Consolidated Financial Statements of

DEVELOPMENT FINANCE LIMITED

December 31, 2013

(Expressed in Thousands Trinidad and Tobago Dollars)

DEVELOPMENT FINANCE LIMITED

December 31, 2013

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Independent Auditor's Report to the shareholders of
Development Finance Limited

We have audited the accompanying consolidated financial statements of Development Finance Limited (the Group), which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditors' Responsibility

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

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

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

KPMG, a Trinidad and Tobago partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

R R Alleyne S N Golding
C S Hornby D S Sookram

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the financial position of Development Finance Limited as at December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

Chartered Accountants

February 28, 2014
Port of Spain
Trinidad and Tobago

DEVELOPMENT FINANCE LIMITED

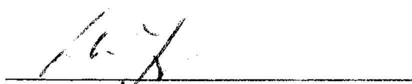
Consolidated Statement of Financial Position

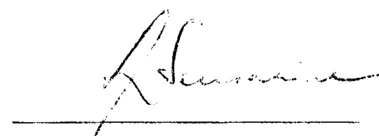
December 31, 2013
(Expressed in Trinidad and Tobago Dollars)

	Notes	2013	Restated 2012
		$'000	$'000
ASSETS			
Cash and cash equivalents	8	82,735	111,173
Investment securities	9	163,019	128,992
Loans and advances to customers	10	119,107	144,202
Due from related parties	11	1,200	1,198
Computer software	12	124	62
Property and equipment	13	28,362	28,813
Deferred tax asset	14	-	1,008
Other assets	15	3,599	7,047
Retirement benefit asset	16	27,071	22,217
Total assets		425,217	444,712
LIABILITIES			
Debt securities	17	294,994	316,679
Preference shares (mandatory redemption)	18	-	1,808
Due to related parties	11	2,259	7,234
Deferred tax liability	14	-	948
Other liabilities	19	1,422	1,422
Total liabilities		298,675	328,091
EQUITY			
Stated capital	20	136,639	136,639
Reserves	21	36,038	49,648
Accumulated deficit		(46,916)	(70,926)
		125,761	115,361
Non-controlling interest		781	1,260
Total equity		126,542	116,621
Total liabilities and equity		425,217	444,712

The accompanying notes form an integral part of these consolidated financial statements.

These consolidated financial statements have been approved for issue by the Board of Directors on February 28, 2014 and signed on its behalf by:

Director 

Director 

DEVELOPMENT FINANCE LIMITED

Consolidated Statement of Income

Year ended December 31, 2013
(Expressed in Trinidad and Tobago Dollars)

	Notes	2013	Restated 2012
		$'000	$'000
Interest income	22	17,456	21,912
Interest expense	23	(12,311)	(14,236)
Net interest income		5,145	7,676
Fee and commission income		88	45
Fee and commission expense		(42)	(66)
Net fee and commission income		46	(21)
Other income	24	1,282	2,732
Revenue		6,473	10,387
Reversal of provision for impairment	25	6,338	203
Recoveries		1,079	-
General overheads and corporate expenses	26	(8,160)	(8,277)
Profit before taxation		5,730	2,313
Taxation	27	(122)	(165)
Profit for the year after taxation		5,608	2,148
Profit attributable to:			
Equity holders of the Company		6,084	2,065
Non-controlling interest		(476)	83
Profit for the year after taxation		5,608	2,148

The accompanying notes form an integral part of these consolidated financial statements.

DEVELOPMENT FINANCE LIMITED

Consolidated Statement of Comprehensive Income

Year ended December 31, 2013
(Expressed in Trinidad and Tobago Dollars)

	Notes	2013	Restated 2012
		$'000	$'000
Profit for the year after taxation		5,608	2,148
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit asset	16	4,598	1,352
Other comprehensive income		4,598	1,352
Total comprehensive income for the year		10,206	3,500
Total comprehensive income for the year			
Attributable to equity holders of the Group		10,682	3,417
Non-controlling interest		(476)	83
		10,206	3,500

The accompanying notes form an integral part of these consolidated financial statements.

DEVELOPMENT FINANCE LIMITED

Consolidated Statement of Changes in Equity

Year ended December 31, 2013
(Expressed in Trinidad and Tobago Dollars)

	Ordinary Shares $'000	Preference Shares $'000	Statutory Reserves $'000	Revaluation Reserve $'000	Contingency for General Banking Risks $'000	Accumulated Deficit $'000	Total $'000	Non-Controlling Interest $'000	Total Equity $'000
Balance at December 31, 2013									
Balance at January 1, 2013, as previously stated	90,039	46,600	15,470	19,014	15,524	(67,686)	118,961	1,260	120,221
Prior period adustment (Note 31)	-	-	(360)	-	-	(3,240)	(3,600)	-	(3,600)
Balance at January 1, 2013, as restated	90,039	46,600	15,110	19,014	15,524	(70,926)	115,361	1,260	116,621
Total comprehensive income for the year									
Profit after taxation	-	-	-	-	-	6,084	6,084	(476)	5,608
Other comprehensive income	-	-	-	-	-	4,598	4,598	-	4,598
Total comprehensive income for the year	-	-	-	-	-	10,682	10,682	(476)	10,206
Transfer to Statutory Reserve	-	-	1,314	-	-	(1,314)	-	-	-
Transfer from contingency for general banking risks	-	-	-	-	(14,924)	14,924	-	-	-
Exchange losses	-	-	-	-	-	(282)	(282)	(3)	(285)
Balance at December 31, 2013	90,039	46,600	16,424	19,014	600	(46,916)	125,761	781	126,542
Balance at December 31, 2012									
Balance at January 1, 2012	30,039	106,600	14,991	19,014	15,224	(73,868)	112,000	1,183	113,183
Total comprehensive income for the year									
Profit after taxation	-	-	-	-	-	5,665	5,665	83	5,748
Other comprehensive income	-	-	-	-	-	1,352	1,352	-	1,352
Total comprehensive income for the year	-	-	-	-	-	7,017	7,017	83	7,100
DFLSA contingency for general banking risks	-	-	-	-	300	(300)	-	-	-
Transfer to Statutory Reserve	-	-	479	-	-	(479)	-	-	-
Exchange losses	-	-	-	-	-	(56)	(56)	(6)	(62)
Transaction with equity holders, recognised directly in equity									
Contributions by and distribution to equity holders									
Conversion of preference shares to ordinary shares	60,000	(60,000)	-	-	-	-	-	-	-
Balance at December 31, 2012	90,039	46,600	15,470	19,014	15,524	(67,686)	118,961	1,260	120,221

The accompanying notes form an integral part of these consolidated financial statements.

DEVELOPMENT FINANCE LIMITED

Consolidated Statement of Cash Flows

Year ended December 31, 2013
(Expressed in Trinidad and Tobago Dollars)

	Note	2013	Restated 2012
		$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year after taxation		5,608	2,148
Adjustments for non-cash items in operating activities	28	(21,756)	(14,119)
Cash flows before changes in operating assets		(16,148)	(11,971)
Change in loans and advances to customers		28,871	43,529
Change in related party balances		(400)	3,966
Change in balance held with Central Bank		-	2,286
Change in other assets		3,448	(2,509)
Change in other liabilities		-	(527)
		31,919	46,745
Interest received		17,010	25,319
Interest paid		(10,412)	(9,648)
Taxation paid		(62)	(28)
		38,455	62,388
Cash from operating activities		22,307	50,417
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities		(25,162)	(26,396)
Proceeds from sale of investment securities		38	160
Additions to property and equipment		(436)	(39)
Proceeds from sale of property and equipment		207	125
Cash used in investing activities		(25,353)	(26,150)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of debt securities		(23,584)	(46,332)
Redemption of preference shares		(1,808)	-
Cash used in financing activities		(25,392)	(46,332)
Net decrease in cash and cash equivalents		(28,438)	(22,065)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		111,173	133,238
CASH AND CASH EQUIVALENTS AT END OF YEAR		82,735	111,173

The accompanying notes form an integral part of these consolidated financial statements.

1. General Information

Development Finance Limited (DFL or the Company) was formally a fully owned subsidiary of DFL Caribbean Holdings Limited. DFL is now an independent private limited liability company with the following shareholding:

DFL Caribbean Holdings Limited	0.50%
Minister of Finance (Corporation Sole)	49.75%
Maritime General Insurance Company Limited	33.17%
Maritime Life (Caribbean) Limited	16.58%

The address of the Group's registered office is 10 Cipriani Boulevard, Port of Spain.

