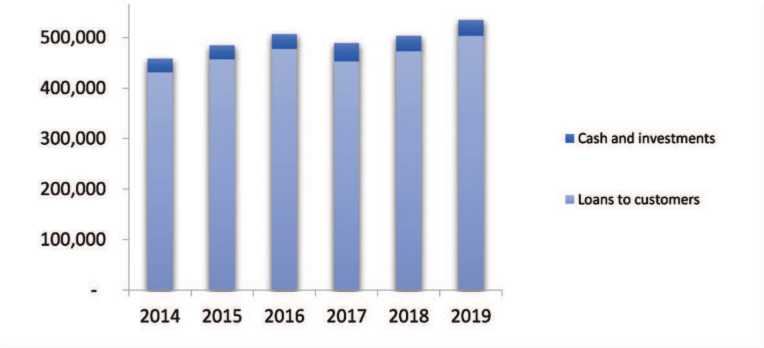
Auditors

PricewaterhouseCoopers
11-13 Victoria Avenue
Port of Spain

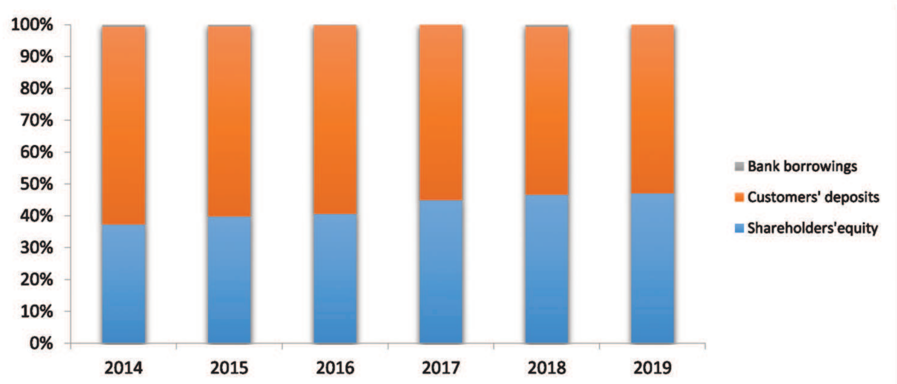
• 17-19 Tragarete Road, Port of Spain Tel: (868) 625-4580/3596, 624-8511/2975 Fax: 623-3921
• 27-31 Cipero Road, San Fernando Tel: (868) 653-6861-3 Tel/Fax: (868) 652-1644

Financial Highlights

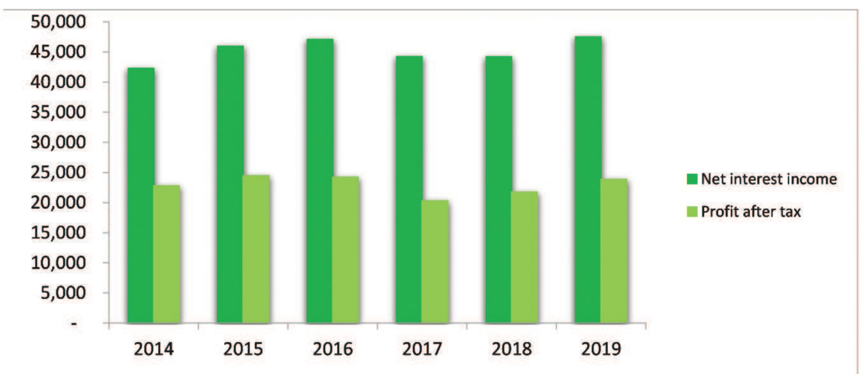
	December 2014 $'000	December 2015 $'000	December 2016 $'000	December 2017 $'000	December 2018 $'000	December 2019 $'000
Loans to customers	431,315	457,185	477,688	453,084	473,097	503,910
Cash and investments	26,855	27,369	29,140	35,629	30,057	30,944



	December 2014 $'000	December 2015 $'000	December 2016 $'000	December 2017 $'000	December 2018 $'000	December 2019 $'000
Shareholder's equity	168,927	186,127	203,236	217,536	232,028	248,902
Customers' deposits	281,127	289,963	296,819	266,963	262,497	280,716
Bank borrowings	2,973	2,455	939	--	3,239	--



	December 2014 $'000	December 2015 $'000	December 2016 $'000	December 2017 $'000	December 2018 $'000	December 2019 $'000
Net interest income	42,283	45,947	47,073	44,256	44,215	47,502
Profit after tax	22,786	24,441	24,207	20,302	21,761	23,874



Ratios	**2019 %**	**2018 %**	
Profit Margin	81.37	80.89	Measures the Company's Total Expense Management
Efficiency Ratio	30.99	31.82	Indicates Non-Interest Expense Management
Return on Assets	4.60	4.36	Measures the Profitable use of Assets
Return on Equity	9.99	9.68	Is the Profitable use of Owner's Equity
Capital Adequacy	48.82	48.70	The Company's capital to its risk adjusted Assets

Statement of Management's Responsibilities

Management is responsible for the following:

- Preparing and fairly presenting the accompanying financial statements of Caribbean Finance Company Limited (the Company), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information;
- Ensuring that the Company keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of the Company's assets, detection/prevention of fraud, and the achievement of company operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that comply with laws and regulations, including the Financial Institutions Act 2008; and
- Using reasonable and prudent judgement in the determination of estimates.

In preparing these audited financial statements, management utilised the International Financial Reporting Standards, as issued by the International Accounting Standards Board and adopted by the Institute of Chartered Accountants of Trinidad and Tobago. Where International Financial Reporting Standards presented alternative accounting treatments, management chose those considered most appropriate in the circumstances.

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 reporting date; or up to the date the accompanying financial statements have been authorised for issue, if later.

Management affirms that it has carried out its responsibilities as outlined above.

Chief Executive Officer
12 March 2020

Accountant
12 March 2020

Independent Auditor's Report

To the shareholder of
Caribbean Finance Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Caribbean Finance Company Limited (the Company) as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

Management is responsible for the other information. The other information comprises the Director's report, corporate information and financial highlights but does not include the financial statements and our auditor's report thereon.

