

# DFL CARIBBEAN HOLDINGS LTD

## 2009 ANNUAL REPORT



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## CHAIRMAN'S STATEMENT

The year 2009 was a challenging one for the Group. Although Net Income improved over the previous year, the overheads cost and the provisions taken for impaired loans increased considerably leaving the Group with a Net Loss for the year. The Management Discussions and Analysis provides an analytical review of the results and the underlying loss of the Group.

The impact of the global economic conditions on the Caribbean region has affected the quality of the loan portfolios, particularly in the tourism sector. We have experienced this phenomenon in 2009 and we expect the situation to continue in 2010. For this reason, the Board deemed it necessary and prudent to adopt a conservative position in loan provisioning resulting in a charge for the year of \$26.6 million. Even so, it is clear that management would have to more closely manage the loan portfolios if provisions are to be contained at this level.

The Group's celebrated its 40<sup>th</sup> year in October 2009 and has a unique history among institutions of its kind worldwide. It has a particularly unique role in the Caribbean and is one of only two private-sector development banks in the Caribbean region that remain fully operational. Management has taken measures to ensure that it is suitably equipped to better understand and assess the business climate and opportunities arising from the turbulent economic conditions that continue to exist.

The Group's Microfinance capability has accumulated a solid body of documented practice and systems after operating for fifteen years. It is a distinct Caribbean entity, the value of which cannot be measured. However, during this period it has also accumulated substantial losses and additional funding will be required if it has to expand the number of loans to Micro and Small Enterprises in 2010 and reach a loan portfolio level that makes the Group profitable. Notwithstanding the importance of this sector in contributing to growth and the resilience of the entrepreneurs, it is unreasonable to expect business enterprises at this level to grow independently of other sectors. We must focus on creating stronger economic interaction between small enterprises and the major sectors and pillars of the Caribbean economies.

The Group's Private Equity capability has played and must continue to play a catalytic role in enterprise development in the years ahead. It must strive continuously to maintain its performance as a specialist Fund Manager. Private Equity, microfinance and technical services are key ingredients for private sector development in the Southern and Eastern Caribbean.

The financial year 2010 will no doubt present similar and more serious and intense challenges than 2009. By far the most important challenge will be the re-capitalization of the Group to



place it on a sustainable basis to execute its mission and mandate. The Board and Management are mindful of these challenges and have already taken measures to source additional capital, re-align operating structures to increase efficiency, reduce cost and manage the transition into a new era with changes in its management. The sustained viability of the Group will depend on the success of these measures.

Based on the results of the Group your Board will not be able to recommend an ordinary dividend for the financial year 2009. The Board has recommended the payment of a dividend of \$36.00 per share on the 8% Redeemable Convertible Preference Shares.

On behalf of the Board I wish thank the management and staff for their dedication and commitment during this difficult year and to wish them every success as they open up new paths in 2010 and face the serious challenges in the economies in which we operate. I wish to thank my colleagues on the Board for taking on the challenges of dealing with the myriad of issues that arise in the Group. I wish to thank Mr. Gary Voss and Mr. John Andrews for their many years of valuable service. In particular, I wish to thank Mr. Gerard Pemberton who retired on April 02, 2010 for his dedicated service to the organization for thirty two years, the last twenty two years in the capacity of Group Managing Director. We wish him every success in his retirement.

With integrity, trust and confidence our new board of directors will continue to foster the Group on a new path of success despite the uncertainty and challenges of the future.

A handwritten signature in black ink, appearing to read "Gaston Aguilera". The signature is fluid and cursive, with a large initial "G" and "A".

Gaston Aguilera  
Chairman



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **DFL Caribbean Holdings Limited**

The Financial Statements are prepared by management which is responsible for the integrity and fairness of the financial information presented. The Board of Directors oversees management responsibilities for financial reporting through an Audit Committee which comprise all independent directors. The external Auditors KPMG appointed by the Shareholders upon the recommendation of the Audit Committee have full and unrestricted access to all financial information of the Group and to the Audit Committee.