The Company's principal activities are that of term lenders and equity investors in Small and Medium-sized private industrial and commercial enterprises in the Caribbean.

The consolidated financial statements of the Company as at and for the year ended December 31, 2013 comprise the Company and the Subsidiary (together referred to as "the Group").

Development Finance Limited was incorporated as a private limited liability company in the Republic of Trinidad and Tobago and is registered under the Companies Act, 1995 and under the Securities Industry Act (2012) as a reporting issuer and an underwriter. The Company has been granted authorised dealer status under the Exchange Control Act and can accept deposits, grant credit facilities and otherwise deal in foreign currency as it is licensed under the Financial Institutions Act (FIA) 2008 to carry out the classes of business listed below:

- i acceptance/confirming house
- ii finance house
- iii leasing
- iv merchant banking
- v mortgage lending
- vi financial services.

DFLSA Incorporated (the Subsidiary) which is 91.34% owned was incorporated in the People's Co-operative Republic of Guyana on October 6, 2004 and began operations in 2005.

The Subsidiary's principal activity was that of term lenders in Micro, Small and Medium-sized private industrial and commercial enterprises in Guyana and in Suriname. In January 2013 the branch in Suriname was discontinued, de-registered and de-licensed. The Subsidiary in Guyana was de-licensed by the Bank of Guyana in September 2013.

On October 30, 2013, the Shareholders agreed to commence procedures to liquidate DFLSA Incorporated.

2. Basis of Preparation

(a) *Basis of accounting*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The consolidated financial statements were authorised for issue by the Board of Directors on February 28, 2014.

Details of the Group's accounting policies, including changes during the year, are included in Notes 3 and 4.

(b) *Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Net defined benefit asset is measured as the fair value of the plan assets less the present value of the defined benefit obligation, limited as explained in Note 3(k).
- Freehold/leasehold land and building are measured at fair value less depreciation.
- Investments in equity securities are stated at fair value through profit or loss.

(c) *Functional and presentation currency*

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Trinidad and Tobago dollars, which is the Group's functional and presentation currency. Except as otherwise indicated, financial information presented has been rounded to the nearest thousand.

(d) *Use of critical estimates and judgements*

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

2. Basis of Preparation (continued)

(d) Use of critical estimates and judgements (continued)

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 6.

3. Significant Accounting Policies

Except for the changes explained in Note 4, the Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

The consolidated financial statements of the Group include the assets and liabilities and results of operations of the Group and those of the Subsidiary after the elimination of inter-company transactions and balances. Separate disclosure is made of non-controlling interests (NCI).

The functional currency of the Subsidiary is the Guyanese dollar. For consolidated purposes, the assets and liabilities of DFLSA Incorporated have been translated at the closing rate on the consolidated statement of financial position date and the income and expenses of DFLSA have been translated at relevant exchange rates at the time of the transactions during the year.

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities

(ii) Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

3. Significant Accounting Policies (continued)

(a) Basis of consolidation (continued)

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Transactions denominated in foreign currencies are translated into the respective functional currencies at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(c) Financial instruments

Financial instruments comprise Balances with related parties, cash and cash equivalents, investment securities, loans and advances to customers, staff loans, EIB loans, bonds acquired pre-settlement date and debt securities.

(i) Recognition and initial measurement

The Group initially recognises loans and advances to customers, deposits and debt securities issued on the date at which they are originated.

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(i) Recognition and initial measurement (continued)

All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the settlement date at which the Group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

The Group classifies its financial assets into one of the following categories:

- loans and receivables;
- held-to-maturity; and
- fair value through profit or loss; and within this category as:
  - held for trading; or
  - designated at fair value through profit or loss.

Financial liabilities

The Group classifies its financial liabilities, including loan commitments as measured at amortised cost or fair value through profit or loss.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of:

(i) the consideration received (including any new asset obtained less any new liability assumed); and

3. **Significant Accounting Policies** (continued)

(c) ***Financial instruments*** (continued)

(iii) *Derecognition* (continued)

Financial assets (continued)

(ii) any cumulative gain or loss that had been recognized in other comprehensive income (OCI).

is recognised in profit or loss.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a consolidated asset or liability in the statement of financial position.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged, or cancelled, or expired.

(iv) *Offsetting*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(v) *Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(vi) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(vii) Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably. (See Note 3(e)(ii): Classification of impaired loans).

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a Company of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at a specific asset level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment.

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(vii) Identification and measurement of impairment (continued)

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on assets measured at amortised cost are recognised in profit or loss and reflected in an allowance account against loans and advances and/or investment securities.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Group writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Board of Directors determines that there is no realistic prospect of recovery.

(viii) Designation at fair value through profit or loss

The Group has designated financial assets and financial liabilities at fair value through profit or loss in either of the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 7 sets out the amount of each class of financial asset or financial liability that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

(d) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at banks and other short-term highly liquid investments with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3. Significant Accounting Policies (continued)

(e) Loans and advances to customers

(i) Recognition

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments, other than investment securities, that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Loans and advances to customers are classified as loans and receivables. Loans and advances are initially measured at fair value plus incremental direct transaction costs and subsequent to initial recognition loans and advances are measured at amortised cost using the effective interest method.

(ii) Classification of impaired loans

A loan or any other financial asset is classified as impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact (that can be estimated reliably) on the future cash flows. An impaired loan is a loan where the outstanding amount of the loan (without loan loss provisions) is greater than its fair value measured on the basis of expected cash flows in accordance with the contracted terms of the loan.

Impairment indicates that it is probable that the lender will be unable to collect all amounts due according to the terms of the loan agreement. Unless the loan is fully secured by readily marketable collateral and there is objective evidence that provides reasonable assurance of timely repayment of principal and interest, the Group will determine whether there is objective evidence of an impairment loss by using the following criteria to determine that there is objective evidence of an impairment loss:

- Arrears of either principal or interest for more than six months (180 days)
- Indications of insolvency proceedings
- Un-resolved breaches in loan covenants
- Adverse economic conditions that correlate historically with defaults in the Group affecting a group of assets including deterioration in the value of collateral.

A loan that is in the process of collection may be classified separately in "Collateral-dependent loans" as it is not impaired if the collection process is intended to be irreversible and the loan is fully secured by readily marketable collateral that based on objective, independent evidence provides adequate assurance of recovery of the loan. The present value of the estimated future cash flows of a collateral dependent loan includes the cash flows that may result from the realisation of collateral, net of expenses.

3. Significant Accounting Policies (continued)

(e) Loans and advances to customers (continued)

(ii) Classification of impaired loans (continued)

Impaired loans may be reclassified as unimpaired based on events occurring after impairment was recognised that justify a reasonable expectation that payments of principal and interest will be made in a timely manner based on a detailed evaluation of the borrower's financial condition by Management and evidence that:

(a) Payment of all past due principal and interest has been received and none of the principal and interest is due and unpaid.

(b) Payments have been received regularly for a reasonable period of time and payments are expected to be made as scheduled.

Loans that are subject to impairment assessment and whose terms have been renegotiated in accordance with standard terms for new loans are no longer considered past due but are treated as new loans.

(iii) Loans with re-negotiated terms

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

3. Significant Accounting Policies (continued)

(e) *Loans and advances to customers* (continued)

(iv) *Specific provision for loan losses*

All loans are carried at amortised cost and where required are reduced to that amount by specific provisions for loan losses. Impaired loans are assessed annually at net realisable value discounted to present value based on the contracted loan rate and the expected receipts of regular and terminal cash flows. Statutory and other regulatory or probable loan loss or operational risk requirements, if any, which exceed the amount of specific provisions, are dealt with in the contingency for general banking risks.

(f) *Investment securities*

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs and subsequently accounted for depending on their classification as either held to maturity or fair value through the profit or loss.

(i) *Held-to-maturity*

'Held-to-maturity investments' are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and

- sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

3. Significant Accounting Policies (continued)

(f) Investment securities (continued)

(ii) Fair value through profit or loss

The Group designates some investment securities at fair value, with fair value changes recognised immediately in profit or loss.

Investment securities primarily comprise government bonds and other registered securities that are being held to maturity. A portion of investment securities is set aside within Bond Redemption Fund to provide for partial redemption of bonds issued by the Group up to 2030. These securities are managed by Trustees by way of Trust Deeds and are not available for other use by the Group.