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

CARIBBEAN FINANCE COMPANY LTD.
Providing Efficient Service Since 1971
• 17-19 Tragarete Road, Port of Spain Tel: (868) 625-4580/3596, 624-8511/2975 Fax: 623-3921
• 27-31 Cipero Road, San Fernando Tel: (868) 653-6861-3 Tel/Fax: (868) 652-1644

Independent Auditor's Report (Continued)

Other information (continued)

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers
Port of Spain
Trinidad, West Indies
12 March 2020

Statement of Financial Position *(Expressed in Trinidad and Tobago Dollars)*

	Notes	As at 31 December 2019 $	2018 $
Assets			
Cash and cash equivalents	4	4,702,601	3,905,441
Statutory deposit with Central Bank	5	25,218,111	25,218,111
Investments	6	1,023,582	933,315
Loans to customers	7	503,909,571	473,097,903
Property and equipment	8	2,019,270	1,924,943
Right of use asset	8 a	1,969,226	--
Other assets		430,842	526,603
Taxation recoverable		483,583	--
Total assets		**539,756,786**	**505,606,316**
Liabilities			
Customers' deposits	10	280,715,843	262,497,252
Bank overdraft	11	--	3,238,631
Lease liability	12	2,035,652	--
Other liabilities		731,432	1,186,141
Taxation payable		243,345	89,910
Deferred tax liability	9	128,573	66,303
Dividend payable		7,000,000	6,500,000
Total liabilities		**290,854,845**	**273,578,237**
Shareholder's equity			
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		216,401,941	199,528,079
Total shareholder's equity		**248,901,941**	**232,028,079**
Total liabilities and equity		**539,756,786**	**505,606,316**

The notes on pages 4 to 15 are an integral part of these financial statements.

On 12 March 2020, the Board of Directors of Caribbean Finance Company Limited authorised these financial statements for issue.

Director Director

Statement of Profit or Loss and Other Comprehensive Income
(Expressed in Trinidad and Tobago Dollars)

	Notes	Year ended 31 December 2019 $	2018 $
Interest income	15	58,376,982	54,659,190
Interest expense	16	(10,874,909)	(10,443,946)
Net interest income		47,502,073	44,215,244
Other income	17	1,589,466	1,616,384
Total net income		49,091,539	45,831,628
Impairment expense on loans and other financing, net of recoveries	7 b.	(2,042,749)	(2,365,046)
Operating expenses	18	(13,171,800)	(12,220,919)
Total non-interest expenses		(15,214,549)	(14,585,965)
Operating Profit		33,876,990	31,245,663
Finance Cost		(156,485)	-
Profit before taxation		33,720,505	31,245,663
Taxation	19	(9,846,643)	(9,484,210)
Profit after taxation		23,873,862	21,761,453
Other comprehensive income		--	--
Total comprehensive income for the year		23,873,862	21,761,453
Earnings per share	20	1.59	1.45

• 17-19 Tragarete Road, Port of Spain Tel: (868) 625-4580/3596, 624-8511/2975 Fax: 623-3921
• 27-31 Cipero Road, San Fernando Tel: (868) 653-6861-3 Tel/Fax: (868) 652-1644

Statement of Changes in Equity *(Expressed in Trinidad and Tobago Dollars)*

	Notes	Share capital $	Statutory reserve $	General banking reserve $	Retained earnings $	Other reserve $	Total shareholder's equity $
Year ended 31 December 2019							
Balance at 1 January 2019		15,000,000	15,000,000	2,500,000	199,528,079	–	232,028,079
Total comprehensive income for the year		–	–	–	23,873,862	–	23,873,862
Dividends	21	–	–	–	(7,000,000)	–	(7,000,000)
Balance at 31 December 2019		15,000,000	15,000,000	2,500,000	216,401,941	–	248,901,941
Year ended 31 December 2018							
Balance at 1 January 2018		15,000,000	15,000,000	2,500,000	184,940,521	95,182	217,535,703
IFRS 9 initial application adjustment		–	–	–	(673,895)	(95,182)	(769,077)
Balance at 1 January 2018 - restated		15,000,000	15,000,000	2,500,000	184,266,626	–	216,766,626
Total comprehensive income for the year		–	–	–	21,761,453	–	21,761,453
Dividends	21	–	–	–	(6,500,000)	–	(6,500,000)
Balance at 31 December 2018		15,000,000	15,000,000	2,500,000	199,528,079	–	232,028,079

Statement of Cash Flows *(Expressed in Trinidad and Tobago Dollars)*

	Notes	Year ended 31 December 2019 $	2018 $
Cash flows from operating activities			
Profit before taxation		33,720,505	31,245,663
Adjustments for			
Impairment losses on loans	7 b.	2,042,749	2,365,046
Depreciation	18	916,422	437,293
Loss/(gain) on disposal of property and equipment		7,772	(12,759)
(Gains)/losses on investments	6	(74,944)	39,379
Interest expense on lease liability		156,485	–
Decrease/(increase) in operating assets			
Loans and other receivables		(32,854,416)	(23,148,463)
Central Bank Reserve Account		–	2,500,000
Other assets		95,761	(266,872)
(Decrease)/increase in operating liabilities			
Customers' deposits		18,218,591	(4,465,699)
Other liabilities		(454,709)	(41,672)
Cash generated from operating activities		21,774,216	8,651,916
Corporation tax paid		(10,114,521)	(8,880,000)
Net cash generated from/(used in) operating activities		11,659,695	(228,084)
Cash flows from investing activities			
Purchase of fixed assets	8	(533,387)	(179,865)
Proceeds from sale of fixed assets		39,992	136,667
Additions of investments	6	(15,323)	(17,822)
Net cash used in investing activities		(508,718)	(61,020)
Financing activities			
Dividends paid		(6,500,000)	(6,000,000)
Repayment of lease liabilities		(458,701)	–
Interest payment on lease liabilities		(156,485)	–
Net cash used in financing activities		(7,115,186)	(6,000,000)
Net increase/(decrease) in cash and cash equivalents		4,035,791	(6,289,104)
Cash and cash equivalents at beginning of year		666,810	6,955,914
Cash and cash equivalents at end of year		4,702,601	666,810
Represented by:			
Cash and cash equivalents	4	4,702,601	3,905,441
Bank overdraft		–	(3,238,631)
		4,702,601	666,810
Non-cash investing activities:		2,494,353	–
Acquisition of right-of-use asset			

Notes to the Financial Statements 31st December 2019
(Expressed in Trinidad and Tobago Dollars)

1. General information

Caribbean Finance Company Limited (the Company) 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.

a. *Basis of preparation*

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on a historical cost basis, except for the investments which are measured at fair value.