#### **Overall Performance**

DFL Caribbean Holdings Limited showed a Net Loss of \$18.9 million in 2009 (Net Profit of \$5.6 million in 2008). Despite the large net loss there was an overall increase in the Group's Net Income from Interest and Investments. Net Interest and Investments plus Other Income amounted to \$31.9 million for the period ended December 31, 2009. General Overheads and Corporate Expenses amounted to \$ 28.2 million and represented a \$4.7 million increase over the prior year. The increase occurred mainly in DFL and DFLSA Inc. In both cases there were additions to management and staff as well as increased appraisal fees. In the case of DFL, there were penalties paid to the regulator for late submission and publication of financial statements in respect of the financial year 2008. Receivership expenses also were significant in 2009.

Loan loss provisions amounting to \$15.1 million in Development Finance Limited (DFL) and a \$5 million diminution of value in the portfolio of unlisted investments in Caribbean Development Capital Limited (DevCap) contributed towards the large loss of \$18.9 million.

The provisions and diminution in value resulted from a decrease in the present value of the net realizable value of collateral held as security for impaired assets. These amounts are reflected in the financial statements of the subsidiaries during the last quarter of 2010.

IAS 10 requires that a Company must consider the effect of any events occurring after the financial reporting date up to the date the financial statements are authorised for issue on conditions that existed at the financial reporting date. In the case of DFL, where financial statements were authorised for issue on March 16, 2010, all events related the condition of the



loans that occurred up to that date were considered in determining whether the carrying amounts at the reporting date were appropriate. The same applied to DevCap where financial statements were authorized for issue on September 30, 2010.

In the case of the Group's Consolidated Financial Statements however all events up to the present had to be considered to determine whether the carrying amounts of the assets at the reporting date were fairly reported notwithstanding the fact that the assets may lie in a subsidiary whose financial statements have already been issued and the carrying amounts already reported upon.

There exists the potential for additional provisions for loan losses as at December 31, 2010 based on the professional valuations of the net realizable value of collateral held against impaired assets. DFL has commissioned valuations from reputable valuers and management is awaiting the reports at this date. The markets within which the subsidiaries operate have been severely affected by the impact of the global economic crisis on the Caribbean. There is now urgent need for DFL Caribbean Holdings Limited to implement the capitalization plan approved by the shareholders in 2007. The board and management are urgently addressing this matter with its major shareholders. For sustainability, the company must take an innovative approach to SME lending and properly manage risk.

The following discussion provides an overview of the operations of the subsidiaries of the Group.

### **Development Finance Limited**

DFL showed a Net Profit of \$2.1 million in 2009 compared with \$1.2 million for the previous year. Interest Income increased from \$21 million in 2008 to \$25 million in 2009 given the steady increase in the loan portfolio since 2007. Between 2008 and 2009 the loan portfolio increased by 9.5%. Notwithstanding, total income increased marginally from \$36 million in 2008 to \$37 million in 2009 as the income from the unlisted investments portfolio reduced. This portfolio has been deliberately wound down since 2005. The net interest margin improved slightly, however the results were adversely affected by an increase of \$3.5 million in general and corporate overheads. The increase was largely due to increased audit fees, building refurbishment, loan appraisal expenses, group service charges and brokerage fees related to the deposits. In 2009 DFL entered into a short term deposit taking programme raising \$42 million in one year fixed term deposits from institutional investors. Despite the adverse results the company remains solidly capitalised as evidenced by the Capital Adequacy Ratio of 34.5%.



### **Subsequent events in 2010**

At the end of 2009, impaired loans accounted for 25% of the loan portfolio. This posed an acute earnings risk and the falling profitability over the years continued into 2010. There were plans to restructure several of the major impaired loans during the first quarter of 2010. Adverse economic conditions made this difficult and in addition, the value of collateral declined given the deepening of the global economic crisis. In the last quarter of 2010, DFL reflected \$15 million in loan loss provisions as these loans present serious likelihood of significant loss.