(g) Property and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a consolidated asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Leasehold land is shown at cost. The initial term of the lease was 199 years.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the statement of income.

Land is not depreciated. Depreciation on other assets is computed on the reducing balance method over the estimated useful lives of the related assets at the following rates:

Building	-	2%
Furniture and equipment	-	12½ % - 25%.

3. Significant Accounting Policies (continued)

(g) Property and equipment (continued)

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

(h) Computer software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. The amortisation of computer software is computed on the reducing balance method over the estimated useful lives of the related assets at the rate of 25%. Amortisation methods, useful lives and residual values of assets are reviewed and adjusted if appropriate at each reporting date.

(i) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Debt securities

Debt securities are the Group's source of debt funding. Debt securities are initially measured at fair value minus incremental direct transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss.

3. Significant Accounting Policies (continued)

(j) Debt securities (continued)

Preference shares with mandatory redemptions are classified as a financial liability and are reported at fair value through profit or loss. The Group's preference shares are included in equity.

(k) Employee benefits

Retirement benefits for employees are provided by a defined benefit scheme, the assets of which are held in a consolidated trustee-administered fund. The pension plan is funded by contributions from the Group and the employees taking account the recommendations of independent qualified actuaries.

(i) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

3. Significant Accounting Policies (continued)

(k) Employee benefits (continued)

(ii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

(iv) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(l) Other assets and liabilities

Other assets and liabilities, not classified as financial instruments, are initially recognised and subsequently measured at amortised cost in the statement of financial position with relevant costs recognised in profit or loss.

(m) Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial assets or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates the future cash flows considering all contractual terms of the financial instrument, but not the future credit losses.

3. Significant Accounting Policies (continued)

(m) Interest (continued)

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Interest income is recognised on an accrual basis in the period in which it is due and in accordance with the underlying loan contract terms and conditions except for loans classified as impaired or for loans classified as non-accrual when in management's judgment there was a deterioration in credit quality that if continued would lead to impairment.

Interest income and expenses presented in the statement of income include interest on financial assets and liabilities measured at amortised cost calculated on an effective interest basis.

(n) Fees and commissions

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income, including account servicing fees, fund management fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transactions and service fees which are expensed as the services are received.

(o) Taxation

The Group is exempt from taxation under the Corporation Tax Act, Chapter 75.02 as amended. However, the Group is required to pay Green Fund Levy which is disclosed as taxation in the statement of income.

(p) Dividends

Dividends are recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Board of Directors.

3. Significant Accounting Policies (continued)

(q) *New standards and interpretations not yet adopted*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013, and have not been applied in preparing these consolidated financial statements. Those that may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

- IFRS 9 *Financial Instruments* (2013), IFRS 9 *Financial Instruments* (2010) and IFRS 9 *Financial Instruments* (2009) (together, IFRS 9)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in OCI. No amount recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety for whether it should be measured at amortised cost or fair value.

3. Significant Accounting Policies (continued)

(q) *New standards and interpretations not yet adopted* (continued)

- IFRS 9 *Financial Instruments* (2013), IFRS 9 *Financial Instruments* (2010) and IFRS 9 *Financial Instruments* (2009) (together, IFRS 9) (continued)

  IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

  IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

  The mandatory effective date of IFRS 9 is not until 2017, however, early adoption of IFRS 9 is permitted.

  The Group has started the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

(r) *Contingency for general banking risks*

The contingency for general banking risks is an appropriation of retained earnings that is not available for distribution to shareholders.

4. Change in Accounting Policy

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2013:

a. IFRS 10 Consolidated Financial Statements (2011).
b. IFRS 12 Disclosure of Interests in Other Entities.
c. IFRS 13 Fair Value Measurement.
d. Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7).
e. Presentation of Items of Other Comprehensive Income (Amendments to IAS 1).
f. IAS 19 Employee Benefits (2011).

4. Change in Accounting Policy (continued)

The nature and the effects of the changes are explained below.

(a) Subsidiaries, including structured entities

As a result of IFRS 10 (2011), the Company has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether the Company has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Company reassessed its control conclusions as of January 1, 2013.

The change did not have any impact on the Group's financial statements.

(b) Interests in other entities

As a result of IFRS 12, the Company is required to expand its disclosures about its interests in subsidiaries and involvement with unconsolidated structured entities.

The change did not have any impact on the Group's financial statements.

(c) Fair value measurement

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value, as set out in Note 3(c)(vi), prospectively. The change had no significant impact on the measurements of the Group's assets and liabilities, but the Group has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Group has provided the relevant comparative disclosures under those standards.

(d) Offsetting financial assets and financial liabilities

As a result of the amendments to IFRS 7, the Group has expanded disclosures about offsetting financial assets and financial liabilities (See Note 3 (c)(iv)).

(e) Presentation of items of OCI

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present items that would be reclassified to profit or loss in the future separately from those that would never be. The change did not have any impact on the Group's consolidated financial statements.

4. Change in Accounting Policy (continued)

(f) Post-employment defined benefit plans

As a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its post-employment defined benefit plans.

Under IAS 19 (2011), the Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises:

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect on the asset ceiling.

Previously, the Group determined interest income on plan assets based on their long-term rate of expected return. The Group now determines interest income on the discount rate. This change did not have a material impact on the Group's financial statements.

Previously, the Group recognized actuarial gains and losses in other comprehensive income. As such, the change did not have any impact on the Group's financial statements.

5. Financial Risk Management

Introduction and Overview

The Group's Mission, and the characteristics of the economies in which it operates, makes credit concentrations unavoidable, in particular risk inherent in small and medium-sized enterprises (SME risk). Capital risk management is a critical component of financial soundness and cost of capital.

The Group has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risks.

This note presents information about the Group's objectives, policies and processes for measuring and managing risk.

5. Financial Risk Management (continued)

Risk Management Framework

The Board of Directors ensures that suitably qualified management and senior staff review and implement the Group's risk management policies that are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits and report to the Board of Directors which has overall responsibility for the establishment and oversight of the Group's risk management framework. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Group's Audit Committee oversees responsibility for risk management, reviews the adequacy of the risk management framework in relation to the risks faced by the Group and reports to the Board on compliance with the Group's risk management policies and procedures.

(i) Small and medium sized enterprises (SME) risk

The Group's risk profile is elevated because its loans and investments are mainly in small and medium-sized enterprises (SME). These are vulnerable to interruptions in the supply chain due to transport facilities, weather, utilities, licensing regimes and natural disasters such as hurricanes and flooding as well as changes in customer preferences due to global influences and variable household incomes. Cash flow is often affected by the slow receipt of receivables from larger entities, including Governments.

This risk is highly correlated with "Country risk" in terms of governance, economic conditions and the operation of markets. The correlation between SME risk and Country risk arises from the inability of some Caribbean countries to increase competitiveness due to delays in improving infrastructure, in delivering appropriately trained entrants to the work force and in creating conditions that allow markets to function effectively. This reduces sustained access by SME to markets and operating finance.

The Company manages "Country risk" (as defined above) using conventional country assessments to provide country ratings that are indexed to its assessment of its home country. This relative risk rating provides a loan pricing scale.

5. Financial Risk Management (continued)

(ii) Credit risk management

The Group's Board is responsible for managing credit risk along with the Managing Director and General Manager who is responsible for implementing the credit and risk management policy approved by the Board which relies on oversight by the Board's Audit Committee. Specific management measures include:

- Ensuring that suitably qualified staff is adequately trained in various aspects of credit risk management and providing advice, guidance and specialist skills and training to business units to promote sound techniques and practices.

- Formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.

- The authorisation structure for the approval of credit and related decisions.

- Limitation of credit concentrations, industry and country risk exposure and reviewing compliance of business units with agreed exposure limits and the credit quality of local portfolios and ensuring that appropriate corrective action is taken where required.

- Developing and maintaining the Group's risk rating and pricing systems and its procedures for determining impairment loss.

Credit risk in the Group refers mainly to "Business enterprise risk" which is the probability that an enterprise might fail and not be able to meet its obligations because of poor management or poor judgment or inadequate execution of plans.