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.

(i) *New standards, amendments and interpretations adopted by the Company*

- The Company adopted IFRS 16 Leases from 1 January 2019 which resulted in changes to the accounting policies for leases where the Company is the lessee. The adoption of this new standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

  The new standard has been applied using the simplified approach and prior periods have not been restated.

  IFRS 16 'Leases' will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

  The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation.

  Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

  The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

- Annual Improvements 2015 - 2017 Cycle. These amendments include minor changes to:

CARIBBEAN FINANCE COMPANY LTD.
Providing Efficient Service Since 1971
• 17-19 Tragarete Road, Port of Spain Tel: (868) 625-4580/3596, 624-8511/2975 Fax: 623-3921
• 27-31 Cipero Road, San Fernando Tel: (868) 653-6861-3 Tel/Fax: (868) 652-1644

Notes to the Financial Statements 31st December 2019 *(continued)*
(Expressed in Trinidad and Tobago Dollars)

- AS 12, 'Income Taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23, 'Borrowing Cost' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
- IFRIC 23 'Uncertainty over income tax treatment': This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income Tax', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

• Amendments to IFRS 9 - 'Prepayment Features with Negative Compensation'. The IASB has issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortised cost or at fair value through other comprehensive income some prepayable financial assets with negative compensation when eligibility conditions are met. For example, a financial asset that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as result of a prepayment feature with negative compensation

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2019 do not have a material impact on the Company.

(ii) New standards and interpretations not yet adopted by the Company

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Company. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

b. Foreign currency translation

(i) 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.

(ii) 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.

c. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash balances on hand, deposits with other banks and short-term highly liquid investments with original maturities of three months or less when purchased, net of bank overdraft.

Notes to the Financial Statements 31st December 2019 *(continued)*
(Expressed in Trinidad and Tobago Dollars)

2. Summary of significant accounting policies (continued)

d. Changes in accounting policies

IFRS 16 – Leases.

As indicated in note 2a(i) above, the new standard has been applied using the simplified approach and comparatives for the 2018 reporting period have not been restated, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019, as disclosed in note 8 a.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The Company's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 7%.

The Company elected to measure the right-of-use asset at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

For leases previously classified as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

The Company has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

The Company leases offices from Southern Sales & Service Company Limited. The rental contracts are typically made for fixed periods of 3 years with a further option to extend of 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(i) Lease reconciliation on initial application of standard

Operating lease commitments as of 31 December 2018	$
No later than 1 year	615,186
Later than 1 year and no later than 5 years	2,307,848
Later than 5 years	–
	2,923,034

(ii) Measurement of lease liabilities	$
Operating lease commitments as noted above discounted lessee's incremental borrowing using rate as of the date of initial application	2,495,253
Add existing (finance) lease liabilities as of 31 December 2018	–
Less short-term leases not recognised as a liability	(900)
Less low-value leases not recognised as a liability	–
Add/(less) contracts reassessed as lease contracts	–
Equals estimated lease liability recognised as of date of initial application	2,494,353
Current portion	458,701
Non-current portion	2,035,652
Total	2,494,353

(iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

The Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

(iv) Subsequent measurement

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit or loss if the right-of-use asset is already reduced to zero.

• 17-19 Tragarete Road, Port of Spain Tel: (868) 625-4580/3596, 624-8511/2975 Fax: 623-3921
• 27-31 Cipero Road, San Fernando Tel: (868) 653-6861-3 Tel/Fax: (868) 652-1644

Notes to the Financial Statements 31st December 2019 *(continued)*
(Expressed in Trinidad and Tobago Dollars)

2. Summary of significant accounting policies (continued)

d. Changes in accounting policies (continued)

(v) Lessor accounting

The Company did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard. 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.

e. Financial assets

(i) Classification

The Company classifies its financial assets in the following measurement categories:

- Amortised cost, and
- Fair value through Profit or Loss (FVPL)

The classification of the Company's financial assets with respect to "loans to customers" and "Investments" depends on the Company's Business Model for managing those assets and the cash flow characteristics of the assets, i.e. whether these represent 'Solely Payments of Principal and Interest' (SPPI).

Business Model: The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is it to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to management and how risks are assessed and managed.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows pass the SPPI test. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risk and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

"Loans to customers" are held to maturity to collect cash flows and accordingly meet the 'hold to collect' criteria, passing the business model and SPPI tests. Loans to customers are therefore classified at amortised cost.

"Investments" are classified in the 'other' business model and are measured at FVPL, with gains and losses recorded in profit or loss.

The Company reclassifies debt instruments when and only when its business model for managing assets changes.

(ii) Initial recognition and subsequent measurement

(a) Investments

All purchases and sales of investments are recognised on the trade date, which is the date on which the Company commits to purchase or sell the investment. Transaction cost of investments carried at FVPL are expensed in profit or loss.

FVPL: Assets that do not meet the criteria for amortised cost are measured at FVPL. A gain or loss on a financial asset that is subsequently measured at FVPL is recognised in profit or loss and presented net within 'other income' in the period in which it arises.

(b) Loans to customers

At initial recognition, the Company measures loans to customers at its fair value plus transaction costs that are directly attributable to its acquisition. Subsequent measurement of loans to customers depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

Loans to customers are held for collection of contractual cash flows where those cash flows represent SPPI, as such these financial assets are measured at amortised cost.

Interest income from these financial assets is included within 'interest income' using the effective interest rate method.

Notes to the Financial Statements 31st December 2019 *(continued)*
(Expressed in Trinidad and Tobago Dollars)

2. Summary of significant accounting policies (continued)

e. Financial Assets (continued)

(ii) Initial recognition and subsequent measurement (continued)

(b) Loans to customers (continued)

The amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method for any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance). The calculation does not consider expected credit losses and includes transaction cost and origination fees that are integral to the effective interest rate.

When the Company revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Any gain or loss arising on derecognition is recognised directly as profit or loss and presented in 'interest income'. Impairment losses are presented as separate line item in the statement of profit or loss and other comprehensive income as 'impairment expense on loans and other financing net of recoveries'.

