# EPPLEY LIMITED

## ANNUAL REPORT 2013

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of EPPLEY LIMITED (“the Company”) will be held at 11:30am on May 8, 2014 at 58 Half Way Tree Road for the shareholders to consider, and if thought fit, to pass the following resolutions:

## Ordinary Resolutions

1. To receive the report of the Board of Directors and the audited accounts of the Company for the financial year ended December 31, 2013.

2. To authorise the Board of Directors to reappoint PricewaterhouseCoopers as the auditors of the Company and fix their remuneration.

3. To reappoint the following Directors who have resigned by rotation in accordance with the Articles of Incorporation and being eligible have consented to act on reappointment.

   (a) Melanie Subratie
   (b) Sharon Donaldson
   (c) Nigel Clarke

4. To reappoint the following Directors who, each having been appointed to fill a casual vacancy and having resigned prior to the start of the Annual General Meeting in accordance with the Articles of Incorporation and being eligible, have consented to reappointment:

   (a) Nicholas Scott
   (b) Keith Collister
   (c) Byron Thompson
   (d) Alexander Melville
   (e) Maxim Rochester
   (f) Jennifer Scott

5. To authorise the Board of Directors to fix the remuneration of the Directors.

Special Resolution

To amend Article of the Articles of Incorporation of the Company in order to facilitate the future sending of the report of the Board and the audited accounts of the Company in electronic form, by the insertion of the following text at the end: "For the purposes of this Article, a "copy" shall be a copy in any readable form including but not limited to print, CD-Rom or otherwise, provided always that the Company shall furnish a printed copy of the report of the Board and the annual accounts to any shareholder requesting such a copy, free of charge."

Dated this 28 day of March 2014 by order of the Board of Directors.

Nigel L. Clarke
Chairman

# DIRECTORS' REPORT

The Directors are pleased to present their report for EPPLEY LIMITED for the financial year ended December 31, 2013.

## Financial Results

The Statement of Comprehensive Income for the Company shows pre-tax profit for the year of $39.8 million, taxation of $0.1 million and net profit of $39.8 million. Details of these results, along with a comparison with the previous year's performance and the state of affairs of the Company are set out in the Annual Letter to Shareholders and the Financial Statements which are included as part of this Annual Report.

## Directors

The Directors of the Company as at December 31, 2013 are: Nigel Clarke, Nicholas Scott, Melanie Subratie, Sharon Donaldson, Jennifer Scott, Keith Collister, Byron Thompson, Maxim Rochester and Alexander Melville.

The Directors to retire by rotation in accordance with the Articles of Incorporation are Melanie Subratie, Sharon Donaldson and Nigel Clarke but being eligible will offer themselves for reelection.

## Auditors

The auditors of the Company, PricewaterhouseCoopers of Scotiabank Centre, Duke Street, Kingston, Jamaica have expressed their willingness to continue in office. The Directors recommend their reappointment.

On behalf of the Board of Directors,

Nigel L. Clarke
Chairman

EPPLEY
LIMITED

58 HALF WAY TREE ROAD
KINGSTON 10, JAMAICA, W.I.
P: (876) 929-8451/4 F: (876) 920-1458

## ANNUAL LETTER TO SHAREHOLDERS

Fellow Shareholders,

Eppley produced earnings per share of $48.96 this year, generating a 13.0% return on our $377 per share listing price.[1] Our net asset value at the end of the year was $403 per share.

### Investment Strategy

Our objective is to generate consistent income with modest risk. Currently, we accomplish this by investing in credit products, particularly those out of favour with traditional lenders.

We look for loan, lease and other types of credit opportunities where credit spreads exceed the risk of default. We are not predisposed to a particular product, industry or geography. Instead, we prefer to assess each opportunity on its own merits.

While we adhere to policies that limit our concentration risk, we consider careful diligence and analysis of each opportunity to be the best means of preventing losses in our portfolio.

We are focused on the risks that the Jamaican dollar will continue to devalue and that interest rates will rise. Our portfolio reflects these concerns.

To enhance returns, we employ leverage responsibly. Our liabilities are modest in relation to our capital, fairly priced and fixed. Our debts also come due long after our assets mature and impose minimal restrictions on our investment decisions.

As markets and economic conditions evolve, our strategy may change. Our goal to generate attractive and consistent risk-adjusted returns will not.

We are also committed to distributing the vast majority our earnings to shareholders. As a result, while Eppley is a limited liability company, its behavior resembles a closed-end credit portfolio.

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[1] Based on our share count following our IPO and at yearend, which we consider the most appropriate measure. Our IFRS EPS is calculated using a weighted average share count and would have resulted in a much higher EPS of $61.04.

N.L. Clarke, M. Subratie, N.A. Scott, S. Donaldson, B. Thompson, M. Rochester, K. Collister, A. Melville, J. Scott

## Portfolio Update

At the end of 2013, our investment portfolio was $757 million. The gross income yield on our portfolio was 15% and its average tenor was 20 months. Our capital-at-risk was about 2% of our capital.[1] A summary of our portfolio is outlined in the following table.

| | Investment assets, millions | Average yield, % |
|---|---|---|
| Insurance premium finance | 126 | 24% |
| Loans | 301 | 16% |
| Leases | 169 | 15% |
| Cash and securities | 162 | 7% |
| Total | 757 | 15% |

Our insurance premium finance contracts remained stable last year. Here we finance personal lines premiums mostly on motor vehicle and homeowners insurance on behalf of thousands of customers. In all instances our credit risk is that of the underlying insurer.

The growth of our portfolio in the second half of the year was driven by heavy investments in leases and loans. In our lease portfolio, we purchased fleets of motor vehicles and equipment on behalf of commercial lessees. In our loan portfolio, we structured a few specialized commercial term loans. In both instances, our counterparties are mainly large companies that already enjoy access to capital but have chosen to do business with Eppley. In all instances we either have a security interest in the underlying collateral or own it outright.

## Funding and Capitalization

Last year we concluded three separate capital raises. We completed a private equity round of equity financing in the Spring followed by our listing on the Jamaica Stock Exchange last summer. In late November, we also listed preference shares.

[1] Capital-at-risk is the sum of all loans and leases over 90 days and any insurance premium finance contracts not cancelled on time, both net of any provisions

At year end, our leverage (including preference shares) was 1.5x of our $321 million capital base. Our average effective cost of debt was 9.5%.

We had $162 million of cash on hand at end of 2013. This relatively high balance reflects the receipt of the proceeds of our preference shares just weeks prior to yearend. When this liquidity is exhausted, likely in the second half of 2014, we expect to increase our portfolio through additional leverage.

<u>Financial Performance</u>
Our profit after tax in 2013 was $39 million or more than double our earnings in 2013. Our earnings per share, which takes into account all new shares issued during the year, increased by 43%.

<u>Dividends</u>
We declared and paid our first quarterly ordinary dividend of $9 per share in 2014. This is equivalent to a 9.55% annualized yield on our $377 per share listing price. Subject to Board discretion, we aim to maintain this level of quarterly dividends. If necessary, we will adjust our final dividend each year to ensure that most of our earnings are passed on to shareholders.

<u>Operations</u>
Following our listing, we reinforced our team to ensure that our credit and accounting functions exceed those expected of a public company.