5. Financial Risk Management (continued)

(ii) Credit risk management (continued)

Management deals with that risk as follows:

- Management evaluates business proposals using a three-tiered approach that centers on the business enterprise, the environment in which it will operate and the likely effects of global factors related to the industry and to the enterprise as well as reassessment of Key Success Factors and credit criteria. The results of the evaluations and management's insights and judgements provide inputs for a risk rating model that takes Country Risk into account. The model centers on a normal risk threshold. There are two ratings above this level and two ratings below. The score explicitly takes into account likely loss given default based on exposure at default. Loan pricing is based on the risk level which is a composite rating of Enterprise, Industry and Country risk. Results based on scores that are higher than statistically derived normal ranges are subject to independent review.
- Management monitors "Business enterprise risk" by regularly reviewing the performance of companies in its portfolio.
- The Group's credit risk is managed primarily at source by the Management and reviewed by Board and monitored through the Enterprise Risk Management framework managed by senior management.
- DFL has its own internal self-assessment and risk management controls. Loan operations and loan management services are segregated from loan origination and enterprise appraisal responsibilities.

(a) Restructured loans

Loans that are temporarily impaired may be re-scheduled or re-structured when sources of payment are identified and the enterprises are re-structured to remove the causes of loan impairment thus improving viability. Loans that are re-scheduled or re-structured are not impaired loans. Loans that have been re-structured on concessionary terms resulting in an impairment loss are classified separately as "Loans with re-negotiated terms". Concessionary terms refer to extended capital repayment periods with a moratorium on capital repayment. These concessions may sometimes create an impairment loss unless the interest rate is adjusted to increase the effective interest and maintain the fair value of the loan. Any significant changes in these exposures that arise from abnormal risk during the year or any change in the methods used to measure risk in these exposures are disclosed and reported separately.

5. Financial Risk Management (continued)

(ii) *Credit risk management* (continued)

(b) *Credit concentration risk*

A risk concentration refers to aggregate exposure to any group of counterparties having similar characteristics that would cause their ability to meet contractual obligations to be affected by similar events including changes in market, industry or economic or other conditions.

While concentrations can improve yields, such aggregate exposure could produce losses large enough to threaten the financial soundness of the Group. Accordingly, concentration of risk in the loan portfolio is measured in terms of capital and reserves. The probability of incidence and likely impact arising from risk concentrations are both variable and uncertain especially since most of its loans and investments are long term. Risk concentrations are unavoidable because of the structure, size and characteristics of Caribbean economies and the limitations of small and medium-sized enterprises.

The Group's concentration risk management strategy includes the following measures:

1. Identification of likely areas of concentration and assessment of the joint probabilities of default using suitable methodologies and data, where available, and appropriate judgment based on reasonableness in the light of experience.

2. The Board approves aggregate credit limits, in terms of capital and reserves, based on objective criteria and analyses regarding:

   a. Significant exposures to an individual counterparty or group of related counterparties;

   b. Credit exposures to counterparties in the same economic or industry sector;

   c. Credit exposures within the same national economies

3. Establishment of appropriate capital structures and risk-sharing arrangements to carry on lending and investment operations in national economies that have vulnerabilities or resource constraints.

4. The Group's technical capability and availability of resources to manage its traditional portfolio concentration are reviewed periodically, including access to industry-specific expertise.

5. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(b) Credit concentration risk (continued)

5. Sectors or industries that have an intrinsic probability of default above average are subject to a specific regime of risk management approved by the Board. The tourism industry falls into this class. The regime of risk management in the tourism industry refers mainly to hotels and includes the following measures:

   a. A risk management framework identifies the types of risk and sets out internal procedures for the origination and management of hotel loans including the segregation of duties internally and the use of industry consultants.

   b. A hotel risk model is used to express loan limits on a "per room" basis related to the class of hotel, current room revenue and occupancy rates and debt service ratios.

   c. The tourism portfolio limit for periods in excess of one year is set at the lower of 33% of total assets and 67% of the Total Loan Portfolio.

   d. Initial loan-to-value ratios are based on specific country regulations and business practices that affect recovery rates on impaired assets.

The following table shows that tourism continues to constitute a major economic sector risk concentration in the loan portfolio but the Group has sought to balance its portfolio by increasing advances in the industrial and commercial services sector.

	2013		2012	
	$'000	%	$'000	%
Manufacturing	10,375	8	16,710	12
Food and beverage	1	-	4,629	3
Tourism	60,370	51	62,189	43
Industrial and commercial services	48,361	41	60,674	42
Total outstanding	119,107		144,202	

5. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(c) Geographical concentrations of assets and liabilities

	As at December 31, 2013			
	Total Assets		Total Liabilities	
	$'000	%	$'000	%
Trinidad and Tobago	327,081	77	205,888	69
Eastern Caribbean	32,947	8	18,424	6
Guyana and Suriname	33,089	8	-	-
European Union	9,095	2	74,363	25
Other	23,005	5	-	-
Total	425,217		298,675	

	As at December 31, 2012			
	Total Assets		Total Liabilities	
	$'000	%	$'000	%
Trinidad and Tobago	333,304	75	205,439	63
Eastern Caribbean	36,735	8	24,366	7
Guyana and Suriname	60,247	13	6,231	2
European Union	2,265	1	89,574	27
Other	12,161	3	2,481	1
Total	444,712		328,091	

Sectoral analysis of loan commitments	2013 $'000	2012 $'000
Manufacturing	-	-
Food and beverage	-	-
Tourism	-	-
Industrial and commercial services	14,707	9,680
Total outstanding	14,707	9,680

5. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis

	Loans and Advances to Customers		Investment Securities	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Carrying amount	118,242	143,818	161,815	127,595
Individually impaired				
Gross amount	112,657	113,205	-	-
Allowance for impairment	(48,136)	(51,431)	-	-
Carrying amount	64,521	61,774	-	-
Past due but not impaired				
Carrying amount	28,824	10,241	-	-
Past due comprises:				
30-60 days	3,435	464	-	-
60-90 days	15,112	255	-	-
90-180 days	4,276	125	-	-
180 days +	6,001	9,397	-	-
Carrying amount	28,824	10,241	-	-
Neither past due nor impaired				
Carrying amount	24,897	71,803	161,815	127,595

Maximum credit exposure

All loans and advances to customers and investment securities are measured at amortised cost.

The maximum exposure to credit risk in the Group (loans plus commitments) at December 31, 2013 without taking account of any collateral held or other credit enhancements was $404 million (2012: $295 million).

Collateral held as security generally includes charges on freehold property and equipment.

5. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Maximum credit exposure (continued)

Loans that were neither past due nor impaired as at December 31, 2013 amounted to 21% of the total portfolio (2012: 50%).

Loans past due but not impaired as at December 31, 2013 amounted to 24% of the total portfolio (2012: 8%).

In addition to the above, the Group had entered into lending commitments of $14.7 million (2012: $9.7 million) with counterparties.

The Group has issued financial guarantee contracts in respect of debtors and for which the maximum amount payable by the Group, assuming all guarantees are called on, is NIL (2012: $NIL).

Impaired loans and investment debt securities

The Group regards loans and advances or investment debt securities as impaired in the following circumstances:

- There is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset such that it does not expect to collect all principal and interest due according to the contractual terms of the loan/investment security agreement(s).

- A loan is overdue for 90 days or more. Impaired loans and advances are in 90 days and over category in the Group's internal credit risk grading system.

Past due but not impaired loans and investment debt securities

Past due but not impaired loans and investment debt securities, other than those carried at fair value through profit or loss, are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

5. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Loans with renegotiated terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3 (e) (iii).

The Group renegotiates loans to customers in financial difficulties (referred to as 'restructuring activities') to maximise collection opportunities and minimise the risk of default. Under the Group's restructuring loan policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the loan restructuring policy. Restructured loans are reported to the Audit Committee along with the non performing loans.

For the purposes of disclosures in these financial statements, 'loans with renegotiated terms' are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, earlier repayment or until it is written off.

Irrespective of whether loans with renegotiated terms have been derecognised or not, they remain disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and there are no other indicators of impairment.

In respect of some of these loans the Group has made concessions that it would not otherwise consider. There were NIL (2012: $23 million) loans with renegotiated terms or loans which were re-scheduled or restructured during the year.

5. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Loans with renegotiated terms (continued)

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be impaired when there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Allowances for impairment

The Group establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan and investment debt security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and, for assets measured at amortised cost. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

Write-off policy

The Group writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when Company Credit determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2013 (2012: no collateral held).

An estimate made at the time of borrowing of the fair value of collateral and other security enhancements held against loans and advances to customers is $ 649 million (2012: $422 million).