(iii) Impairment of loans to customers carried at amortised cost

The Company assesses on a forward-looking basis the expected credit losses (ECL) associated with its financial assets carried at amortised cost.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition which is detailed in note 23 a (i) (c).

The Company assesses on a forward-looking basis the expected credit loss ('ECL') associated with its loans to customers which are carried at amortised cost with the exposure arising from loan commitments. The Company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 23.a.i.c provides more detail of how the expected credit loss allowance is measured.

(iv) Modification of loans

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Company assesses whether or not the new terms are substantially different to the original terms. The Company does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate

If the terms are substantially different, the Company derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purposes of determining whether a significant increase in credit risk (SICR) has occurred. The Company also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

CARIBBEAN FINANCE COMPANY LTD.
Providing Efficient Service Since 1971
• 17-19 Tragarete Road, Port of Spain Tel: (868) 625-4580/3596, 624-8511/2975 Fax: 623-3921
• 27-31 Cipero Road, San Fernando Tel: (868) 653-6861-3 Tel/Fax: (868) 652-1644

Notes to the Financial Statements 31st December 2019 *(continued)*
(Expressed in Trinidad and Tobago Dollars)

2. Summary of significant accounting policies (continued)

e. Financial assets (continued)

(v) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive cash flows from the assets have expired, or when they have been transferred and either (i) the Company transfers substantially all risks and rewards of ownership, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

f. Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified and subsequently-measured at amortised cost.

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharges, cancelled or expires).

g. Loan commitments

Loan commitments provided by the Company are measured as the amount of the loss allowance (calculated as described in note 23.a.i.c.). The Company has considered the risk of a default occurring under the loan to be advanced, and the loss allowance is recognised as a provision.

h. 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.

i. 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.

j. 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.

Notes to the Financial Statements 31st December 2019 *(continued)*
(Expressed in Trinidad and Tobago Dollars)

2. Summary of significant accounting policies (continued)

k. Income tax

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

(ii) 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 substantively enacted at the statement of financial position date are used to determine deferred tax.

The principal temporary differences arise from accelerated tax depreciation.

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.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

l. 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.

m. Revenue recognition

(i) 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.

For financial assets that are credit impaired (stage 3), interest income is calculated by applying the effective interest rate to the carrying value net of the expected credit loss provision.

(ii) 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.

n. 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.

o. 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.

CFC
CARIBBEAN FINANCE COMPANY LTD.
Providing Efficient Service Since 1971
• 17-19 Tragarete Road, Port of Spain Tel: (868) 625-4580/3596, 624-8511/2975 Fax: 623-3921
• 27-31 Cipero Road, San Fernando Tel: (868) 653-6861-3 Tel/Fax: (868) 652-1644

Notes to the Financial Statements 31st December 2019 *(continued)*

(Expressed in Trinidad and Tobago Dollars)

3. Critical accounting estimates and judgements

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. *Measurement of the expected credit loss allowance*

The measurement of the expected credit loss (ECL) allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 23.a.i.f.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Company in the above areas are set out in note 23.a.i.c.

4. Cash and cash equivalents

	2019 $	2018 $
Cash on hand and in bank	3,467,441	694,129
Money market mutual funds	1,235,160	3,211,312
	4,702,601	3,905,441

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

	2019	2018
	25,218,111	25,218,111

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 2018, the Company was in compliance with this requirement.

6. Investments

	2019	2018
Trinidad and Tobago Unit Trust Corporation		
- First Unit Scheme (Note 6 a.)	33,823	33,823
Roytrin Mutual Funds	989,759	899,492
	1,023,582	933,315
Balance at beginning of year	933,315	954,872
Net additions of investments	15,323	17,822
Net fair value gains/(losses) on investments	74,944	(39,379)
Balance at end of year	1,023,582	933,315

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

Notes to the Financial Statements 31st December 2019 *(continued)*

(Expressed in Trinidad and Tobago Dollars)

7. Loans to customers

	2019 $	2018 $
Instalment loans	501,124,853	467,134,788
Finance leases (Note 7 a.)	277,086	96,230
Trade financing	4,921,728	8,540,671
Mortgage loans	1,929,141	2,124,491
	508,252,808	477,896,180
Provision for impaired loans and other receivables	(4,343,237)	(4,798,277)
	503,909,571	473,097,903
Non-current portion	483,114,310	436,107,013
Current portion	25,138,498	41,789,167
	508,252,808	477,896,180

a. Finance leases

	2019	2018
Gross investment in finance leases	347,622	98,576
Unearned finance charges	(70,536)	(2,346)
Net investment in finance leases	277,086	96,230
Gross investment in finance leases		
Not later than 1 year	–	98,576
Later than 1 year and not later than 5 years	347,622	–
	347,622	98,576

b. Impairment expense on loans and other financing, net of recoveries

	2019	2018
Charge for the year	2,687,932	2,729,208
Income received on claims previously written off net of expenses	(645,183)	(364,162)
	2,042,749	2,365,046

8. Property and equipment

	Leasehold Improvements $	Furniture and fittings $	Motor vehicles $	Office and computer equipment $	Computer software $	Total $
Year ended 31 December 2019						
Opening net book value	206,487	149,626	447,877	559,819	561,134	1,924,943
Additions	18,000	6,330	264,647	145,560	98,850	533,387
Disposals	–	–	(21,782)	(25,983)	–	(47,765)
Depreciation charge	(24,665)	(16,332)	(127,845)	(103,501)	(118,952)	(391,295)
Closing net book value	199,822	139,624	562,897	575,895	541,032	2,019,270
At 31 December 2019						
Cost	518,409	412,910	1,085,784	1,599,951	1,671,646	5,288,700
Accumulated depreciation	(318,587)	(273,286)	(522,886)	(1,024,057)	(1,130,614)	(3,269,430)
Net book value	199,822	139,624	562,898	575,894	541,032	2,019,270
Year ended 31 December 2018						
Opening net book value	233,578	158,373	730,593	567,367	616,368	2,306,279
Additions	–	9,163	–	94,872	75,830	179,865
Disposals	–	–	(123,908)	–	–	(123,908)
Depreciation charge	(27,091)	(17,910)	(158,808)	(102,420)	(131,064)	(437,293)
Closing net book value	206,487	149,626	447,877	559,819	561,134	1,924,943
At 31 December 2018						
Cost	500,409	406,580	908,094	1,691,465	1,572,795	5,079,343
Accumulated depreciation	(293,922)	(256,954)	(460,217)	(1,131,646)	(1,011,661)	(3,154,400)
Net book value	206,487	149,626	447,877	559,819	561,134	1,924,943
At 31 December 2017						
Cost	500,409	397,417	1,418,904	1,596,593	1,496,965	5,410,288
Accumulated depreciation	(266,831)	(239,044)	(688,311)	(1,029,226)	(880,597)	(3,104,009)
Net book value	233,578	158,373	730,593	567,367	616,368	2,306,279