In February 2010, DFL repaid \$37 million in long term bonds from operating cash flows. At the date, DFL had significant amounts of cash given a large prepayment received on the loan portfolio. The adverse change in asset quality and earnings contributed to liquidity challenges which were subsequently reported to the regulator and shareholders.

### **DFLSA Incorporated**

DFLSA's Net Profit was US\$21,981 in 2009. This compares with US\$1 million in 2008, which was largely attributable to fair value gains on preference shares issued to the European Investment Bank. Overall, the operating results remained constant. There was a higher yield on loans which was offset by increased cost of funds. Over the year, the loans portfolio decreased by US\$0.5 million to US\$6.1 million while the borrowings increased by US\$0.8 million to US\$4.1 million. DFLSA planned to utilize the borrowings, held as cash at year end, to increase its SME lending and small enterprise loans.

### **Caribbean Development Capital Limited (DEVCAP)**

The fair value of DEVCAP's portfolio of unlisted investments is \$54.5 million at December 31, 2009 (\$54.2 million in 2008). DEVCAP showed a Net Profit of \$1.2 million in 2009 (\$14,000 in 2008). The increased Net Profit was largely due to gains the sale of an ordinary share investment. Approximately 56% of the income was from regular cash flows.

### **Subsequent events**

In the last quarter of 2010, the value of DevCap's portfolio reduced by \$5 million given the likelihood of significant loss on investments in companies that went into receivership in 2010.



## **MICROFIN Group**

The Microfin Group showed a Net Loss of \$1.1 million in 2009 compared with a Net Loss of \$866,311 in 2008. Net Interest Income plus fees increased substantially from \$5.6 million in 2008 to \$8.2 million in 2009. The loan portfolio increased by 37% from \$33 million in 2008 to \$45 million at the end of 2009. Operating expenses increased by \$1.5 million over the year, arising largely from increased personnel costs associated with the labour intensive operations. Portfolio quality has been maintained and is within international benchmarks. Loans in arrears of less than thirty (30) days amounted to 92% of the portfolio. Loans in arrears over ninety (90) days amounted to 8.0% and are fully provisioned.

January 05, 2011

A handwritten signature in black ink, appearing to read 'Gillian M. Golah'.

Gillian Golah

Acting Group CEO



**DFL CARIBBEAN HOLDINGS LIMITED  
BOARD OF DIRECTORS**

Gaston Aguilera  
(Chairman)

Rodney Sastri Prasad

Leroy Calliste

Linda Rajpaul

Stephen Singh

Wayne Kirton

Wilma Henry

Keith De Freitas



## DIRECTORS' REPORT

The Directors hereby submit their report and Audited Financial Statements for the year ended December 31, 2009

<b>Financial Results</b>	<b>\$</b>
Retained Earnings at the beginning of the year	53,698,624
Loss for the year	(18,678,076)
IAS 19 actuarial loss (Note 10)	(1,638,900)
Transfer to statutory reserve	(212,489)
Change in non-controlling interest	(411,481)
Dividends	(5,723,117)
Retained Earnings	<u><u>27,034,561</u></u>

### Dividends

The Directors have recommended a dividend of \$36.00 per preference share amounting to \$51,588

### Directors

The Shareholders approved the re-election of Messrs. Prasad and Aguilera as Directors for a term of three years and two years, respectively, from November 23rd, 2009. On January 14<sup>th</sup> 2011, Mr. Keith De Freitas shall retire in accordance with clause 4.3.5 and being eligible, offers himself for election for a term of three years. On January 14<sup>th</sup> 2011, Messrs. Rajpaul, Henry, Kirton and Singh shall retire in accordance with clauses 4.4.1 and 4.4.2 and being eligible, offer themselves for election for a term of three years.



## **Auditors**

The independent Auditor, KPMG, retires at the General Meeting and having been deemed eligible by the Audit Committee, has offered itself for re-appointment.