5. Financial Risk Management (continued)

(ii) Credit risk management (continued)

(d) Credit quality analysis (continued)

Write-off policy (continued)

Details of financial and non-financial assets obtained by the Group during the year by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements and held at the year ended December 31, 2013 is NIL (2012: NIL).

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group generally does not use the non-cash collateral for its own operations.

(e) Offsetting financial assets and liabilities

There were no financial assets and liabilities offset during the year (2012: NIL).

(iii) Operational risk

Operational risk refers to the probability of financial loss from causes associated with the functioning of the Group's business processes, personnel, technology and infrastructure and also from external factors other than credit, market and liquidity risks. Operational risk is an inevitable consequence of the execution of the Group's business processes.

The management of operational risk involves making appropriate judgments that balance risk and return by taking positive measures and instituting controls to avoid financial losses and damage to the Group's reputation while maintaining overall cost effectiveness.

The Group employs an overall system management approach to maintain a culture of integrity, diligence and alertness while avoiding control procedures that restrict initiative and creativity. This requires a commitment by senior management to openness and honesty and to the implementation of controls designed to address operational risk.

This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Adherence to business philosophies and corporate values;
- Compliance monitoring and reporting;

5. Financial Risk Management (continued)

(iii) Operational risk

- Internal self-assessment and operational reviews;
- Reporting and analysis of operational losses including "near misses";
- Training and professional development in internal control systems and procedures;
- Development of contingency plans;
- Segregation of duties in critical aspects of loan management, information systems and expense control including the independent authorisation of transactions and access to systems; and
- Independent investigations by senior managers with professional experience in relevant fields.

Compliance with standards is supported by Board overview of a programme of systematic, periodic assessment of areas of likely operational risks identified and prioritised by management responsible for Enterprise Risk Management and by internal audit (outsourced). The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the audit committee and senior management.

(iv) Risk related to use of financial instruments

(a) Interest rate risk

Interest rate risk is the risk of loss from fluctuations in future cash flows or fair values of financial instruments because of a change in market interest rates.

Interest rate management

Movements in interest rates may adversely or positively affect net interest income which is the difference between interest income and the cost of funding. This risk is mitigated by matching interest rates on assets with interest rates on corresponding liabilities.

Generally, these rates are coordinated by standard asset liability management practices. However this may be altered because of strategy or circumstances. In particular, the Group is exposed to interest rate risk because of movements in interest rates and:

a. differences in the times at which interest rate movement occur (Timing risk);
b. uncorrelated changes in interest rate indices (Index risk); and
c. fixed income debt in US$ on-lent at floating rates (Basis risk).

5. Financial Risk Management (continued)

(iv) Risk related to use of financial instruments (continued)

(a) Interest rate risk (continued)

Interest rate management (continued)

The following table summarises carrying amounts of assets and liabilities on the statement of financial position, in order to arrive at the Group's interest rate gap on the earlier of contractual repricing or maturity dates:

2013

	Due on Demand	Due in One Year	Due in Two to Five Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000
Assets					
Cash and cash equivalents	55,169	27,566	-	-	82,735
Investment securities	-	21,650	74,291	67,078	163,019
Loans and advances to customers	-	87,281	6,798	25,028	119,107
Due from related parties	-	1,200	-	-	1,200
Other assets	-	3,599	-	-	3,599
	55,169	141,296	81,089	92,106	369,650
Liabilities					
Debt securities	-	(202,942)	(49,491)	(42,561)	(294,994)
Due to related parties	-	(2,259)	-	-	(2,259)
Other liabilities	-	(1,422)	-	-	(1,422)
	-	(206,623)	(49,491)	(42,561)	(298,675)
Net gap	55,169	(65,327)	31,598	(49,545)	70,985
Cumulative gap	55,169	(10,518)	21,440	70,985	-

5. Financial Risk Management (continued)

(iv) Risk related to use of financial instruments (continued)

(a) Interest rate risk (continued)

Interest rate management (continued)

2012

	Due on Demand $'000	Due in One Year $'000	Due in Two to Five Years $'000	Over 5 Years $'000	Total $'000
Assets					
Cash and cash equivalents	111,173	-	-	-	111,173
Investment securities	-	4,596	61,966	62,430	128,992
Loans and advances to customers	-	10,780	54,610	78,812	144,202
Due from related parties	-	1,198	-	-	1,198
Other assets	-	4,750	610	1,687	7,047
	111,173	21,324	117,186	142,929	392,612
Liabilities					
Debt securities	-	(48,820)	(138,063)	(129,796)	(316,679)
Preference shares	-	-	(1,808)	-	(1,808)
Due to related parties	-	(7,234)	-	-	(7,234)
Other liabilities	-	(1,422)	-	-	(1,422)
	-	(57,476)	(139,871)	(129,796)	(327,143)
Net gap	111,173	(36,152)	(22,685)	13,133	65,469
Cumulative gap	111,173	75,021	52,336	65,469	-

5. Financial Risk Management (continued)

(iv) Risk related to use of financial instruments (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk management

The objective is to ensure that adequate funding is in place to meet its planned portfolio growth requirements, while managing holding costs and interest rate exposures. The Group will maintain minimum liquidity levels.

This is effectively managed by primarily matching long-term borrowings to the bond redemption funds which secure floating rate bonds and also, by new loan disbursements, arranging fixed deposits and maintaining tertiary lines of liquidity where feasible.

The following represents the Group's asset and liability maturity profile highlighting separately the short term of 12 months and less. The profile reflects the Group's business as a long term lender.

As at December 31, 2013

	Carrying Value	*Gross Nominal Inflow (Outflow)	1 to 12 Months	1 to 5 Years	5 to 10 Years	Over 10 Years
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	82,735	83,046	83,046	-	-	-
Investment securities	163,019	267,517	14,240	117,062	113,649	22,566
Loan and advances to customers	119,107	179,614	25,507	66,401	85,417	2,289
Due from related party	1,200	1,200	1,200	-	-	-
Other assets	3,599	3,599	3,599	-	-	-
Debt securities	(294,994)	(376,335)	(52,105)	(257,959)	(66,271)	-
Due to related parties	(2,259)	(2,259)	(2,259)	-	-	-
Other liabilities	(1,422)	(1,422)	(1,422)	-	-	-
Net gap	70,985	154,960	71,806	(74,496)	132,795	24,855

* Undiscounted cash flows include estimated interest payments.

5. Financial Risk Management (continued)

(iv) Risk related to use of financial instruments (continued)

(b) Liquidity risk (continued)

Liquidity risk management (continued)

As at December 31, 2012

	Carrying Value $'000	*Gross Nominal Inflow (Outflow) $'000	1 to 12 Months $'000	1 to 5 Years $'000	5 to 10 Years $'000	Over 10 Years $'000
Cash and cash equivalents	111,173	111,173	111,173	-	-	-
Investment securities	128,992	127,595	3,199	61,966	59,794	2,636
Loan and advances to customers	144,202	289,143	19,155	31,754	161,101	77,133
Debt securities	(316,679)	(394,651)	(57,588)	(177,378)	(92,278)	(67,407)
Preference shares	(1,808)	(1,808)	-	(1,808)	-	-
Other liabilities	(1,422)	(1,422)	(1,422)	-	-	-
Net gap	64,458	130,030	74,517	(85,466)	128,617	12,362

* Undiscounted cash flows include estimated interest payments.

(c) Foreign currency risk

The reporting currency of the Group is the Trinidad and Tobago dollar. The aggregate amount of assets and liabilities denominated in the respective currencies are as follows:

	2013						
	TT $'000	US $'000	SRD $'000	EURO $'000	GBP $'000	GUY $'000	Total $'000
Assets	255,522	166,750	19	-	2,608	318	425,217
Liabilities	(180,854)	(106,520)	-	(11,301)	-	-	(298,675)
Net assets	74,668	60,230	19	(11,301)	2,608	318	126,542

5. Financial Risk Management (continued)

(iv) Risk related to use of financial instruments (continued)

(c) Foreign currency risk (continued)

	2012						
	TT $'000	**US $'000**	**EC $'000**	**EU $'000**	**GUY $'000**	**Other $'000**	**Total $'000**
Assets	286,001	131,208	238	-	10,935	16,330	444,712
Liabilities	(185,046)	(129,965)	-	(11,380)	(648)	(1,052)	(328,091)
Net assets	100,955	1,243	238	(11,380)	10,287	15,278	116,621

The management of foreign currency risk against exchange gap limits is not further supplemented by monitoring the sensitivity of the possible impact on net profits before tax and on equity of fluctuations of the US dollar foreign exchange rate relative to the TT dollar.