While this team of professionals manages our business on a daily basis, our investment committee has collective responsibility for all material investment decisions.

We wish to thank our entire team of professionals and directors for their contributions this year.

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In summary, we are pleased by Eppley's investments and financial performance since our IPO. We ended 2013 with sufficient liquidity to grow our business and a healthy pipeline of opportunities. As we begin 2014, we are focused on deploying this liquidity prudently in line with our investment strategy.

Cordially,

N. L. Clarke

Nigel L. Clarke
Chairman

Nicholas Scott

Nicholas A. Scott
Managing Director

## Ten Largest Shareholders
*(at December 31, 2013)*

| | |
|---|---|
| Musson Investments Limited | 299,999 |
| Appliance Traders Group Pension Scheme | 204,250 |
| Stony Hill Capital Limited | 121,666 |
| General Accident Insurance Company Jamaica Limited | 73,000 |
| Michael Subratie | 33,268 |
| Ravers Limited | 22,134 |
| Nicholas Scott | 8,357 |
| Nigel Clarke | 5,305 |
| Tropical Battery Company Limited | 5,300 |
| Maxim Rochester | 3,978 |

## Shareholdings of Directors
*(at December 31, 2013)*

| | Direct | Connected |
|---|---|---|
| Nigel Clarke | 5,305 | - |
| Melanie Subratie | - | 299,999 |
| Nicholas Scott | 8,357 | - |
| Sharon Donaldson | 800 | - |
| Jennifer Scott | - | - |
| Keith Collister | - | - |
| Byron Thompson | 2,000 | - |
| Maxim Rochester | 3,978 | - |
| Alexander Melville | 5,300 | - |

## Shareholdings of Executives
*(at December 31, 2013)*

| | Direct | Connected |
|---|---|---|
| Nadia Jervis | 277 | - |
| Jacquelin Watson | - | - |

# EPPLEY LIMITED
(formerly Orrett & Musson Investment Company Limited)

**Financial Statements**
**31 December 2013**

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(formerly Orrett & Musson Investment Company Limited)
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**31 December 2013**

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*Independent Auditors' Report*

To the Members of
Eppley Limited (formerly Orrett and Musson Investment Company Limited)

**Report on the Financial Statements**
We have audited the accompanying financial statements of Eppley Limited, set out on pages 1 to 36, which comprise the statement of financial position as at 31 December 2013 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

***Management's Responsibility for the Financial Statements***
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act, 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

*PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica*
*T: (876) 922 6230, F: (876) 922 7581,* www.pwc.com/jm

C.D.W. Maxwell E.A. Crawford P.E. Williams L.A. McKnight L.E. Augier A.K. Jain B.L. Scott B.J. Denning
G.A. Reece P.A. Williams R.S. Nathan

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***Opinion***
In our opinion, the financial statements give a true and fair view of the financial position of Eppley Limited as at 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

**Report on Other Legal and Regulatory Requirements**
As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

Chartered Accountants

PricewaterhouseCoopers

31 March 2014
Kingston, Jamaica

# Eppley Limited

(formerly Orrett and Musson Investment Company Limited)
Statement of Comprehensive Income
**Year ended 31 December 2013**
(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|---|
| **Net Investment Income** | | | |
| Interest income | | 65,292 | 79,342 |
| Interest expense | | (16,554) | (29,381) |
| **Net interest income** | | 48,738 | 49,961 |
| Other operating income | 8 | 24,233 | 10,195 |
| Administrative expenses | 9 | (33,920) | (36,292) |
| **Profit before Taxation** | | 39,051 | 23,864 |
| Taxation | 11 | (66) | (8,802) |
| **Net Profit, being Total Comprehensive Income for the Year** | | 38,985 | 15,062 |
| | | | |
| Basic Earnings per Share | 12 | $71.66 | $50.21 |

# Eppley Limited
(formerly Orrett and Musson Investment Company Limited)
Statement of Financial Position
**31 December 2013**
(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and deposits | 13 | 161,531 | 3,361 |
| Taxation recoverable | | 441 | 22 |
| Other receivables | 14 | 52,624 | - |
| Insurance premium financing receivables | 15 | 125,662 | 58,662 |
| Loans receivable | 16 | 301,102 | 399,197 |
| Lease receivables | 17 | 168,724 | - |
| **Property, plant and equipment** | 18 | 4,407 | 2,108 |
| **Total assets** | | 814,491 | 463,350 |
| **Liabilities** | | | |
| **Due to related parties** | 19 | 1,653 | 1,653 |
| Taxation payable | | 1,082 | 3,707 |
| **Deferred taxation** | 20 | 273 | 207 |
| **Borrowings** | 21 | 474,271 | 345,820 |
| Other liabilities | 22 | 16,237 | 10,862 |
| **Total liabilities** | | 493,516 | 362,249 |
| **Shareholders' Equity** | | | |
| **Share capital** | 23 | 181,189 | 300 |
| **Retained earnings** | | 139,786 | 100,801 |
| Total shareholders' equity | | 320,975 | 101,101 |
| **Total Liabilities and Equity** | | 814,491 | 463,350 |

**Approved for issue by the Board of Directors on 28 March 2014 and signed on its behalf by:**

Nigel L. Clarke — Chairman

Nicholas Scott

Nicholas A. Scott — Managing Director

# Eppley Limited

(formerly Orrett and Musson Investment Company Limited)
Statement of Changes in Equity
**Year ended 31 December 2013**
(expressed in Jamaican dollars unless otherwise indicated)

| | Note | Share Capital $'000 | Retained Earnings $'000 | Total $'000 |
|---|---|---|---|---|
| Balance at 1 January 2012 | | 300 | 85,739 | 86,039 |
| Total comprehensive income for the year | | - | 15,062 | 15,062 |
| **Balance at 31 December 2012** | | 300 | 100,801 | 101,101 |
| Total comprehensive income for the year | | - | 38,985 | 38,985 |
| **Transactions with owners -** | | | | |
| Issue of shares | 23 | 180,889 | - | 180,889 |
| **Balance at 31 December 2013** | | 181,189 | 139,786 | 320,975 |

# Eppley Limited

(formerly Orrett and Musson Investment Company Limited)
Statement of Cash Flows
**Year ended 31 December 2013**
(expressed in Jamaican dollars unless otherwise indicated)

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net profit | 38,985 | 15,062 |
| Adjustments for: | | |
| Depreciation | 1,182 | 321 |
| Gain on disposal of property, plant and equipment and intangible assets | - | (120) |
| Interest income | (65,292) | (79,342) |
| Interest expense | 16,554 | 29,381 |
| Exchange gains on foreign balances | (14,203) | (24,272) |
| Taxation | 66 | 8,802 |
| | (22,708) | (50,168) |
| Changes in non-cash working capital components: | | |
| Other receivables | (52,624) | 19 |
| Insurance premium financing receivables | (65,642) | 111,427 |
| Loan receivables | 135,954 | 26,494 |
| Lease receivables | (167,960) | - |
| Interest received | 65,292 | 100,394 |
| Other liabilities | 5,373 | (44,914) |
| Due to related parties | - | (7,860) |
| | (102,315) | 135,392 |
| Taxation paid | (3,042) | (14,148) |
| Interest paid | (16,806) | (29,381) |
| Net cash (used in)/provided by operating activities | (122,163) | 91,863 |
| **Flows from Investing Activities** | | |
| Additions to property, plant & equipment | (3,481) | (158) |
| Proceeds from sale of property, plant and equipment | - | 500 |
| Net cash (used in)/provided by investing activities carried forward | (3,481) | 342 |