## **Ownership**

As at December 31, 2009, shareholdings of 5% or more ordinary shares were as follows:

	%
• RBTT Financial Holdings Limited	31.1
• The Government of the Republic of Trinidad and Tobago	28.1
• Inter American Investment Corporation	8.5
• European Investment Bank	8.5

Consolidated Financial Statements of

**DFL CARIBBEAN HOLDINGS LIMITED**

December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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# DFL CARIBBEAN HOLDINGS LIMITED

December 31, 2009

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**KPMG**  
**Chartered Accountants**  
Trinre Building  
69-71 Edward Street  
P.O. Box 1328  
Port of Spain  
Trinidad and Tobago, W.I.

Telephone (868) 623 1081  
Fax (868) 623 1084  
e-Mail kpmg@kpmg.co.tt

## **Independent Auditor's Report to the shareholders of DFL Caribbean Holdings Limited**

### ***Report on the Consolidated Financial Statements***

We have audited the accompanying consolidated financial statements of DFL Caribbean Holdings Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2009 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes. The consolidated financial statements of the Company as at December 31, 2008, were audited by other auditors whose report dated October 16, 2009 expressed an unqualified opinion on these statements.

### ***Management's responsibility for the financial statements***

Management is responsible for the preparation and the fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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



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

***Opinion***

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the financial position of the Company as at December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink, appearing to read 'KPMG'.

Chartered Accountants

January 5, 2011  
Port of Spain  
Trinidad and Tobago, West Indies

# DFL CARIBBEAN HOLDINGS LIMITED

## Consolidated Statement of Financial Position

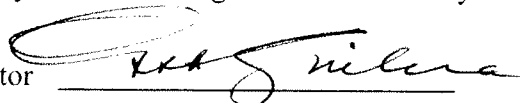
December 31, 2009

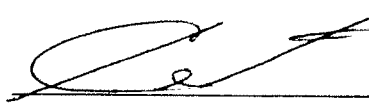
*(Expressed in Trinidad and Tobago Dollars)*

	Notes	2009	2008
<b>ASSETS</b>			
Balances held with Central Bank	3	\$ 3,150,000	1,485,000
Cash and cash equivalents	4	34,300,607	22,989,276
Long-term investments	5	120,404,384	136,703,000
Loans and corporate securities	6	350,236,081	336,483,029
Unlisted investments	7	60,270,515	62,289,068
Asset held for sale	7.5	2,725,000	-
Computer software	8	440,528	563,894
Property and equipment	9	19,062,824	18,974,679
Leasehold land		13,790,081	13,790,081
Deferred tax asset		1,235,713	812,917
Pension fund surplus	10	19,715,600	20,258,300
Investment property		-	2,970,000
Other assets	11	46,132,500	17,707,415
<b>Total Assets</b>		<u>671,463,833</u>	<u>635,026,659</u>
<b>Liabilities</b>			
Borrowings	12	522,866,339	452,628,258
Preference shares	13	1,912,898	2,319,786
Other liabilities	14	6,979,992	13,368,593
<b>Total Liabilities</b>		<u>531,759,229</u>	<u>468,316,637</u>
<b>Net Assets</b>		\$ <u>139,704,604</u>	<u>166,710,022</u>
<b>Shareholders' Equity</b>			
Ordinary shares	15	\$ 56,639,300	56,639,300
Other Reserves	16	53,005,410	52,792,921
Retained earnings	17	27,034,561	53,698,624
		136,679,271	163,130,845
<b>Minority Interest</b>		<u>3,025,333</u>	<u>3,579,177</u>
<b>Total Equity</b>		\$ <u>139,704,604</u>	<u>166,710,022</u>

*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 January 5, 2011 and signed on its behalf by:

Director 

Director 

## DFL CARIBBEAN HOLDINGS LIMITED

### Consolidated Statement of Income

Year ended December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

	Notes	2009	2008
<b>Interest income</b>	18	\$ 38,703,602	30,941,216
<b>Income from unlisted investments</b>		4,227,055	4,626,506
<b>Income from investments</b>	19	<u>11,159,469</u>	<u>14,270,977</u>
<b>Interest cost and related finance charges</b>	20	<u>54,090,126</u> <u>(30,436,777)</u>	<u>49,838,699</u> <u>(34,320,412)</u>
<b>Net income from interest and investments</b>		23,653,349	15,518,287
<b>Other income</b>	21	8,321,974	20,682,004
<b>Other financial charges and related losses</b>	22	<u>-</u>	<u>(6,399,943)</u>
		31,975,323	29,800,348
<b>Net charge for provisions</b>	23	(22,636,818)	(572,729)
<b>General overheads and corporate expenses</b>	24	<u>(28,215,454)</u>	<u>(23,506,222)</u>
<b>(Loss) profit before tax</b>		(18,876,949)	5,721,397
<b>Taxation</b>		<u>(74,991)</u>	<u>(39,258)</u>
<b>(Loss) profit for the Year</b>		\$ <u>(18,951,940)</u>	<u>5,682,139</u>
<b>Attributable to:</b>			
Equity holders of the Company		\$ (18,678,076)	5,001,550
Minority Interest		<u>(273,864)</u>	<u>680,589</u>
		\$ <u>(18,951,940)</u>	<u>5,682,139</u>
(Loss) earnings per share for profit attributable to the equity holders of the Company during the year (Expressed in \$ per share)	25	<u>(62.17)</u>	<u>16.65</u>

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

## DFL CARIBBEAN HOLDINGS LIMITED

### Consolidated Statement of Comprehensive Income

Year ended December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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	Notes	2009	2008
(Loss) profit for the year		\$ (18,951,940)	5,682,138
IAS 19 actuarial losses	10	(1,638,900)	(330,400)
Gains on revaluation of building		<u>-</u>	4,523,213
Net (loss) income recognised directly in equity		<u>(1,638,900)</u>	4,192,813
<b>Total comprehensive income for the year</b>		\$ <u>(20,590,840)</u>	<u>9,874,951</u>
<b>Attributable to:</b>			
Equity holders of the Company		\$ (20,316,976)	9,194,362
Minority interest		<u>(273,864)</u>	680,589
		\$ <u>(20,590,840)</u>	<u>9,874,951</u>

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

## DFL CARIBBEAN HOLDINGS LIMITED

### Consolidated Statement of Changes in Equity

Year ended December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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	Note	Ordinary Shares	Other Reserves	Retained Earnings	Total	Non- controlling Interest	Total Equity
<b>Year ended December 31, 2009</b>							
Opening balance at January 1, 2009	\$	<u>56,639,300</u>	<u>52,792,921</u>	<u>53,698,624</u>	<u>163,130,845</u>	<u>3,579,177</u>	<u>166,710,022</u>
<b>Total comprehensive income for the year</b>							
Loss after tax		-	-	(18,678,076)	(18,678,076)	(273,864)	(18,951,940)
Change in non-controlling interest		-	-	(411,481)	(411,481)	411,481	-
Reduction in non-controlling interest		-	-	-	-	(691,461)	(691,461)
IAS 9 Actuarial loss	10	-	-	(1,638,900)	(1,638,900)	-	(1,638,900)
Total comprehensive income for the year		<u>-</u>	<u>-</u>	<u>(20,728,457)</u>	<u>(20,728,457)</u>	<u>(553,844)</u>	<u>(21,282,301)</u>
<b>Other</b>							
Transfer to statutory reserves		-	212,489	(212,489)	-	-	-
<b>Transactions with owners, recorded directly in equity</b>							
Dividends to equity holders		<u>-</u>	<u>-</u>	<u>(5,723,117)</u>	<u>(5,723,117)</u>	<u>-</u>	<u>(5,723,117)</u>
<b>Balance at December 31, 2009</b>	<b>\$</b>	<b><u>56,639,300</u></b>	<b><u>53,005,410</u></b>	<b><u>27,034,561</u></b>	<b><u>136,679,271</u></b>	<b><u>3,025,333</u></b>	<b><u>139,704,604</u></b>