(d) Capital risk management

The Central Bank of Trinidad and Tobago sets and monitors capital requirements for the Group. The Group monitors capital in terms of (a) Gearing ratios (b) Debt Service payments and (c) minimum Capital Adequacy Ratios in its subsidiary.

a) The main gearing ratio refers to net senior debt (borrowings less sinking funds less subordinated debt) divided by net assets which should not exceed 4.0. In addition, net total debt should not exceed five (5) times net assets. These limits exclude inter-company borrowings. The ratio for 2013 is 1.53% (2012: 1.90%).

b) The Group normally maintains cash and securities equivalent to 1.5 times debt service obligations due within one year.

c) The Group must maintain a level of capital that is adequate in terms of its financial risk exposures and that is in excess of required regulatory Capital Adequacy Ratios. The Group maintains a Capital Adequacy Ratio (CAR) in excess of 15%. At December 31, 2013, the Group's CAR was 28.8% (2012: 32.84%) based on risk weightings that are in excess of current regulatory requirements.

5. Financial Risk Management (continued)

(iv) Risk related to use of financial instruments (continued)

(d) Capital risk management (continued)

2013

	Total Assets $'000	Risk Weighting %	Risk-Adjusted $'000
Cash and cash equivalents	82,735	-	-
Government securities	16,196	20	3,239
State-owned entities securities	32,209	30	9,663
Other securities	113,404	100	113,404
Unlisted investments	6	400	24
Loans and advances to customers	118,242	150	177,363
Other assets	62,425	100	62,425
Total assets	425,217		366,118
Capital and reserves as per the statement of financial position			126,542

2012

	Total Assets $'000	Risk Weighting %	Risk-Adjusted $'000
Cash and cash equivalents	111,173	-	-
Government securities	16,021	20	3,204
State owned entities securities	23,487	30	7,046
Other securities	88,043	100	88,043
Unlisted investments	44	400	176
Loans and advances to customers	144,202	150	216,303
Other assets	61,742	100	61,742
Total assets	444,712		376,514
Capital and reserves as per statement of financial position			116,621

The Group has complied with all externally imposed capital requirements.

6. Use of Estimates and Judgments

Management discusses with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and their application and assumptions made relating to major estimation uncertainties.

(a) *Key sources of estimation uncertainty*

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(e)(ii).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

(b) *Critical accounting judgments made in applying the Group's accounting policies*

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(c)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on expected cash flows based on recent history, uncertainty of market factors and other risks affecting the specific instrument.

7. Fair Value of Financial Instruments

The fair value of financial assets and liabilities that are traded in active markets are based on quoted market prices or dealer quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

(a) *Valuation models*

The Group's accounting policy on fair value measurements is discussed in accounting policy 3(c)(vi).

7. Fair Value of Financial Instruments (continued)

(a) *Valuation models* (continued)

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(b) *Financial instruments measured at fair value – fair value hierarchy*

At year end, the following financial instrument was measured at fair value.

	Level 1	Level 2	Level 3	Fair Value
	$'000	$'000	$'000	$'000
Equity securities	1,318	-	6	1,324

7. Fair Value of Financial Instruments (continued)

(c) Financial instruments not measured at fair value

The table below shows the financial assets and liabilities not measured at fair value and analyses them by the level in the fair value hierarchy into which the fair value measurement is categorized. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Fair Value $'000	Total Carrying Amount $'000
As at December 31, 2013					
Assets					
Investment securities	165,844	-	-	165,844	163,019
Loans and advances to customers	-	-	110,107	110,107	119,107
Liabilities					
Debt securities	-	(294,994)	-	(294,994)	(294,994)
As at December 31, 2012					
Assets					
Investment securities	125,700	-	-	125,700	128,992
Loans and advances to customers	-	-	134,691	134,691	144,202
Liabilities					
Debt securities	-	(316,679)	-	(316,679)	(316,679)
Preference shares (mandatory redemption)	-	-	(1,808)	(1,808)	(1,808)

7. Fair Value of Financial Instruments (continued)

(c) *Financial instruments not measured at fair value* (continued)

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes interest rates and prepayment rates. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. Input into the models may include information obtained from other market participants, which includes observed primary and secondary transactions.

The fair value of debt securities is estimated using discounted cash flow techniques, applying the rates that are offered for debt securities of similar maturities and terms.

The fair value of cash and cash equivalents is the amount payable at the reporting date.

	2013	2012
	$'000	$'000
8. Cash and Cash Equivalents		
Cash and balances with banks:		
- Local currency	38,710	54,633
- Foreign currency	16,458	26,754
Short term deposits:		
- Local currency	22,087	25,077
- Foreign currency	5,480	4,709
	82,735	111,173

9. Investment Securities

	2013 $'000	2012 $'000
Held-to-maturity (a)	160,491	127,551
At fair value through profit or loss (b)	1,324	44
	161,815	127,595
Accrued interest	1,204	1,397
	163,019	128,992

(a) *Held-to-maturity*

	2013 $'000	2012 $'000
Government bonds	16,196	16,021
State owned entities securities	32,209	23,487
Corporate bonds	112,086	88,043
	160,491	127,551

Bond redemption funds

The bond redemption funds secure the floating rate bonds which mature in series from 2014 to 2020 and 2030 respectively (Note 17) and are invested in local securities issued by the Government of the Republic of Trinidad and Tobago and in various investments and deposit certificates issued by local commercial banks. These funds are managed by the various Trustees for the several Bond Issues and are to be used exclusively for the redemption of specific bonds.

(b) *At fair value through profit or loss*

	2013 $'000	2012 $'000
Corporate bonds	6	44
Equities	1,318	-
	1,324	44

10. Loans and Advances to Customers

	2013 $'000	2012 $'000
Loans		
Principal	166,377	194,259
Provision for losses	(48,136)	(50,462)
	118,241	143,797
Accrued interest	865	384
	119,106	144,181
Microcredit securities		
Principal	1	990
Provision for losses	-	(969)
	1	21
Total		
Principal	166,378	195,249
Provision for losses	(48,136)	(51,431)
	118,242	143,818
Accrued interest	865	384
	119,107	144,202
Movement in provision for loan losses		
Balance at beginning of year	51,431	52,808
Amounts written off	(1,534)	(1,174)
Specific provision made during the year (Note 25)	-	260
Provision no longer required (Note 25)	(1,761)	(463)
Balance at end of year	48,136	51,431

There was no collective impairment during the year (2012: NIL).

11. Related Party Transactions

(a) *Identity of related parties*

The Group has a related party relationship with its affiliates, subsidiary, directors, key management personnel and their immediate relatives.

11. Related Party Transactions (continued)

(b) Related party balances

	2013 $'000	2012 $'000
Due from related parties	1,200	1,198
Due to related parties	2,259	7,234

These amounts are analysed as follows:

	2013 $'000	2012 $'000
Due to		
Caribbean Development Capital Limited (a)	2,259	5,713
CDN Management Services Limited	-	938
Caribbean SME Development Finance	-	198
DFL Caribbean Holdings Limited	-	248
Caribbean Microfinance Trinidad & Tobago Limited	-	137
	2,259	7,234
Due from		
Microfin Caribbean Holdings Limited (b)	3,108	3,108
Caribbean Microfinance Trinidad & Tobago Limited (b)	6,355	9,355
CDN Management Services Limited (c)	1,094	2,045
DFL Caribbean Holdings Limited (d)	9,555	9,804
Microfin Caribbean Holdings Limited and its subsidiaries (e)	17,850	17,987
DevCap Fund Management Limited (f)	2,725	2,725
Caribbean Microfinance St Lucia Limited	-	238
	40,687	45,262
Provision for impairment (Note 25)	(39,487)	(44,064)
	1,200	1,198

Movement in provision for loan losses

	2013 $'000	2012 $'000
Balance at beginning of year	44,064	44,064
Provision no longer required (Note 25)	(4,577)	-
Balance at end of year	39,487	44,064

11. Related Party Transactions (continued)

(b) Related party balances (continued)

These amounts are unsecured and repayable as disclosed below:

(a) Amounts owed by the Group to Caribbean Development Capital Limited (DevCap) arose from the purchase of financial instruments at fair value. During the year the Group made a partial repayment of $3.4 million on the amounts owed.