# Eppley Limited

(formerly Orrett and Musson Investment Company Limited)
Statement of Cash Flows (Continued)
**Year ended 31 December 2013**
(expressed in Jamaican dollars unless otherwise indicated)

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Net cash (used in)/provided by investing activities brought forward | (3,481) | 342 |
| **Cash Flows from Financing Activities** | | |
| Shares issued | 135,021 | - |
| Loans received | 535,959 | 63,434 |
| Loans repaid | (387,495) | (158,689) |
| Net cash provided by/(used in) financing activates | 283,485 | (95,255) |
| Increase/(decrease) in net cash balances | 157,841 | (3,050) |
| Effects of foreign exchange rates changes on cash and cash equivalents | 329 | (102) |
| **Cash and cash equivalents at beginning of year** | 3,361 | 6,513 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR (NOTE 13)** | 161,531 | 3,361 |

**Non-cash transactions**

The non-cash transaction relate to the repayment of loan through shares issued to related party totalling $45,868,000.

# Eppley Limited

(formerly Orrett and Musson Investment Company Limited)
Notes to the Financial Statements
**31 December 2013**
(expressed in Jamaican dollars unless otherwise indicated)

## 1. Identification and Activities

Eppley Limited (formerly Orrett and Musson Investment Company Limited) (the company) is a limited liability company incorporated and domiciled in Jamaica. The registered office of the company is located at 58 Half Way Tree Road, Kingston 10. On 29 July 2013, the company issued ordinary shares to the public, and became listed on the Junior Market of the Jamaica Stock Exchange.

The principal activity of the company is investing in credit products including insurance premium, loan and lease financing.

## 2. Summary of Significant Accounting Policies

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

### (a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

***Standards, interpretations and amendments to published standards effective in 2013 which are relevant to the company's operations***

Certain new standards, amendments and interpretations to existing standards have been published that became effective during the current financial year and are relevant to the company's operations. The adoption of these new pronouncements has impacted the company as discussed below.

- **IAS 1 (Amendment), 'Presentation of financial statements' (effective 1 July 2012).** This amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. The Company has adopted these amendments from 1 January 2013, but it has no impact as presently there are no items presented in OCI.

- **IFRS 11, 'Joint arrangements,' (effective 1 January 2013).** The standard gives a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Company has assessed the impact of IFRS 11 and has concluded that there is no impact on the financial statements.

# Eppley Limited

(formerly Orrett and Musson Investment Company Limited)
Notes to the Financial Statements
**31 December 2013**
(expressed in Jamaican dollars unless otherwise indicated)

## 2. Summary of Significant Accounting Policies (Continued)

### (a) Basis of preparation (continued)

***Standards, interpretations and amendments to published standards effective in 2013 which are relevant to the company's operations (continued)***

- **IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2013).** This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Management has adopted the provisions of this standard and has concluded there will be no impact on the Company.

- **IFRS 13, 'Fair Value Measurement', (effective 1 January 2013).** This standard, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company has adopted the standard from 1 January 2013, and this has impacted on disclosures.

***Accounting pronouncements that are not yet effective, and have not been early adopted*** At the date of authorisation of these financial statements, certain new standards, interpretations and amendments to existing standards have been issued which are mandatory for the company's accounting periods beginning on or after 1 January 2012 or later periods, but were not effective at the date of the statement of financial position, and which the company has not early adopted. The company has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

- **IAS 32, (Amendment), 'Financial instruments: Presentation', (effective 1 January 2014).** These amendments clarify some of the requirements for offsetting financial assets and a financial liability on the balance sheet. Management is currently assessing the impact this may have on the Company.

- **IAS 36, (Amendment), 'Impairment of assets', (effective 1 January 2014).** This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The Company will adopt the standard from 1 January 2014.

- **IFRS 9, 'Financial instruments' (effective 1 January 2015)**. The standard introduces new requirements for the classification and measurement of financial assets and liabilities and is effective from 1 January 2015 with early adoption permitted. The standard divides all financial assets and liabilities that are currently in the scope of IAS 39 into two classifications – those measured at amortised cost and those measured at fair value. This standard is a work in progress and will eventually replace IAS 39 in its entirety. Management is currently assessing the impact this may have on the company.

## 2. Summary of Significant Accounting Policies (Continued)

### (b) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the company's activities. Revenue represents interest income earned on insurance premium, loan and lease financing and investments.

***Interest income***

Interest income is recognised in the statement of comprehensive income on a time proportion basis using the effective interest method. When a receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate and continues unwinding the discount as interest income.

### (c) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which it operates (the functional currency). The financial statements are presented in Jamaican dollars which is also the company's functional currency.

(ii) *Transactions and balances*

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

### (d) Financial instruments

Financial instruments carried on the statement of financial position include insurance premium financing receivables, loans receivable, other receivables, cash and deposits, borrowings, due to related parties and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The fair value of the company's financial instruments is discussed in Note 6.

### (e) Cash and cash equivalents

Cash and cash equivalents are stated at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise balances with maturity dates of less than 90 days from the dates of acquisition including cash and bank balances and deposits held on call with banks and bank overdraft.

### (f) Insurance premium financing receivables

Insurance premium financing (IPF) receivables are non-derivative financial assets with fixed or determinable payments. They are initially recorded at fair value, which is the cash given to originate the receivable including transaction costs, and subsequently measured at amortised cost less provision for impairment of these receivables.

## 2. Summary of Significant Accounting Policies (Continued)

### (g) Loans and leases receivable

Loans are recognised when the cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate the loan including any transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

A provision for bad debts is established if there is objective evidence that a loan is impaired. A loan is considered impaired when management determines that it is probable that all amounts due will not be collected according to the original contractual terms. When a loan has been identified as impaired, the carrying amount of the loan is reduced by recording specific provisions for bad debt to its estimated recoverable amount, which is the present value of the expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan.

### (h) Investments

Investments are classified as financial assets at fair value through profit or loss. Management determines the appropriate classification of investments at the time of purchase. Purchases and sales of investments are recognised on the trade date, which is the date that the company commits to purchase or sell the asset.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading or designated at fair value through profit or loss at inception. The company has designated certain of its equity securities at fair value through profit or loss as they are managed and their performance evaluated on a fair value basis.

Investments classified as financial assets at fair value through profit or loss, are initially recognised at fair value with all transaction costs incurred being expensed in the statement of comprehensive income. Investments at fair value through profit or loss are subsequently measured at fair value. Gains or losses arising from changes in the fair value of investments at fair value through the profit or loss are presented in investment income in the statement of comprehensive income.

The company assesses at each year end whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount. For the company's investments, the recoverable amount is determined by reference to the quoted bid price at the date of the statement of financial position.