8 a. Right of use asset

	2019 $
Opening balance on initial application of IFRS 16 on 1 January 2019	2,494,353
Depreciation of right-of-use asset	(525,127)
Carrying value of right-of-use asset as at 31 December 2019	1,969,226

• 17-19 Tragarete Road, Port of Spain Tel: (868) 625-4580/3596, 624-8511/2975 Fax: 623-3921
• 27-31 Cipero Road, San Fernando Tel: (868) 653-6861-3 Tel/Fax: (868) 652-1644

Notes to the Financial Statements 31st December 2019 *(continued)*
(Expressed in Trinidad and Tobago Dollars)

9. Deferred tax liability

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 30% (2018: 30%).

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

	2019 $	2018 $
At beginning of year	66,303	13,999
Amount recognised in profit or loss (Note 19):		
- Current year	98,274	48,798
- Adjustment to prior year's estimates	(36,004)	3,505
At end of year	128,573	66,303
The net deferred tax (asset)/liability is attributable to:		
Lease liability	(19,928)	–
Accelerated depreciation on leased assets, property and equipment	148,501	66,303
Net deferred tax liability	128,573	66,303

10. Customers' deposits

	2019	2018
Deposit balances	276,453,030	258,829,471
Accrued interest	4,262,813	3,667,781
	280,715,843	262,497,252
Current portion	248,442,374	234,125,782
Non-current portion	32,273,469	28,371,470
	280,715,843	262,497,252

a. *Sectorial analysis*

	2019 $	%	2018 $	%
Consumers	235,104,223	84	226,039,897	86
Commercial	45,611,620	16	36,457,355	14
	280,715,843	100	262,497,252	100

All deposits have fixed interest rates.

11. Bank overdraft

The Company maintains an overdraft facility which bears interest at 8.5% per annum (2018 – 8.5%). This overdraft facility together with the short-term financing through bankers' acceptances, totals $20 million committed and a further $10 million un-committed, all of which is secured by a debenture over the assets of the Company.

12. Lease liabilities

	2019 $	2018 $
Current portion	491,861	–
Non-current portion	1,543,791	–
Total	2,035,652	–

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities as at 31 December 2019 as follows:

	Minimum lease payments due				
	Within 1-year $	1-2 years $	2-3 years $	3-4 years $	Total $
As at 31 December 2019					
Lease payments	615,186	615,186	615,186	461,390	2,306,948
Finance charges	(123,325)	(87,769)	(49,642)	(10,560)	(271,296)
Net present values	491,861	527,417	565,544	450,830	2,035,652

13. Share capital

	2019 $	2018 $
Authorised		
An unlimited number of shares of no par value		
Issued and fully paid		
15,000,000 ordinary shares of no par value	15,000,000	15,000,000

Notes to the Financial Statements 31st December 2019 *(continued)*
(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	58,332,545	54,585,965
Cash resources and investments	44,437	73,225
	58,376,982	54,659,190

16. Interest expense

	2019 $	2018 $
Customers' deposits	10,832,803	10,420,359
Bank overdraft and short-term financing	42,106	23,586
	10,874,909	10,443,946

17. Other income

Fees and commissions	1,514,522	1,466,004
Net fair value gains/(losses) on investments	74,944	(39,379)
Profit on disposal of assets under finance lease	–	177,000
Gain on disposal of property and equipment	–	12,759
	1,589,466	1,616,384

18. Operating expenses

Employee benefit expense (Note 18 a.)	6,459,703	5,916,156
Administrative and other expenses	4,351,817	3,862,295
Depreciation (Note 8)	391,295	437,293
Depreciation of Right of use asset (Note 8 a.)	525,127	–
Directors' fees	180,000	180,000
Deposit insurance premium*	522,636	537,817
Office rent**	40,800	655,986
Professional fees	512,975	459,204
Green fund levy	179,675	172,168
Loss on disposal of property and equipment	7,772	–
	13,171,800	12,220,919

* 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.

** Included in Office rent is short term leases of $10,800.

a. *Employee benefit expense*

Salaries	5,601,298	5,112,550
National Insurance	344,334	327,909
Pension contributions	225,862	206,100
Other long-term benefits	288,209	269,597
	6,459,703	5,916,156

19. Taxation

Corporation tax		
- Current year	10,233,345	9,453,493
- Adjustment to prior year's estimate	(448,972)	(21,587)
Deferred tax (credit)/charge (see Note 9)		
- Current year	98,274	48,798
- Adjustment to prior year's estimate	(36,004)	3,505
	9,846,643	9,484,210

CARIBBEAN FINANCE COMPANY LTD.
Providing Efficient Service Since 1971
• 17-19 Tragarete Road, Port of Spain Tel: (868) 625-4580/3596, 624-8511/2975 Fax: 623-3921
• 27-31 Cipero Road, San Fernando Tel: (868) 653-6861-3 Tel/Fax: (868) 652-1644

Notes to the Financial Statements 31st December 2019 *(continued)*
(Expressed in Trinidad and Tobago Dollars)

19. Taxation (continued)

The tax on the profit before taxation differs from the theoretical amount that would arise using the statutory rate of 30% (2018: 30%) as follows:

	2019 $	2018 $
Profit before taxation	33,720,505	31,245,663
Corporation tax calculated at a tax rate of 30%	10,116,152	9,373,699
Expenses not deductible for tax purposes	227,859	149,898
Income not assessable for tax	(12,392)	(21,306)
Adjustments to prior year's estimates	(484,976)	(18,081)
	9,846,643	9,484,210

20. Earnings per share

Profit after taxation	23,873,862	21,761,453
Number of ordinary shares in issue	15,000,000	15,000,000
Earnings per share	1.59	1.45

21. Dividends

Declared - $0.466 per share (2018: $0.433)	7,000,000	6,500,000

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. 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 to customers	426,395	942,175
Customers' deposits		
Directors and key management personnel	41,518,704	42,858,116
Interest income	57,526	57,643
Interest expense		
Directors and key management personnel	1,151,571	1,170,827

b. *Key management compensation*

Salaries and other short-term benefits	2,010,304	1,909,735

23. Financial risk management

a. *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.