(b) DFL advanced funds to the Microfin Caribbean Holdings Limited group for operating capital at fixed rates of interest covered by loan agreements. These amounts are deemed impaired and have been provided for. During the year $3 million was received from Caribbean Microfinance Trinidad and Tobago Limited.

(c) DFLSA Incorporated is a 92% owned subsidiary of Development Finance Limited. The Group received loan repayments and have not remitted the funds at year-end. On October 30, 2013 the Shareholders agreed to commence liquidation proceedings which included the Group acquiring some of the assets and liabilities of DFLSA.

(d) Funds advanced to CDN Management Services Limited will be repaid based on cash settlement of inter-company balances among related parties. These amounts are deemed impaired and have been provided for. The movement arose from offsetting balances acquired from DFLSA.

(e) Balances due from DFL Caribbean Holdings Limited arose from the re-structuring of the DFL Caribbean Holdings Limited group and transfer of ownership of a subsidiary. These amounts are deemed impaired and have been provided for. The movement arose from offsetting balances acquired from DFLSA.

(f) The Group entered into an arrangement with Caribbean Microfinance Trinidad and Tobago Limited and its parent company to make available, at the rate of 6.25% per annum, the TT$ equivalent of US$2,855,000 from bonds issued for this specific purpose on the local capital market. These amounts are deemed impaired and have been provided for.

	2013 $'000	2012 $'000
Loan to Caribbean Microfinance Trinidad and Tobago Limited	8,090	8,227
Loan to Microfin Caribbean Holdings Limited	9,760	9,760
	17,850	17,987

(g) Funds advanced to DevCap Fund Management Limited will be repaid from the sale of property. A partial provision exists.

11. Related Party Transactions (continued)

(c) Related party transactions

A number of transactions have been entered into with related parties in the normal course of business. These transactions were conducted at market rates and on commercial terms and conditions.

	2013 $'000	2012 $'000
Income and expenses:		
Interest income	2,467	2,320
Specific provisions made during the year	(4,577)	-

(d) Transactions with key management personnel

Key management personnel and their immediate relatives have transacted with the Group during the year as follows:

	2013 $'000	2012 $'000
Key management personnel compensation for the year comprised:		
Salaries and other short-term benefits	1,393	2,755
Other long-term benefits	42	133
Termination benefits	-	524

Home mortgage loans
Fully secured home mortgage loans provided under a Board approved programme available to all employees have remaining maturities ranging from one to thirty years. Interest rates charged on balances outstanding from related parties are lower than the rates that would be charged in an arm's length transaction.

	2013 $'000	2012 $'000
Loans outstanding at January 1	2,125	2,295
Loans issued during the year	-	15
Loan repayments during the year	(73)	(185)
Loans outstanding at December 31 (Note 15)	2,052	2,125

These amounts are included within other assets.

11. Related Party Transactions (continued)

(d) Transactions with key management personnel (continued)

Home mortgage loans (continued)

No impairment losses have been recorded against balances outstanding during the period with key management personnel and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at year end.

12. Computer Software

	2013 $'000	2012 $'000
Opening net book amount at January 1	62	83
Additions	83	-
Amortisation charge	(21)	(21)
Closing net book amount at December 31	124	62

13. Property and Equipment

	Freehold/ Leasehold Land $'000	Building $'000	Furniture and Equipment $'000	Total $'000
Year ended December 31, 2013				
Opening net book amount	13,790	13,535	1,488	28,813
Additions	-	-	353	353
Disposals	-	(49)	(144)	(193)
Depreciation charge	-	(288)	(323)	(611)
Closing net book amount	13,790	13,198	1,374	28,362
At December 31, 2013				
Cost/valuation	13,790	16,595	8,707	39,092
Additions	-	-	353	353
Disposals	-	(49)	(144)	(193)
Accumulated depreciation	-	(3,348)	(7,542)	(10,890)
Closing net book amount	13,790	13,198	1,374	28,362

13. Property and Equipment (continued)

	Freehold/ Leasehold Land $'000	Building $'000	Furniture and Equipment $'000	Total $'000
Year ended December 31, 2012				
Opening net book amount	13,790	13,841	1,919	29,550
Additions	-	-	39	39
Disposals	-	-	(63)	(63)
Depreciation charge	-	(306)	(407)	(713)
Closing net book amount	13,790	13,535	1,488	28,813
At December 31, 2012				
Cost/valuation	13,790	16,595	8,948	39,333
Additions	-	-	39	39
Disposals	-	-	(280)	(280)
Accumulated depreciation	-	(3,060)	(7,219)	(10,279)
Closing net book amount	13,790	13,535	1,488	28,813

The fair values at the year-end were determined by reference to valuations performed at March 31, 2009 by independent valuators.

The net book value of freehold/leasehold land and building, excluding fair value adjustment, is $7.9 million (2012: $8.2 million).

14. Deferred Tax Asset

	2013 $'000	2012 $'000
Deferred tax asset is attributable to the following items:		
Property and equipment	-	24
Tax losses	-	984
	-	1,008
Deferred tax liability is attributable to the following item:		
Fair value gains	-	(948)

	2013 $'000	2012 $'000
15. Other Assets		
Home mortgage loans (Note 11)	2,052	2,125
Motor vehicle and computer loans	103	202
EIB Loan VC	-	229
EIB Loan VI	-	1,883
EIB Loan VIIB	-	153
Bond acquired pre-settlement date	-	1,300
Receivables and prepayments	1,444	1,155
	3,599	7,047

16. Retirement Benefit Asset

	2013 $'000	2012 $'000
The amounts recognised in the statement of financial position are as follows:		
Present value of obligation	(29,090)	(29,343)
Fair value of plan assets	56,161	51,560
Asset in the statement of financial position	27,071	22,217
Movement of amounts recognised in the statement of financial position:		
Asset recognised in the statement of financial position January 1	22,217	21,384
Income (expenses) recognised in the statement of income	256	(519)
Actuarial gains recognised in the statement of comprehensive income	4,598	1,352
Asset in the statement of financial position	27,071	22,217

16. Retirement Benefit Asset (continued)

	2013 $'000	2012 $'000
The amounts recognised in the statement of income are as follows:		
Current service cost	834	1,153
Interest cost	1,451	1,610
Expected return on plan assets	(2,541)	(2,963)
Past Service Cost- vested benefits	-	719
Total included in employee costs (Note 26)	(256)	519
Expected return on plan assets	2,541	2,963
Actuarial gain on plan assets	3,559	4,421
Actual return on plan assets	6,100	7,384
Changes in the fair value of Plan assets		
Opening fair value of plan assets	51,560	47,005
Expected return on plan assets	2,541	2,963
Benefits paid	(1,499)	(2,829)
Actuarial gain on plan assets	3,559	4,421
Closing fair value of plan assets	56,161	51,560
Changes in the present value of the obligation		
Opening present value of obligation	29,343	25,621
Current service cost	834	1,153
Interest cost	1,451	1,610
Benefits paid	(1,499)	(2,829)
Past Service Cost- vested benefits	-	719
Actuarial (gain) loss	(1,039)	3,069
Closing fair value of obligation	29,090	29,343

16. Retirement Benefit Asset (continued)

	2013	2012
The principal actuarial assumptions used were:		
Discount rate	5.00%	5.00%
Future salary increases	5.00%	5.00%
Expected return on plan assets	3.00%	5.00%
Post retirement mortality		
Group annunitants mortality table 1994		
Pre-retirement mortality, withdrawal from service	Nil	Nil
Future pension increases	Nil	Nil
Proportion of employees opting for early retirement	Nil	Nil

The overall expected rate of return is the weighted average of the expected returns of the expected various categories of plan assets held.