# Eppley Limited

(formerly Orrett and Musson Investment Company Limited)
Notes to the Financial Statements
**31 December 2013**
(expressed in Jamaican dollars unless otherwise indicated)

## 2. Summary of Significant Accounting Policies (Continued)

### (i) Property, plant & equipment

Property, plant & equipment are stated at cost less accumulated depreciation and impairment. Depreciation is computed on the straight line method at rates estimated to write off the assets over their expected useful lives as follows:

| | |
|---|---|
| Furniture & fixtures and equipment | 10% - 25% |
| Motor vehicles | 25% |

Property, plant & equipment are reviewed periodically for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property, plant & equipment are determined by reference to their carrying amount and are taken into account in determining profit before taxation. Repairs and renewals are charged to the statement of comprehensive income when the expenditure is incurred.

### (j) Intangible assets

*Computer software*
Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful life, which is four years.

### (k) Impairment of long-lived assets

Long-lived assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

### (l) Receivables

Receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest.

### (m) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective yield method.

### (n) Accounts payable

Payables are recognised at fair value and subsequently measured at amortised cost.

**2. Summary of Significant Accounting Policies (Continued)**

**(o) Taxation**

Taxation on the profit or loss for the year comprises current and deferred tax. Current and deferred taxes are recognised as income tax expense or benefit in the statement of comprehensive income, except where they relate to items recorded in shareholders' equity, in which case they are charged or credited to equity.

(i) *Current taxation*

Current tax is the expected taxation payable on the taxable income for the year, using tax rates enacted at year end, and any adjustment to tax payable and tax losses in respect of the previous years.

(ii) *Deferred income taxes*

Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates.

**(p) Employee benefits**

*(i) Pension obligations*

The company participates in the defined contribution pension plan of a related company, T. Geddes Grant (Distributors Limited) Limited. A defined contribution pension plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions paid by the company are recorded as an expense in the statement of comprehensive income.

*(ii) Accrued vacation*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the year end.

*(iii) Termination benefits*

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

*(iv) Profit-sharing and bonus plan*

The company recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## 2. Summary of Significant Accounting Policies (Continued)

### (q) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### (r) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

## 3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

### (a) Critical judgements in applying the company's accounting policies

In the process of applying the company's accounting policies, management has made no significant judgements on the amounts recognised in the financial statements.

### (b) Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

***(i) Impairment losses on insurance premium financing, loans and leases***

The company reviews its insurance premium and loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the accounts outstanding. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets of the borrower. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

***(ii) Income taxes***

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

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## 4. Financial Risk Management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's risk management programme seeks to minimise potential adverse effects on its financial performance.

The Company's risk management policies are designed to identify and analyse these risks, to set appropriate limits and controls, and to monitor adherence by means of reliable and up-to-date information systems. The company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the Company's risk management framework. The Board of Directors has established committees and departments for managing and monitoring risks, as follows:

(i) Investment Committee
The Investment Committee is responsible for recommending investment strategies and credit policies to the Board of Directors. It is also responsible for approving certain individual loans, leases and other credit investments in compliance with the Company's policies.

(ii) Finance Department
The Finance Department is responsible for managing the Company's accounting, financial reporting and compliance functions, including the management of the Company's accounting and investment management information systems. It is also primarily responsible for managing the funding and liquidity risks of the Company.

(iii) Audit Committee
The Audit Committee develops and recommends accounting and risk management policies to the Board of Directors. It also oversees management's compliance with the Company's risk management policies and procedures. . In addition, the Audit Committee regularly reviews the Company's financial reporting and makes recommendations to the Board of Directors.

### (a) Credit risk

The company takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the company by failing to discharge their contractual obligations. Credit risk is the most important risk for the company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally from the insurance premium financing receivables, lease receivable, loans receivable and cash and deposits. The company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties.

***Credit review process***

(i) Cash and deposits
The company limits its exposure to credit risk by placing cash and deposits with counterparties that are regulated and publicly disclose financial information. Management assesses each counterparties credit quality and levels of liquidity. Accordingly, management seeks to mitigate the risk that any single counterparty will fail to meet its obligations. Furthermore, Management takes steps to diversify its cash and deposits among a group of counterparties in order to further mitigate the risk of loss.

**4. Financial Risk Management (continued)**

**(a) Credit risk (continued)**

***Credit review process (continued)***

(ii) Insurance premium financing

The company's exposure to credit risk is influenced mainly by its ability to receive adequate unearned premium refunds from its general insurance counterparties in the event of a default. Management assesses and monitors the credit worthiness of each counterparty. In most instances, the ultimate counterparties are general insurance companies regulated by the Financial Services Commission. The company, through its information systems and financial reporting, also closely monitors the size of the unearned premium under each underlying insurance policy to ensure that it exceeds its insurance premium finance receivable.

(iii) Leases and loans receivable

The company's exposure to credit risk is driven by the ability of the borrower or lessee to repay its obligations when due. In the case of loans, the company's credit risk can be mitigated by the assignment of salary and other cash flows, and security interest in various forms of collateral or guarantees. In the case of leases, the company owns the lease equipment and can monetize it in the event of a default. The Investment Committee is responsible for approving and monitoring individual loans, leases and other credit investments in compliance with investment strategies and credit policies approved by the Board of Directors. Senior management personnel meet on a weekly basis to discuss and analyse the ability of counterparties to meet repayment obligations.

## 4. Financial Risk Management (Continued)

### (a) Credit risk (continued)

***Maximum exposure to credit risk***

The company's maximum exposure to credit risk at year end was as follows:

| | 2013 | 2012 |
|---|---|---|
| | $'000 | $'000 |
| Cash and deposits | 161,531 | 3,361 |
| Insurance premium financing receivables | 125,662 | 58,662 |
| Loans receivable | 301,102 | 399,197 |
| Lease Receivables | 168,724 | - |
| | 757,019 | 461,220 |

The above table represents a worst case scenario of credit risk exposure to the company at 31 December 2013 and 2012.

*Insurance premium financing receivables*
IPF receivables that are less than 90 days past due and for which the related insurance policies are still in force, are not considered impaired. There are no IPF receivables that are past due but not considered impaired.

As of 31 December 2013, IPF receivables of $2,485,000 (2012 – $2,485,000) were impaired and have been fully provided for. These receivables were in arrears for over 90 days and the related insurance policies had expired.

The movement on the provision for impairment of IPF Receivables was as follows:

| | 2013 | 2012 |
|---|---|---|
| | $'000 | $'000 |
| At 1 January | 2,485 | 4,762 |
| Unused amounts reversed | - | (536) |
| Bad debts written off | - | (1,741) |
| At 31 December | 2,485 | 2,485 |

The creation and release of provision for impaired receivables have been included in expenses in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

**4. Financial Risk Management (Continued)**

**(a) Credit risk (continued)**

*Loans receivable*
Loans receivables that are less than 90 days past due and those for which adequate collateral is in place, are not considered impaired. The ageing analysis of loans receivable that are past due but not considered impaired is as follows:

| | 2013 | 2012 |
|---|---|---|
| | $'000 | $'000 |
| Over 90 days | 11,913 | 3,468 |

As of 31 December 2013, loans receivables of $7,981,000 (2012 – $21,084,000) were considered to be impaired and are fully provided for. These receivables were all aged over 90 days.