Notes to the Financial Statements 31st December 2019 *(continued)*
(Expressed in Trinidad and Tobago Dollars)

23. Financial risk management *(continued)*

a. *Financial risk factors (continued)*

(i) *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 and management therefore carefully manages this exposure. Credit exposures arise principally in lending activities. In order to effectively manage credit risk, the following is considered:

(i) Proper judgement 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

(c) *Expected credit loss measurement*

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1'and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to Note 23.a.i.d. for a description of how the Company determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to Note 23.a.i.e. for a description of how the Company defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to Note 23.a.i.f. for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. The Company utilised a probability-weighted assessment of the factors which it believes will have an impact on forward-looking rates. The Company has identified the country's unemployment rate and GDP as the most relevant macro-economic factors and accordingly adjusted the historical loss rates based on expected changes in these factors.
- Purchase or originated credit-impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

(d) *Significant increase in credit risk (SICR)*

The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria:

The remaining Lifetime Probability of Default (PD) at the reporting date has increased, compared to the residual Lifetime PD expected at the reporting date when the exposure was first recognised. For example, if the remaining lifetime PD at reporting date is 10%, but the lifetime PD for this point in time that was expected at initial recognition is less than 10%, this may constitute a significant increase in credit risk

Notes to the Financial Statements 31st December 2019 *(continued)*
(Expressed in Trinidad and Tobago Dollars)

23. Financial risk management *(continued)*

a. Financial risk factors (continued)

(i) Credit risk (continued)

(d) Significant increase in credit risk (SICR) (continued)

Qualitative criteria:

It considers available reasonable and supportive forward-looking information, including the following:

- Significant changes in the expected performance and behaviour of the borrower
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Previous arrears within the last twelve months
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cashflow/liquidity problems such as delay in servicing of loans
- Direct debit/ Automatic Clearing House (ACH) cancellation
- Extension to the loan terms granted
- Actual or expected restructuring

Backstop

A backstop is applied, and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.
The Company has not used the low credit risk exemption for any financial instrument in the year ended 31 December 2019.

(e) Definition of default and credit-impaired assets

The Company defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria:

The borrower is more than 90 days past due on its contractual payment.

Qualitative criteria:

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is deceased
- The borrower is insolvent
- It is becoming probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of default (PD), Exposure at Default (EAD), and Loss given Default (LGD) throughout the Company's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three (3) months.

(f) Measuring ECL - Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligations (as per "Definition of default and credit-impaired assets" above), either over the next 12 month, or over the remaining lifetime of the obligation.
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 month, or over the remaining lifetime.
- Loss Given Default (LGD) represents the Company's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12 month or lifetime basis, where 12 month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is a percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Notes to the Financial Statements 31st December 2019 *(continued)*
(Expressed in Trinidad and Tobago Dollars)

23. Financial risk management *(continued)*

a. Financial risk factors (continued)

(i) Credit risk (continued)

(f) Measuring ECL - Explanation of inputs, assumptions and estimation techniques (continued)

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each exposure. These three components are multiplied together and adjusted for the likelihood of survival. This effectively calculates an ECL for each future month, which is discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting year.

Sensitivity analysis

Had there been a 10% shift in the average ECL rate for all financial instruments at amortised cost, the Company's ECL allowance would have been higher/lower by $434,324.

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

	2019 $	2018 $
Cash and cash equivalents	4,702,601	3,905,441
Statutory deposit with Central Bank	25,218,111	25,218,111
	29,920,712	29,123,552
Instalment loans	501,124,853	467,134,788
Finance leases	277,086	96,230
Trade financing	4,921,727	8,540,671
Mortgage loans	1,929,141	2,124,491
	508,252,808	477,896,180
Less provision for impaired loans to customers	(4,343,237)	(4,798,277)
	503,909,571	473,097,903
Investments	1,023,582	933,315
Total	534,853,865	503,154,770
Loan commitments	867,059	1,321,266

The Company recognises provision for losses on loans to customers subject to credit risk using the expected credit loss model. While cash and cash equivalents, statutory deposit and investments are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Assets written off

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Company. The Company categorises a loan or receivable for write off when a debtor fails to make contractual payments, even after several attempts at enforcement and/or recovery efforts. Where loans or receivables have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Collateral and other credit enhancements

The Company's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Company since the prior period.
The principal collateral types for these instruments are security arrangements over motor vehicles, heavy equipment and real estate, the values of which are reviewed periodically if there is a significant increase in credit risk.

Modification of financial assets

The Company sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue.

CFC Caribbean Finance Company Ltd.
Providing Efficient Service Since 1971
• 17-19 Tragarete Road, Port of Spain Tel: (868) 625-4580/3596, 624-8511/2975 Fax: 623-3921
• 27-31 Cipero Road, San Fernando Tel: (868) 653-6861-3 Tel/Fax: (868) 652-1644

Notes to the Financial Statements 31st December 2019 *(continued)*
(Expressed in Trinidad and Tobago Dollars)

23. Financial risk management *(continued)*

a. Financial risk factors (continued)

(i) Credit risk (continued)

(g) Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

Loans to customers and loan commitments

Category	Average ECL rate (%)	Estimated EAD ($)	Expected credit loss ($)
Stage 1	0.093%	461,859,555	429,396
Stage 2	0.089%	34,977,714	30,982
Stage 3	33.934%	11,415,539	3,873,733
Loan commitments	1.053%	867,059	9,126
Total	0.853%	509,119,867	4,343,237

The movement in the provision for expected credit losses is as follows:

	Stage 1 ($)	Stage 2 ($)	Stage 3 ($)	Total ($)
Balance at beginning of the year	299,567	32,904	4,465,806	4,798,277
Net changes to provisions:				
- Transfers between categories	138,955	(1,922)	(592,073)	(455,040)
Balance at end of the year	438,522	30,982	3,873,733	4,343,237

The following is an analysis of the net impairment expense on financial assets recognised in profit or loss:

	Stage 1 ($)	Stage 2 ($)	Stage 3 ($)	Total ($)
Net changes to provisions for the year	138,955	(1,922)	(592,073)	(455,040)
Amounts directly written off to profit or loss net recoveries	226,943	31,766	2,239,080	2,497,789
Net expense for the year	365,898	29,844	1,647,007	2,042,749

(h) Analysis of financial assets

	Stage 1		Stage 2	Stage 3		
	Current $	1 - 30 days $	31- 60 days $	61 - 90 days $	90days $	Total $
At 31 December 2019						
Cash and cash equivalents	4,702,601	–	–	–	–	4,702,601
Statutory deposit with Central Bank	25,218,111	–	–	–	–	25,218,111
Loans to customers:						
- Instalment loans	378,217,249	76,514,351	33,115,668	1,862,046	11,415,539	501,124,853
- Finance leases	–	277,086	–	–	–	277,086
- Trade financing	4,921,728	–	–	–	–	4,921,728
- Mortgages	1,929,141	–	–	–	–	1,929,141
	385,068,118	76,791,438	33,115,668	1,862,046	11,415,539	508,252,808
	414,988,830	76,791,438	33,115,668	1,862,046	11,415,539	538,173,520
At 31 December 2018						
Cash and cash equivalents	3,905,441	–	–	–	–	3,905,441
Statutory deposit with Central Bank	25,218,111	–	–	–	–	25,218,111
Loans to customers:						
- Instalment loans	361,910,580	75,760,926	9,893,271	6,563,420	13,006,591	467,134,788
- Finance leases	–	96,230	–	–	–	96,230
- Trade financing	8,540,671	–	–	–	–	8,540,671
- Mortgages	2,124,491	–	–	–	–	2,124,491
	372,575,742	75,857,156	9,893,271	6,563,420	13,006,591	477,896,180
	401,699,294	75,857,156	9,893,271	6,563,420	13,006,591	507,019,732

Notes to the Financial Statements 31st December 2019 *(continued)*
(Expressed in Trinidad and Tobago Dollars)

23. Financial risk management *(continued)*

a. Financial risk factors (continued)

(i) Credit risk (continued)

(i) Stage 1 loans to customers

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.

(j) Stage 2 loans to customers – description of collateral held

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

(k) Stage 3 loans to customers - individually impaired carrying value and fair value

	Carrying value (before provisions) 2019 $	Fair value of collateral 2019 $	Carrying value (before provisions) 2018 $	Fair value of collateral 2018 $
Instalment loans	11,415,539	7,802,626	13,006,591	8,820,290

(l) 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.

• 17-19 Tragarete Road, Port of Spain Tel: (868) 625-4580/3596, 624-8511/2975 Fax: 623-3921
• 27-31 Cipero Road, San Fernando Tel: (868) 653-6861-3 Tel/Fax: (868) 652-1644

Notes to the Financial Statements 31st December 2019 *(continued)*

(Expressed in Trinidad and Tobago Dollars)

23. Financial risk management *(continued)*

a. Financial risk factors (continued)

(i) Credit risk (continued)

(m) Concentration risks of loans to customers

	Instalment loans $	Finance leases $	Trade financing $	Mortgage loans $	Total $
At 31 December 2019					
Consumer	116,026,070	–	–	–	116,026,070
Manufacturing	26,919,217	–	–	–	26,919,217
Communications	57,416,405	–	–	–	57,416,405
Real estate	1,486,677	–	–	1,661,731	3,148,408
Hotel and restaurant	10,338,111	–	–	–	10,338,111
Energy	4,416,130	-	–	–	4,416,130
Distribution	35,450,454	–	4,921,728	–	40,372,182
Construction	57,402,673	–	–	–	57,402,673
Private sector	7,490,574	–	–	–	7,490,574
Agriculture	24,128,447	–	–	–	24,128,447
Utilities	592,037	–	–	–	592,037
Other	110,181,610	277,086	–	–	110,458,696
Car rentals	14,527,415	–	–	–	14,527,415
Security services	12,410,172	–	–	–	12,410,172
Hardware	5,290,713	–	–	–	5,290,713
Air/con, maint, environ	6,244,428	–	–	–	6,244,428
Equipment rentals	7,441,301	–	–	267,410	7,708,711
Safety equipment	3,362,419	–	–	–	3,362,419
	501,124,853	277,086	4,921,728	1,929,141	508,252,808
Loan commitments	867,059	–	–	–	867,059
At 31 December 2018					
Consumer	111,748,623	–	–	–	111,748,623
Manufacturing	24,369,090	–	–	–	24,369,090
Communications	52,066,188	–	–	–	52,066,188
Real estate	1,523,792	–	–	1,706,277	3,230,069
Hotel and restaurant	20,545,672	–	–	–	20,545,672
Energy	5,268,188	–	–	–	5,268,188
Distribution	28,473,957	–	8,540,671	–	37,014,628
Construction	51,963,862	–	–	–	51,963,862
Private sector	6,773,658	–	–	–	6,773,658
Agriculture	21,058,626	–	–	–	21,058,626
Utilities	868,706	–	–	–	868,706
Other	90,156,321	96,230	–	–	90,252,551
Car rentals	16,259,135	–	–	–	16,259,135
Security services	12,379,314	–	–	–	12,379,314
Hardware	5,855,333	–	–	–	5,855,333
Air/con, maint, environ	5,799,486	–	–	–	5,799,486
Equipment rentals	9,853,127	–	–	418,214	10,271,341
Safety equipment	2,171,710	–	–	–	2,171,710
	467,134,788	96,230	8,540,671	2,124,491	477,896,180
Loan commitments	1,321,266--	–	–		1,321,266

Notes to the Financial Statements 31st December 2019 *(continued)*

(Expressed in Trinidad and Tobago Dollars)

23. Financial risk management *(continued)*

a. Financial risk factors (continued)

(ii) 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 8.5% per annum (2018 – 8.5%). This overdraft facility totals $20 million, all of which is secured by a debenture over the assets of the Company.

(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.