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

## DFL CARIBBEAN HOLDINGS LIMITED

### Consolidated Statement of Changes in Equity

Year ended December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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	Note	Ordinary Shares	Other Reserves	Retained Earnings	Total	Non- controlling Interest	Total Equity
<b>Year ended December 31, 2008</b>							
Opening balance at January 1, 2008	\$	<u>56,639,300</u>	<u>48,144,240</u>	<u>49,150,053</u>	<u>153,933,593</u>	<u>1,948,442</u>	<u>155,882,035</u>
<b>Total comprehensive income for the year</b>							
Profit		-	-	5,001,549	5,001,549	680,589	5,682,138
<b>Other comprehensive income</b>							
IAS 9 Actuarial loss	10	-	-	(330,400)	(330,400)	-	(330,400)
Currency translation		-	-	2,890	2,890	-	2,890
Increase in non-controlling interest		-	-	-	-	950,146	950,146
Revaluation of building		-	4,523,213	-	4,523,213	-	4,523,213
Total comprehensive income for the period		-	4,523,213	4,674,039	9,197,252	1,630,735	10,827,987
<b>Other</b>							
Transfer to statutory reserves		-	125,468	(125,468)	-	-	-
<b>Balance at December 31, 2008</b>	<b>\$</b>	<b><u>56,639,300</u></b>	<b><u>52,792,921</u></b>	<b><u>53,698,624</u></b>	<b><u>163,130,845</u></b>	<b><u>3,579,177</u></b>	<b><u>166,710,022</u></b>

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

## DFL CARIBBEAN HOLDINGS LIMITED

### Consolidated Statement of Cash Flows

Year ended December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

	Notes	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net (loss) profit for the period before taxation		\$ (18,876,949)	5,721,396
Adjustments for non cash items in operating activities	26	<u>(17,181,858)</u>	<u>(31,212,371)</u>
<b>Cash flows before changes in operating assets</b>		<b>(36,058,807)</b>	<b>(25,490,975)</b>
Change in loans, corporate securities and unlisted investments		(43,504,991)	(138,624,208)
Change in other assets		(24,241,610)	48,316,315
Change in other liabilities		(9,152,821)	5,452,981
Change balance held with Central Bank		<u>(1,665,000)</u>	<u>(21,593)</u>
		(114,623,229)	(110,367,480)
Interest received		51,416,448	45,573,267
Interest paid		(23,611,196)	(26,551,102)
Taxation paid		<u>(42,623)</u>	<u>(740)</u>
<b>Cash used in operating activities</b>		<b><u>(86,860,600)</u></b>	<b><u>(91,346,055)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from loans, corporate securities and unlisted investments		39,826,609	66,977,207
Dividends received		311,095	113,284
Additions to property equipment and leasehold land		(2,743,300)	(1,087,967)
Proceeds on sale of property and equipment		90,950	171,000
Additions to computer software		<u>-</u>	<u>(98,116)</u>
<b>Cash provided by investing activities</b>		<b><u>37,485,354</u></b>	<b><u>66,075,408</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New borrowings		119,102,142	59,380,959
Repayment of borrowings		(56,289,413)	(72,268,843)
Dividends paid		<u>(2,126,152)</u>	<u>(1,330,000)</u>
<b>Cash provided by (used in) financing activities</b>		<b><u>60,686,577</u></b>	<b><u>(14,217,884)</u></b>
Net increase (decrease) in cash and cash equivalents		11,311,331	(39,488,531)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b><u>22,989,276</u></b>	<b><u>62,477,807</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>\$ <u>34,300,607</u></b>	<b><u>22,989,276</u></b>

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

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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### General Information

DFL Caribbean Holdings Limited Caribbean Group (Group or Company) is organised by subsidiaries that are separate and distinct from each other by the nature of their operations and/or by geographical locations but which interact with each other through the provision of specialised services based on specific competences.

Its principal activities are that of term lenders and equity investors in Small and Medium-sized private industrial and commercial enterprises in the Caribbean in support of which the Group provides technical, management development and consulting services to private enterprises and for private sector development.