**(b) Liquidity risk**
Liquidity risk is the risk that the company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to fulfil loan payments and other liabilities incurred.

***Liquidity risk management process***
The company's liquidity management process, as carried out within the company and monitored by the Board of Directors, includes:

(i) Monitoring future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and accessing credit from related parties or financial institutions if required;
(ii) Optimising cash returns on short term investments; and
(iii) Monitoring financial position liquidity ratios against internal requirements.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the company. It is unusual for companies ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the company and its exposure to changes in interest rates and exchange rates.

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## 4. Financial Risk Management (Continued)

### (b) Liquidity risk (continued)

***Financial assets and liabilities cash flows***
The tables below present the undiscounted cash flows of the company's financial assets and liabilities based on contractual repayment obligations:

| | Within 1 Month $'000 | 1 to 3 Months $'000 | 3 to 12 Months $'000 | 1 to 5 Years $'000 | Total $'000 |
|---|---|---|---|---|---|
| **As at 31 December 2013:** | | | | | |
| **Financial Assets** | | | | | |
| Cash and deposits | 162,201 | - | - | - | 162,201 |
| Insurance premium financing | 11,831 | 31,310 | 89,433 | - | 132,574 |
| Leases | 7,180 | 14,359 | 64,616 | 121,681 | 207,836 |
| Loans receivable | 169,435 | 8,178 | 40,866 | 118,053 | 336,532 |
| **Total financial assets (contractual maturity dates)** | 350,647 | 53,847 | 194,915 | 239,734 | 839,143 |
| **Financial Liabilities** | | | | | |
| Due to related parties | 1,653 | - | - | - | 1,653 |
| Borrowings | 3,248 | 117,681 | 24,558 | 492,832 | 638,319 |
| Other | 843 | 13,172 | 1,829 | 393 | 16,237 |
| **Total financial liabilities (contractual maturity dates)** | 5,744 | 130,853 | 26,387 | 493,225 | 656,209 |
| **Net Liquidity Gap** | 344,903 | (77,006) | 168,528 | (253,491) | 182,934 |
| **Cumulative gap** | 344,903 | 267,897 | 436,425 | 182,934 | - |

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**4. Financial Risk Management (Continued)**

**(b) Liquidity risk (continued)**

***Financial assets and liabilities cash flows***

| | Within 1 Month $'000 | 1 to 3 Months $'000 | 3 to 12 Months $'000 | 1 to 5 Years $'000 | Total $'000 |
|---|---|---|---|---|---|
| **As at 31 December 2012:** | | | | | |
| **Financial Assets** | | | | | |
| Cash and deposits | 3,361 | - | - | - | 3,361 |
| Insurance premium financing | 27,113 | 24,375 | 15,561 | - | 67,049 |
| Leases | - | - | - | - | - |
| Loans receivable | 366,553 | 6,940 | 22,588 | 22,246 | 418,327 |
| **Total financial assets (contractual maturity dates)** | 397,027 | 31,315 | 38,149 | 22,246 | 488,737 |
| **Financial Liabilities** | | | | | |
| Due to related parties | 1,653 | - | - | - | 1,653 |
| Borrowings | 2,431 | 98,901 | 272,585 | - | 373,917 |
| Other | 2,991 | 3,153 | 4,718 | - | 10,862 |
| **Total financial liabilities (contractual maturity dates)** | 7,075 | 102,054 | 277,303 | - | 386,432 |
| **Net Liquidity Gap** | 389,952 | (70,739) | (239,154) | 22,246 | 102,305 |
| **Cumulative gap** | 389,952 | 319,213 | 80,059 | 102,305 | - |

Assets available to meet all of the liabilities and to cover financial liabilities include cash and short term investments.

**(c) Market risk**

The company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk exposures are measured using sensitivity analysis. There has been no change to the manner in which the Company manages and measures this risk.

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## 4. Financial Risk Management (Continued)

### (c) Market risk (continued)

***Currency risk***
Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The company is exposed to foreign exchange risk arising from the United States dollar. The company manages the foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions.

***Concentrations of currency risk***
The table below summarises the company's exposure to foreign currency exchange rate risk at 31 December.

| | Jamaican$ | US$ | Total |
|---|---|---|---|
| | J$'000 | J$'000 | J$'000 |
| **At 31 December 2013:** | | | |
| **Financial Assets** | | | |
| Cash and deposits | 139,329 | 22,202 | 161,531 |
| Insurance premium financing receivables | 102,926 | 22,736 | 125,662 |
| Lease receivable | 122,022 | 46,702 | 168,724 |
| Loans receivable | 27,894 | 273,208 | 301,102 |
| Total financial assets | 392,171 | 364,848 | 757,019 |
| **Financial Liabilities** | | | |
| Due to related parties | 1,653 | - | 1,653 |
| Borrowings | 362,454 | 111,817 | 474,271 |
| Other | 16,237 | - | 16,237 |
| Total financial liabilities | 380,344 | 111,817 | 492,161 |
| **Net Financial Position** | 11,827 | 253,031 | 264,858 |

| | Jamaican$ | US$ | Total |
|---|---|---|---|
| | J$'000 | J$'000 | J$'000 |
| **At 31 December 2012** | | | |
| **Financial Assets** | | | |
| Cash and deposits | 1,092 | 2,269 | 3,361 |
| Insurance premium financing receivables | 58,662 | - | 58,662 |
| Loans receivable | 44,326 | 354,871 | 399,197 |
| Total financial assets | 104,080 | 357,140 | 461,220 |
| **Financial Liabilities** | | | |
| Due to related parties | 1,653 | - | 1,653 |
| Borrowings | 66,635 | 279,185 | 345,820 |
| Other | 10,862 | - | 10,862 |
| Total financial liabilities | 79,150 | 279,185 | 358,335 |
| **Net Financial Position** | 24,930 | 77,955 | 102,885 |

(expressed in Jamaican dollars unless otherwise indicated)

## 4. Financial Risk Management (Continued)

### (c) Market risk (continued)

***Currency risk (continued)***

***Foreign currency sensitivity***
The following tables indicate the currencies to which the company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates, with all other variables held constant. The sensitivity analysis on pre-tax profit is based on foreign currency denominated monetary items at the year end. As there are no foreign denominated investment securities, there is no impact on other components of equity.

| | % Change in Currency Rate 2013 | Effect on Profit before Taxation 2013 | % Change in Currency Rate 2012 | Effect on Profit before Taxation 2012 |
|---|---|---|---|---|
| USD - Revaluation | 1% | (2,530) | 1% | (780) |
| USD - Devaluation | 15% | 37,955 | 10% | 7,796 |

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## 4. Financial Risk Management (Continued)

### (c) Market risk (continued)

***Interest rate risk***
Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the company to cash flow interest risk, whereas fixed interest rate instruments expose the company to fair value interest risk.