	Undiscounted cash flows				
	Carrying amount $	Within one year $	One to five years $	Over five years $	Total $
As at 31 December 2019					
Financial assets					
Cash and cash equivalents	4,702,601	4,702,601	–	–	4,702,601
Statutory deposit	25,218,111	–	25,218,111	–	25,218,111
Loans to customers	503,909,571	23,436,670	382,696,083	238,020,402	644,153,155
	533,830,283	28,139,271	407,914,194	238,020,402	674,073,867
Financial liabilities					
Customers' deposits	280,715,843	254,631,925	32,771,210	–	287,403,135
Other liabilities	731,426	731,426	–	–	731,426
	281,447,269	255,363,351	32,771,210	–	288,134,561
Net liquidity gap	252,383,014	(227,224,080)	375,142,984	238,020,402	385,939,306
Loan commitments	867,059	867,059	–	–	867,059

	Undiscounted cash flows				
	Carrying amount $	Within one year $	One to five years $	Over five years $	Total $
As at 31 December 2018					
Financial assets					
Cash and cash equivalents	3,905,441	3,905,441	–	–	3,905,441
Statutory deposit	25,218,111	–	25,218,111	–	25,218,111
Loans to customers	473,128,274	41,297,174	389,839,695	157,957,198	589,094,067
	502,251,826	45,202,615	415,057,806	157,957,198	618,217,619
Financial liabilities					
Customers' deposits	262,497,252	239,811,406	28,818,663	–	268,630,069
Bank overdraft	3,238,631	3,238,631	–	–	3,238,631
Other liabilities	1,186,141	1,186,141	–	–	1,186,141
	266,922,024	244,236,178	28,818,663	–	273,054,841
Net liquidity gap	235,329,802	(199,033,563)	386,239,143	157,957,198	345,162,778
Loan commitments	1,321,266	1,321,266	–	–	1,321,266

• 17-19 Tragarete Road, Port of Spain Tel: (868) 625-4580/3596, 624-8511/2975 Fax: 623-3921
• 27-31 Cipero Road, San Fernando Tel: (868) 653-6861-3 Tel/Fax: (868) 652-1644

Notes to the Financial Statements 31st December 2019 *(continued)*
(Expressed in Trinidad and Tobago Dollars)

23. Financial risk management *(continued)*

a. Financial risk factors (continued)

(ii) Liquidity risk (continued)

(c) Maturity analysis of financial instruments (continued)

(iii) 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

- *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 re-price at a faster rate than the longer term financial assets thereby creating a short-term interest rate mismatch.

- *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.

- *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 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 2019, had interest rates been 50 basis points higher/lower, profit before taxation would have been lower/higher by $1,082,171 (2018: $990,416). This has no impact on other components of equity.

(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.

(d) 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.

Notes to the Financial Statements 31st December 2019 *(continued)*
(Expressed in Trinidad and Tobago Dollars)

23. Financial risk management *(continued)*

b. Capital risk (continued)

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.

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

	2019 $'000	2018 $'000
Qualifying capital	248,902	232,028
Risk adjusted assets	509,836	476,483
Capital adequacy ratio	48.82%	48.70%

During the two years ended 2019 and 2018, the Company complied with the externally imposed capital requirements to which they are subject.

c. Fair value estimation

The carrying amount of financial assets and liabilities comprising cash and cash equivalents, statutory deposit with Central Bank, current loans and other receivables, short-term financing, current customer deposits and other liabilities are a reasonable estimate of their fair values because of the short maturity of these instruments.

For the majority of the non-current loans and receivables the fair values are not significantly different from the carrying values. The fair values are calculated using the discounted cash flows at the current borrowing rate.

24. Fair values of financial assets and liabilities

The Company adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. Instruments included in level 1 relates to Roytrin Mutual Funds where the value the fund is made publicly available on a daily basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Instruments included in level 2 relates to non-current loans and receivables and non-current deposits fair valued based on the cash flows discounted by the relevant interest rates for each customer loan and deposit.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

• 17-19 Tragarete Road, Port of Spain Tel: (868) 625-4580/3596, 624-8511/2975 Fax: 623-3921
• 27-31 Cipero Road, San Fernando Tel: (868) 653-6861-3 Tel/Fax: (868) 652-1644

Notes to the Financial Statements 31st December 2019 *(continued)*

(Expressed in Trinidad and Tobago Dollars)

24. Fair values of financial assets and liabilities *(continued)*

The following table presents the Company's assets and liabilities that are measured at fair value at 31 December 2019.

	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Financial assets at FVPL				
- Investments	1,023,582	–	–	1,023,582

December 2018

	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Financial assets at FVPL				
- Investments	933,315	–	–	933,315

The following table summarises the carrying amounts and fair values of those financial instruments presented on the statement of financial position at an amount other than their fair value

The carrying amount and fair value of the financial assets and liabilities are as follows:

	Carrying value 2019 $	Fair value 2019 $	Carrying value 2018 $	Fair value 2018 $
Financial assets				
Cash and cash equivalents	4,702,601	4,702,601	3,905,441	3,905,441
Statutory deposit	25,218,111	25,218,111	25,218,111	25,218,111
Loans to customers	503,909,571	502,610,909	473,097,903	469,567,993
Financial liabilities				
Customers' deposit	280,715,843	286,142,704	262,497,252	267,521,659
Bank overdraft	–	–	3,238,631	3,238,631
Other liabilities	731,426	731,426	1,186,141	1,186,141

The fair values of the Company's financial instruments are determined in accordance with International Financial Reporting Standard (IFRS 13) "Fair Value Measurement".

Financial instruments where the carrying value is equal to fair value

Due to their liquidity and short-term maturity, the carrying values of certain financial instruments approximate their fair value. Financial instruments where carrying value is approximately equal to fair value include cash and cash equivalents, statutory deposits, bank overdraft and other liabilities.

Loans to customers less allowance for loan losses

Loans to customers are net of specific and other provisions for impairment, which reflects the additional credit risk. The estimated fair value of these loans represents the discounted amount of future cash flow based on prevailing market rates.

Customer deposits

Due to their liquidity and short-term maturity, the carrying values of some customers' deposits approximate their fair value. The fair value of the other customers' deposits are computed using discounted cash flow analyses at current market interest rate.

25. Contingent liabilities and commitments

a. *Loan commitments*

At the statement of financial position date, there were loan commitments amounting to $867,059 (2018: $1,321,266) 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 (2018: Nil).

26. Subsequent events

There were no events after the reporting period which were material to the financial statements and should have resulted in adjustments to the financial statements or disclosures when the financial statements were authorised for issue.