	2013	2012
The major categories of the plan assets are:		
Local equities	40%	40%
Government securities	32%	28%
Mutual Funds	2%	5%
Other	26%	27%
	$'000	$'000
Actual return on plan assets	6,100	7,384

Defined benefit pension plan

Amounts for the current period are as follows:

	2013 $'000	2012 $'000	2011 $'000	2010 $'000	2009 $'000
Defined benefit obligation	(29,090)	(29,343)	(25,621)	(25,287)	(22,795)
Plan assets	56,161	51,560	47,005	42,438	42,511
Surplus	27,071	22,217	21,384	17,151	19,716
Experience adjustments on Plan liabilities gain	(1,039)	(2,452)	(1,038)	(140)	(243)
Remeasurement loss	-	5,521	-	-	-
Net experience adjustments on Plan liabilities gain	(1,039)	3,069	(1,038)	(140)	(243)
Experience adjustments on Plan assets gain (loss)	3,559	4,421	2,928	77	(414)

17. Debt Securities

	2013 $'000	2012 $'000
Deposits (US$)	6,467	6,432
Short-term borrowings from financial institutions	15,000	15,000
Long-term borrowings (a)	271,513	290,541
Conditional borrowings and private equity (b)	51	51
Interest accrued on long term borrowings	1,963	4,655
	294,994	316,679

The Group's borrowings are mainly long term at amortised cost. Borrowings are covered by various forms of loan agreements. These include Trust Deeds related to bond issues on capital markets and finance contracts with international institutions. The Group has complied with all terms and conditions of all borrowings and all payments have been made as contracted. The finance contracts with international institutions include operational benchmarks related to the purposes of the loan based on projections and assumptions. Changes in market conditions and implementation issues beyond the control of the borrower may delay the achievement of such benchmarks and deadlines.

(a) Long-term borrowings

	Interest Rate %	2013 $'000	2012 $'000
TT$ Floating Rate Bonds due 2014, 2017, 2030	1.00 - 6.00	161,000	161,000
Euro and Fixed Rate Bonds due 2018	3.00	11,286	9,556
US$ Fixed Rate Bonds due 2016, 2020, 2021	4.09 – 6.37	62,522	77,473
US$ Floating Rate Bonds due 2030	6.25	18,461	18,364
US$ Variable Rate Loans	3.83	18,244	24,148
		271,513	290,541

(b) Conditional borrowings and private equity funding

The Group had entered into finance contracts with the European Investment Bank (EIB) in respect of investment funds provided by the EIB (Loan 8) to be used only for private equity investments in small and medium sized enterprises. The Group has fully utilised all funding available from this source.

18. Preference Shares – Mandatory Redemption - DFLSA Inc

2,818,744 preference shares issued in accordance with a Subscription Agreement have been classified as a financial liability since redemption is mandatory over the period 2014 to 2018. This financial liability is reported at fair value through the profit and loss. The valuation is the present value of the redemption price specified in the formulas in the Subscription Agreement at a discount rate of 8.0% per annum. The formulas require Management to estimate profitability for the years 2010 – 2013.

	2013 $'000	2012 $'000
Liability at January 1	1,808	1,821
Foreign exchange gains	-	(13)
Repayment	(1,808)	-
Liability at December 31	-	1,808

On November 15, 2013, the preference shares were redeemed.

19. Other Liabilities

	2013	2012
Other creditors and accruals	1,422	474
Taxation payable	-	948
	1,422	1,422

20. Stated Capital

Authorised
Unlimited number of ordinary shares of no par value

Issued and fully paid

	2013	2012
60,300,393 ordinary shares of no par value	90,039	90,039
266,000 non-voting - 5% preference shares	26,600	26,600
200,000 non-cumulative, non-voting, convertible preference shares	20,000	20,000
	136,639	136,639

20. Stated Capital (continued)

Schedule Item (4d) of the Group's Articles of Incorporation states that the 266,000 non-voting preference shares will not, on a winding up of or other repayment of capital, entitle the holders to have the assets of the Group available for distribution among the preference shareholders. This is taken into account in the computation of net asset value per ordinary share.

The 200,000 non-cumulative, non-voting convertible preference shares carry a fixed non-cumulative preferential dividend at an interest rate of 5% per annum. This payment ranks after the non-redeemable preference shares but in priority to the Group's ordinary shares in the declaration of dividends.

On a winding up, the holders of these preference shares are entitled to receive their share of the assets of the Group available for distribution among shareholders in preference to ordinary shareholders and will be entitled to the repayment of their capital payment in priority to ordinary shareholders.

These preference shares are at the original subscription price of $20 million plus any accrued dividends. The option to redeem or convert can be exercised at any time at the sole discretion of the holders at a price of $1.00 per ordinary share.

Movement in shares issued

	Ordinary Shares		Preference Shares	
	2013	2012	2013	2012
On issue at beginning of the reporting period	60,300,393	300,393	200,000	800,000
Share conversion	-	60,000,000	-	(600,000)
On issue at end of the reporting period	60,300,393	60,300,393	200,000	200,000

21. Reserves

Statutory reserve

The Financial Institutions Act (2008) requires a financial institution to transfer annually a minimum of 10% of its net profit after taxation to a statutory reserve account until the balance on this reserve is equal to the paid up capital of the financial institution. The reserve is not available for distribution.

Contingency for general banking risks

The contingency for general banking risks is based on a minimum of 0.5% of the year-end loan portfolio allocated to SME portfolio risk.

Revaluation reserve

The revaluation reserve includes the net change in the fair value of freehold/leasehold land and building less depreciation.

	2013	**2012**
	$'000	$'000
22. Interest Income		
Loans and advances to customers	5,668	13,000
Investment securities	11,788	8,912
	17,456	21,912
23. Interest Expense		
Debt securities	12,311	14,236
24. Other Income		
Write off of EIB balances	(3,167)	-
Interest income from related parties	2,467	2,320
Net foreign exchange (losses) gains	(83)	47
Other income	1,468	365
Fair value gains on equity securities	597	-
	1,282	2,732

25. Reversal of Provision for Impairment

	2013 $'000	2012 $'000
Loans		
Specific provisions made during the year (Note 10)	-	(260)
Provision no longer required (Note 10)	1,761	463
Related parties		
Provision no longer required (Note 11)	4,577	-
Net credit for the year	6,338	203

26. General Overheads and Corporate Expenses

Included in general overheads and corporate expenses are the following:

	2013 $'000	2012 $'000
Corporate marketing and business development	270	427
Regulatory and professional fees and expenses	2,117	1,158
Assurance, business process improvement and compliance	146	423
Accommodation and communication	1,216	1,790
General corporate and ICT expenses	559	229
Employee costs:		
- Pension (income) expense (Note 16)	(256)	519
- Personnel	3,476	2,997
Depreciation and amortisation	632	734
	8,160	8,277

27. Taxation

Reconciliation of effective tax rate:

	2013 $'000	2012 $'000
Profit before taxation	5,730	2,313
Tax using the Company's domestic tax rate	102	329
Income not subject to taxation	-	(3)
Expenses not deductible for tax purposes	-	12
Current year gains for which no deferred tax is recognised	-	(201)
Green fund levy	20	28
	122	165

28. Adjustments for Non-Cash Items in Operating Activities

	2013 $'000	2012 $'000
Depreciation and amortisation	632	734
Gain on disposal of property and equipment	(14)	(62)
Provision for loans losses	(7,872)	(203)
Pension fund (income) expense (Note 16)	(256)	519
Change in fair values of financial liability	-	54
Net foreign exchange (income) loss	(320)	77
Interest income	(17,456)	(21,912)
Interest expense	12,311	14,236
Taxation	122	165
	(12,853)	(6,392)
Net interest credited to bond redemption funds	(8,903)	(7,727)
	(21,756)	(14,119)

29. Contingent Liabilities

The Group has entered into customs bonds totalling $0.7 million (2012: $0.2 million) on behalf of its clients and has provided contract performance bonds on a fully secured basis with mortgages on property and other assets.

30. Events after the Reporting Date

There are no events occurring after the consolidated statement of financial position date and before the date of approval of the consolidated financial statements by the Board of Directors that require adjustment to or disclosure in these consolidated financial statements.

31. Prior Period Adjustment

Management has agreed to comply with the requests made by the Central Bank of Trinidad and Tobago to reverse interest income previously recorded of $3.6 million. The Group continues to challenge this position.

The quantitative impact of the change is set out below:

December 31, 2011

The prior period adjustment had no impact on the consolidated financial statements as at December 31, 2011.

	Impact of changes in accounting policies		
	As previously Reported $'000	Impact $'000	As restated $'000
December 31, 2012			
Consolidated Statement of Financial Position:			
Loans and advances to customers	147,802	(3,600)	144,202
Statutory reserve	15,470	(360)	15,110
Accumulated deficit	(67,686)	(3,240)	(70,926)
Consolidated Statement of Income:			
Interest income	25,512	(3,600)	21,912
Profit for the year	5,748	(3,600)	2,148
Other comprehensive income	7,100	(3,600)	3,500