The following tables summarise the company's exposure to interest rate risk. It includes the company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

| | Within 1 Month $'000 | 1 to 3 Months $'000 | 3 to 12 Months $'000 | 1 to 5 Years $'000 | Non-Interest Bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **At 31 December 2013:** | | | | | | |
| **Assets** | | | | | | |
| Cash and deposits | 161,531 | - | - | - | - | 161,531 |
| Insurance premium financing receivables | 11,008 | 29,131 | 85,523 | | - | 125,662 |
| Lease receivables | 5,828 | 162,896 | - | - | - | 168,724 |
| Loans receivable | 155,431 | 7,502 | 30,110 | 108,059 | - | 301,102 |
| Total financial assets | 333,798 | 199,529 | 115,633 | 108,059 | - | 757,019 |
| **Liabilities** | | | | | | |
| Due to related parties | - | - | - | - | 1,653 | 1,653 |
| Borrowings | - | 111,817 | - | 361,954 | 500 | 474,271 |
| Other | - | - | - | - | 16,237 | 16,237 |
| Total financial liabilities | - | 111,817 | - | 361,954 | 18,390 | 492,161 |
| **Total interest repricing gap** | 333,798 | 87,712 | 115,633 | (253,895) | (18,390) | 264,858 |
| **Cumulative gap** | 333,798 | 421,510 | 537,143 | 283,248 | 264,858 | - |

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## 4. Financial Risk Management (Continued)

### (c) Market risk (continued)

***Interest rate risk (continued)***

| | Within 1 Month $'000 | 1 to 3 Months $'000 | 3 to 12 Months $'000 | 1 to 5 Years $'000 | Non-Interest Bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **At 31 December 2012** | | | | | | |
| **Assets** | | | | | | |
| Cash and deposits | 3,361 | - | - | - | - | 3,361 |
| Insurance premium financing receivables | 24,751 | 22,250 | 11,661 | - | - | 58,662 |
| Loans receivable | 7,886 | 4,620 | 370,213 | 16,478 | - | 399,197 |
| Total financial assets | 35,998 | 26,870 | 381,874 | 16,478 | - | 461,220 |
| **Liabilities** | | | | | | |
| Due to related parties | - | - | - | - | 1,653 | 1,653 |
| Borrowings | - | 97,160 | 248,160 | - | 500 | 345,820 |
| Other | - | - | - | - | 10,862 | 10,862 |
| Total financial liabilities | - | 97,160 | 248,160 | - | 13,015 | 358,335 |
| **Total interest repricing gap** | 35,998 | (70,290) | 133,714 | 16,478 | (13,015) | 102,885 |
| **Cumulative gap** | 35,998 | (34,292) | 99,422 | 115,900 | 102,885 | - |

***Interest rate sensitivity***

The company does not have any sensitivity to interest rate risk as all financial assets and liabilities are at fixed rates, except for lease receivables for which the company has the option to re-price in specific circumstances including, increases in the interest rates of benchmark Government of Jamaica securities and changes to the creditworthiness of the lessees.

## 5. Capital Management

Capital management is assessed by the senior management of the company. The objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

(i) To safeguard the company's ability to continue as a going concern so that it can continue to provide returns for stockholders and benefits for other stakeholders; and

(ii) To maintain a strong capital base to support the development of its business.

The company is not subject to externally imposed capital requirements.

## 6. Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The company groups financial instruments into levels 1 to 3 based on the degree to which the fair value is observable, as follows:

- Level 1 fair value measurements are those derived from quoted (unadjusted in active markets for identical instruments;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the instrument, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the instrument that are not based on observable market data (unobservable inputs).

The following methods and assumptions have been used in determining fair values for instruments no re-measured at their fair value after initial recognition.

(i) The face value, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year are estimated to approximate their fair values. These financial assets and liabilities include cash, short-term deposits, insurance premium receivables, loans receivables and loans from related parties.
(ii) The carrying value of long term loans payable from external lenders approximate their fair values, as these loans are listed on an exchange and as at year end, the closing bid price represents the their carrying values, being the amortised cost.

There are no financial assets and financial liabilities measured at fair value at the year end or the prior year.

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## 7. Segment Information

The operating segments are based on the reports reviewed by the Board of Directors that are used to make strategic investment decisions. All operating segments used by management meet the definition of a reportable segment under IFRS 8.

These segments represent the different types of credit offering that are written by the entity. Management identifies its reportable operating segments by product line consistent with the reports used by the Board of Directors. Operating segments are subject to change according to the Company's investment strategies. These segments and their respective operations are as follows:

- Insurance Premium Finance (IPF) - These represent short term loans issued to customers for the financing of insurance premiums. These contracts normally have a duration of 3 to 9 months.
- Loans – These represent credit extended to customers with average tenure of 2 years. These loans are mostly secured by collateral, guarantees and payroll deductions.
- Leases: - These represent credit extended for the purchase of equipment and motor vehicle and have a duration of 2 to 5 years.

| 2013 | Insurance Premium Finance | Loans | Leases | Total |
|---|---|---|---|---|
| Interest income as per segment | 25,587 | 31,050 | 6,117 | 62,754 |
| Unallocated income | | | | 26,771 |
| Unallocated expense | | | | (50,474) |
| **Profit before Taxation** | | | | 39,051 |
| Taxation | | | | (66) |
| **Net Profit** | | | | 38,985 |

| 2012 | Insurance Premium Finance | Loans | Leases | Total |
|---|---|---|---|---|
| Interest income as per segment | 27,381 | 51,872 | - | 79,253 |
| Unallocated income | | | | 10,284 |
| Unallocated expense | | | | (65,673) |
| **Profit before Taxation** | | | | 23,864 |
| Taxation | | | | (8,802) |
| **Net Profit** | | | | 15,062 |

Other profit and loss disclosures:

| | 2013 | 2012 |
|---|---|---|
| | $'000 | $'000 |
| Depreciation | 1,182 | 321 |

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## 7. Segment Information (Continued)

| | Total Assets 2013 $'000 | Total Assets 2012 $'000 |
|---|---|---|
| Insurance Premium Finance | 125,662 | 58,662 |
| Loans | 301,102 | 399,197 |
| Leases | 168,724 | - |
| Total segment assets | 595,488 | 457,859 |
| **Unallocated :-** | | |
| Cash and deposits | 161,531 | 3,361 |
| Taxation recoverable | 441 | 22 |
| Other receivables | 52,624 | - |
| Property, plant and equipment | 4,407 | 2,108 |
| **Total Assets per Statement of Financial Position** | 814,491 | 463,350 |

Total capital expenditure was as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Property, plant and equipment | 3,481 | 158 |

## 8. Other Operating Income

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Bad debts recovered | 3,986 | 820 |
| Fee income | 1,717 | - |
| Foreign exchange gains | 14,203 | 4,250 |
| Gain on disposal of intangible assets | - | 120 |
| Other | 4,327 | 5,005 |
| | 24,233 | 10,195 |

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## 9. Expenses by Nature

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Auditors' remuneration - | 1,000 | 636 |
| Depreciation and amortisation | 1,182 | 321 |
| Marketing and advertising | 392 | 463 |
| Provision for doubtful debts | (141) | 4,282 |
| Other operating expenses | 3,368 | 4,865 |
| Professional fees | 1,029 | 211 |
| Rent and maintenance | 1,132 | 1,220 |
| Repairs and maintenance | 768 | 907 |
| Staff costs (Note 10) | 23,135 | 21,588 |
| Stationery | 1,258 | 1,122 |
| Utilities | 797 | 677 |
| Total | 33,920 | 36,292 |

## 10. Staff Costs

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Wages and salaries | 20,032 | 19,906 |
| Statutory contributions | 1,450 | 1,318 |
| Pension costs | 293 | 245 |
| Other | 1,360 | 119 |
| | 23,135 | 21,588 |

## 11. Taxation

a. The company's shares were listed on the Junior Market of the Jamaica Stock Exchange, effective 31 July 2013. Consequently, the company is entitled to a remission of tax for ten (10) years in the proportions set out below, provided the shares remain listed for at least 15 years:

| | |
|---|---|
| Years 1 to 5 | 100% |
| Years 6 to 10 | 50% |

The financial statements have been prepared on the basis that the company will have the full benefit of the tax remissions.