The wholly-owned subsidiary, Development Finance Limited, was incorporated as a private limited liability Company on May 22, 1970 in the Republic of Trinidad and Tobago and is registered under the Companies Act, 1995 and under the Securities Industry Act (1995) 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) 1993 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 |

- Its subsidiary, DFLSA Incorporated (90 % owned) was incorporated in the Republic of Guyana on October 6, 2004 and began operations in 2005. Its principal activities are that of term lenders in Small and Medium-sized private industrial and commercial enterprises in Guyana and in Suriname. The Company also carries on the business of microfinance. It is licensed as a non-depository financial institution by the Bank of Guyana and its registered office is 78 Church Street, Georgetown, Guyana. It has a branch in Suriname which was licensed by the Central Bank of Suriname as a bank falling under the supervision of the Central Bank of Suriname on January 15, 2007.

The subsidiary, Caribbean Development Capital Limited (DevCap) (100% owned) was incorporated on November 11, 1991 as a private limited liability company in the Republic of Trinidad and Tobago and its principal activities are private equity investing, mezzanine financing in private enterprises in the Caribbean, the management of related Funds and provision of technical and management advisory services.

- Its subsidiary, CDN Management Services Limited (100% owned), was incorporated on November 10, 1997 as a private limited liability company in the Republic of Trinidad and Tobago and its principal activities is the provision of professional services to the Group and to company's associated with the group.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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### General Information (continued)

- Its subsidiary, Devcap Fund Management Company Limited (100% owned) was set up to manage an equity fund on behalf of the parent company. The fund is for private equity financing and mezzanine financing in small and medium-sized business enterprises in the Caribbean.

The subsidiary, Microfin Caribbean Holdings Ltd (88% owned) was incorporated on January 23, 2004 as a private limited liability company in the Republic of Trinidad and Tobago and its principal activity is the management of subsidiaries and associated companies providing microcredit and related financial services on a commercial basis.

- Its subsidiary Caribbean Microfinance Trinidad & Tobago(100% owned) was incorporated on July 15, 1999 as a private limited liability company in the Republic of Trinidad and Tobago and its principal activity is providing microcredit and related financial services on a commercial basis directly and acting as an intermediary.
- Its subsidiary Caribbean Microfinance (St. Lucia) Limited (100% owned) was incorporated on May 23, 2002 as a private limited liability company in St. Lucia and is licensed under Section 4 of the St. Lucia Banking Act #7 of 1991.
- Its subsidiary Caribbean Microfinance (Grenada) Limited (100% owned) was incorporated on July 23, 2002 as a private limited liability company in Grenada and is licensed under Section 3 (1) of the Grenada Banking Act 1993 (No. 40 of 1993).

These consolidated financial statements were approved for issue by the Board of Directors on January 5, 2011.

## 1. Summary of Significant Accounting Policies

### 1.1 Use of critical estimates

Critical estimates are derived from analysis of verifiable data or where required, on professional judgement. Where critical estimates are subject to a range of values, likely values are used to generate scenarios with equal probabilities. The critical estimates are tested against the resulting mean and 95% confidence interval. Validity of the likely input values depends on evaluations of financial market factors, the business environment and the continuity of client enterprises. Significant sensitivity to assumptions is generally disclosed in the notes.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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### 1. Summary of Significant Accounting Policies (continued)

#### 1.2 Adoption of standards

Other than that adopted early as explained in note 1.3, a number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2009, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial statements of the Group. The Group is currently in the process of evaluating the potential effect of these standards.

#### 1.3 Other accounting developments

The Company has applied *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential to the understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called.

#### 1.4 Comparative information

Wherever changes in presentation have been made during the year the comparative figures for the prior year have been reclassified accordingly.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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*(Expressed in Trinidad and Tobago Dollars)*

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### **1. Summary of Significant Accounting Policies (continued)**

#### **1.5 Foreign currency translation**

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 Company's functional and presentational currency.

Transactions denominated in foreign currencies are translated into the functional currency at the rates of exchange 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 income.

#### **1.6 Long term investments**

Long-term investments comprise government bonds, and other registered securities that are being held to maturity to provide for partial redemption of Bonds issued by the Company up to 2030. These securities are managed by Trustees by way of Trust Deeds and are not available for other use by the Company.