## 11. Taxation (Continued)

b. Taxation is based on the profit for the year adjusted for taxation purposes and represents:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Current income tax charge | - | 14,501 |
| Prior year income tax adjustment | - | (4,567) |
| Deferred tax (Note 20) | 66 | (1,132) |
| | 66 | 8,802 |

c. The tax charge on the company's profit differs from the theoretical amount that would arise using the statutory tax rate as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Profit before taxation | 39,051 | 23,864 |
| Tax calculated at 25% (2012 - 33 ⅓ %) | 9,763 | 7,955 |
| Adjusted for the effects of: | | |
| Income not subject to tax | (21,652) | - |
| Expenses not deductible for tax | 10,782 | 7,021 |
| Prior year deferred tax adjustment | - | (1,589) |
| Prior year income tax adjustment | - | (4,567) |
| Effect of change in tax rate | - | 70 |
| Net effect of other charges and allowances | 1,173 | (88) |
| | 66 | 8,802 |

## 12. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to owners by the weighted average number of ordinary shares outstanding during the year.

| | 2013 | 2012 |
|---|---|---|
| Net Profit attributable to shareholders ($'000) | 38,985 | 15,062 |
| Weighted average number of shares outstanding ('000) | 558 | 300 |
| Earnings per share ($) | 71.66 | 50.21 |

## 13. Cash and Cash Equivalents

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Cash and bank balances | 8,120 | 3,361 |
| Short term deposits | 153,411 | - |
| | 161,531 | 3,361 |

Short term deposits comprise term deposits and repurchase agreements with an average maturity of 57 days, and include interest receivable of $710,000.

The weighted average effective interest rate on short term deposits and investments were as follows:

| | 2013 % | 2012 % |
|---|---|---|
| J$ | 5.58 | - |
| US$ | 2.61 | - |

## 14. Other Receivables

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Prepaid expenses | 38 | - |
| Deferred charges | 18,384 | - |
| GCT recoverable | 34,202 | - |
| | 52,624 | - |

## 15. Insurance Premium Financing Receivables

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| IPF loans receivable from affiliates | 73,622 | - |
| IPF loans receivable from external customers | 61,437 | 67,049 |
| Unearned interest | (6,912) | (5,902) |
| | 128,147 | 61,147 |
| Less: Provision for doubtful debts | (2,485) | (2,485) |
| | 125,662 | 58,662 |

## 16. Loans Receivable

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Loans receivable from affiliates | 158,643 | - |
| Loans receivable from ultimate parent company | - | 354,871 |
| Loans receivable from external customers | 150,440 | 65,410 |
| | 309,083 | 420,281 |
| Less: Provision for doubtful debts | (7,981) | (21,084) |
| | 301,102 | 399,107 |

These represent loan financing extended to customers and include interest receivable of $4,582,000.

## 17. Leases

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Gross investment in finance leases – | | |
| Not later than one year | 85,818 | |
| Later than one year and not later than five years | 122,018 | - |
| | 207,836 | - |
| Less: Unearned income | (39,112) | - |
| | 168,724 | - |
| Net investment in finance leases may be classified as follows: | | |
| Not later than one year | 69,151 | - |
| Later than one year and not later than five years | 99,573 | - |
| | 168,724 | - |

# Eppley Limited
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(expressed in Jamaican dollars unless otherwise indicated)

## 18. Property, Plant & Equipment

| | Motor Vehicles $'000 | Furniture, Fixtures & Equipment $'000 | Total $'000 |
|---|---|---|---|
| Cost - | | | |
| At 1 January 2012 | 950 | 3,053 | 4,003 |
| Additions | - | 158 | 158 |
| Disposal | (950) | - | (950) |
| At 31 December 2012 | - | 3,211 | 3,211 |
| Additions | 3,328 | 153 | 3,481 |
| At 31 December 2013 | 3,328 | 3,364 | 6,692 |
| Depreciation - | | | |
| At 1 January 2012 | 570 | 782 | 1,352 |
| Charge for the year | - | 321 | 321 |
| Relieved on disposal | (570) | - | (570) |
| At 31 December 2012 | - | 1,103 | 1,103 |
| Charge for the year | 832 | 350 | 1,182 |
| At 31 December 2013 | 832 | 1,453 | 2,285 |
| Net Book Value - | | | |
| 31 December 2013 | 2,496 | 1,911 | 4,407 |
| 31 December 2012 | - | 2,108 | 2,108 |

# Eppley Limited
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**19. Related Party Transactions and Balances**

(a) The statement of comprehensive income includes the following transactions with related parties -

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Interest income - | | |
| Key management | 781 | - |
| Parent | - | 43,564 |
| Affiliate | 19,499 | 10,340 |
| | 20,280 | 53,904 |
| Interest expense - | | |
| Fellow subsidiary | - | 4,740 |
| Affiliate | 12,951 | 24,642 |
| | 12,951 | 29,382 |

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Key management compensation - | | |
| Directors' fees (included below) | 120 | 50 |
| Salaries and other short term benefits | 1,841 | - |
| Rental and maintenance expense - | | |
| Affiliate | 1,132 | - |
| Fellow subsidiary | - | 1,220 |

# Eppley Limited
(formerly Orrett and Musson Investment Company Limited)
Notes to the Financial Statements
**31 December 2013**
(expressed in Jamaican dollars unless otherwise indicated)

## 19. Related Party Transactions and Balances (Continued)

(b) The statement of financial position includes the following balances with group companies -

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Due to related parties - | | |
| Payable - | | |
| Parent company | - | 1,653 |
| Affiliate | 1,653 | - |
| | 1,653 | 1,653 |
| Loan due to related parties (Note 21) - | | |
| Balance at the beginning of year | 345,820 | 465,449 |
| Loans received | 175,241 | 63,434 |
| Interest charged | 12,951 | 29,382 |
| Repayments | (447,770) | (231,986) |
| Foreign exchange translation | 26,075 | 19,541 |
| Balance at end of year | 112,317 | 345,820 |
| Insurance premium financing receivables - | | |
| Affiliates (Note 15) | 73,621 | - |
| Loans receivable - | | |
| (i) Fellow subsidiaries (Note 16) - | | |
| Balance at the beginning of year | - | 369,295 |
| Loans issued | - | - |
| Interest earned | - | 5,837 |
| Repayments | - | (375,132) |
| Balance at end of year | - | - |

## 19. Related Party Transaction and Balances (Continued)

(b) The statement of financial position includes the following balances with group companies (continued) -

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| (ii) Ultimate parent company (Note 16) - | | |
| Balance at the beginning of year | 354,871 | - |
| Loans issued | - | 334,462 |
| Interest earned | 12,301 | 34,564 |
| Repayments | (394,559) | (34,564) |
| Foreign exchange translation | 27,387 | 20,409 |
| Balance at end of year | - | 354,871 |
| (iii) Affiliates | | |
| Loans issued | 304,573 | - |
| Interest earned | 5,240 | - |
| Repayments | (150,506) | - |
| Foreign exchange translation | 4,656 | - |
| Balance at end of year | 163,963 | - |
| (iv) Key management | 8,034 | 7,388 |

(i) Loan receivable from fellow affiliates represents a short term loan of US$1,000,650 which attracted interest at a rate of 2% for one month and repayable within 1 month and US$500,000 at a rate of 10% per annum, with interest payable on a monthly basis with principal amount repayable in November 2014.

(ii) Loans receivable from key management attract interest at an average rate of 9.5% (2012 – 9.5%) and is repayable within 12 months.

# Eppley Limited

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(expressed in Jamaican dollars unless otherwise indicated)

## 20. Deferred Income Taxes

Deferred income taxes are calculated on temporary differences under the liability methods using an effective tax rate of 12.5% (2012 - 33 1/3%).

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Deferred income tax assets | - | 219 |
| Deferred income tax liabilities | (66) | (426) |
| Net liability | (66) | (207) |

The movement on the deferred income tax account is as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Balance as at 1 January | 207 | 1,339 |
| Charged/(credited) to statement of comprehensive income (Note 11) | 66 | (1,132) |
| Balance as at 31 December | 273 | 207 |

Deferred income tax assets and liabilities are attributable to the following items:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Deferred income tax assets** | | |
| Accrued vacation | - | 157 |
| Interest payable | - | 62 |
| | - | 219 |
| **Deferred income tax liabilities** | | |
| Accelerated tax depreciation | - | 276 |
| Unrealised foreign exchange gains | - | 150 |
| Property, plant & equipment | 273 | - |
| | 273 | 426 |

## 21. Borrowings

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Composition of borrowings** | | |
| Long term loan from affiliate | - | 279,185 |
| Short term loan from affiliate | 112,317 | - |
| Short term loan from fellow subsidiary | - | 66,635 |
| Total related party loans (Note 19 (b)) | 112,317 | 345,820 |
| Long term loan from external lenders | 361,954 | - |
| | 474,271 | 345,820 |
| **Current** | | |
| (a) Short term loans | (112,317) | (66,635) |
| (b) Current portion of long term loan | - | (279,185) |
| Non-current borrowings | 361,954 | - |

(a) Short term loans

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| (i) Fellow subsidiary | - | 66,135 |
| (ii) Affiliates | 112,317 | 500 |
| | 112,317 | 66,635 |

(i) Loan from fellow subsidiary was repaid during the year, this loan attracted interest at a rate of 5.25%.

(ii) This balance represents loan from two (2) affiliated companies. One of the loan represents $500,000 which does not attract interest, unsecured and has no set repayment. The other loans represents US$1.1M received in February 2013 at a rate of 6% per annum and is repayable in March 2014. A portion of this loan was settled during the year by way of equity shares issued. The second loan amount of US$402,788 was received in September 2013 at a rate of 9% and was repayable in December 2013. The loan has since been repaid in January 2014.

(b) Long term loan

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Affiliate | - | 278,933 |
| Interest payable | - | 252 |
| Redeemable preference shares | 361,954 | - |
| | 361,954 | 279,185 |
| Less: current portion | - | (279,185) |
| | 361,954 | - |

This represents 60,325,600 preference shares issued in November 2013 listed on the Junior Market of the Jamaica Stock Exchange and redeemable in November 2018. These preference shares were issued at interest of 9.50%.

## 22. Other Liabilities

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Accruals | 2,971 | 2,238 |
| Due to clients | 6,939 | 6,109 |
| Other | 6,327 | 2,515 |
| | 16,237 | 10,862 |

## 23. Share Capital

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Authorised - | | |
| 800,000 (2012 300,000) Ordinary shares of no par | | |
| Issued and fully paid - | | |
| 796,249 (2012 – 300,000) stock units | 181,189 | 300 |

In May 2013, the Company issued 277,250 ordinary shares of which 73,000 was issued to an affiliated company and the remainder to a non-related Pension Fund. The fair value of the shares issued at that time was $104,523,000 ($377 per share). In July 2013 the company issued 218,999 shares to the general public. The fair value of the shares issued amounted to $82,562,000 ($377 per share). The related transaction costs amounting to $6,196,000 have been netted off with the proceeds.

## 24. Pension Scheme

Employees participate in a defined contribution pension scheme operated by a related company, T. Geddes Grant (Distributors) Limited. The scheme is open to all permanent employees, as well as the employees of certain related companies. The scheme is funded by employees' compulsory contribution of 5% of earnings and voluntary contributions up to a further 5%, as well as employer's contribution of 5% of employees' earnings. The scheme is valued triennially by independent actuaries. The results of the most recent actuarial valuation, as at 31 December 2011, indicated that the scheme was adequately funded at that date.

Pension contributions for the period totalled $293,000 (31 December 2012 – $245,000) and are included in staff costs (Note 10).

# CORPORATE DATA

**Registered Office**
58 Half Way Tree Road
Kingston, Jamaica W.I.

**Auditor and Tax Adviser**
PricewaterhouseCoopers
Scotiabank Centre
Kingston, Jamaica W.I.

**Bankers**
First Global Bank
2 St. Lucia Avenue
Kingston, Jamaica W.I.

Sagicor Bank
60 Knutsford Boulevard
Kingston, Jamaica W.I.

**Attorneys-at-law**
Clinton Hart
58 Duke Street
Kingston, Jamaica W.I.

DunnCox
48 Duke Street
Kingston, Jamaica W.I.

Patterson Mair Hamilton
85 Hope Road
Kingston, Jamaica W.I.

**Registrar**
Jamaica Central Securities Depository
40 Harbour Street
Kingston, Jamaica W.I.

# PROXY FORM

A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a Proxy to vote on her behalf. A Proxy need not be a member. A suitable form of Proxy is below.

The Proxy must be signed and deposited, duly stamped with duty at the Stamp Office, at the registered office of EPPLEY LIMITED at 58 Half Way Tree Road, Kingston, Jamaica, W.I. not less than 48 hours prior to the meeting.

I/We, ________________________________________________________

Name(s) of Shareholder(s)

of, __________________________________________________________

Address(es) of Shareholder(s)

in the parish of __________, being a member(s) of Eppley Limited

hereby appoint, ______________________________________________

Name of Proxy

of, __________________________________________________________

Address of Proxy

or failing him, ______________________________________________

Name of Alternative Proxy

of, __________________________________________________________

Address of Alternative Proxy

as my Proxy/our Proxy to vote on my/our behalf at the Annual General Meeting to be held on May 8, 2014.

This form is to be used IN FAVOUR of resolutions numbered _____.

This form is to be used AGAINST resolutions numbered _____.

Signed this ______ day of _______ 2014

_________________________

Signatures(s) of Shareholder(s)

EPPLEY
LIMITED

58 HALF WAY TREE ROAD
KINGSTON, JAMAICA