#### **1.7 Unlisted investments in small and medium sized enterprises**

Unlisted investments comprise private equity and mezzanine investments made in the form of early or expansion stage, venture or development capital in privately held, unlisted companies. The Company has significant amounts of its own capital at risk in these investments, together with other sources of funding as described in Note 7. These investments are reported at fair value and meet the criteria for fair value measurement as required by IAS 39, Financial Instruments: Recognition and Measurement. Changes in the fair values of these investments give rise to gains and losses that are recognised in the statement of income. Interest income and expense related to unlisted investments measured at fair value are shown within net interest income.

Fair value is determined by the present value of expected cash flows from each investment adjusted by probability factors derived from historical analysis applicable to groups of assets with similar characteristics. Expected cash flows are based on recent history, current performance data, credit risk assessments and contractual arrangements and are discounted to present value by discount rates applied to each group of assets. The discount rates are based on observed market yields for highly rated corporate bonds adjusted by premiums to take into account equity risk where applicable.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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### **1. Summary of Significant Accounting Policies** (continued)

#### **1.7 Unlisted investments in small and medium sized enterprises** (continued)

The discount rates are not adjusted for taxes. Fair value is not affected by improvements in the performance of the companies in which investments were made. Fair value is reviewed in comparison with objective evidence that may be available including substantial and reliable third party transaction data, reported net asset values adjusted for valuation and timing differences, strategic or franchise values and under-utilised assets. Analysis of historical fair value with realised values where available (“backtesting”) showed a reasonable correlation between estimated and realised fair value at the 95% confidence level. If there is objective evidence that the investment is permanently impaired and expected cash flows cannot be determined reliably on the basis of history of receipts, current business projections or contractual arrangements the investment is carried at its net realisable value under current market conditions discounted to present value based on expected timing of realisation. Changes in fair value attributable to permanent impairment and the effects of general credit risk are disclosed separately.

#### **1.8 Revenue recognition**

##### *Interest*

Interest income and expense are recognised in the statement of income 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.

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 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. If a payment on a loan is contractually ninety (90) days in arrears, the loan if not already classified as such, will be classified as non-accrual unless:

1. The loan is fully secured by readily marketable collateral.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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### 1. Summary of Significant Accounting Policies (continued)

#### 1.8 Revenue recognition (continued)

##### *Interest (continued)*

2. Management has objective evidence that supports a reasonable expectation that events will result in repayment of the loan or in restoring it to current status within six months (180 days) from the date a payment became contractually in arrears.

##### *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.

#### 1.9 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 Company 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.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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*(Expressed in Trinidad and Tobago Dollars)*

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### 1. Summary of Significant Accounting Policies (continued)

#### 1.9 Classification of impaired loans (continued)

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.

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.

#### *Loans with re-negotiated terms*

The predominance of Small and Medium-Sized Enterprises (SME) in the loan portfolio and the characteristics of the economies in which these companies operate require the Company to have a clear approach to risk management and to maintain a strong recovery capability. The Company’s recovery history is a positive factor in its international credit rating. 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 and the carrying amounts are approximately equal to fair value. 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.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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### **1. Summary of Significant Accounting Policies** (continued)

#### **1.9 Classification of impaired loans** (continued)

##### *Loans with re-negotiated terms* (continued)

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. Loans with re-negotiated terms are grouped and reported separately in accordance with IFRS 7 at amounts that are approximately fair value.

#### **1.10 Specific provision for loan losses**

All loans are carried at amortised cost which approximates fair value and where required are reduced to that amount by specific provisions for loan losses. Impaired loans are valued 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. Subject to the discount rate approximating market rates, the result approximates the fair value of the loan. Specific provisions are made on every impaired loan if and when required to reduce the carrying value of the loan to its estimated fair value. 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.

#### **1.11 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. The calculation is based on statistical analysis of portfolio risk history and operational risk events. The calculation is reviewed annually to account for changes in risk asset composition, operational risk loss experience and for changes in economic conditions. The probability and impact of risk factors likely to affect business, currency and financial markets generally are assumed to be similar to the long term history which is updated. Such risk factors may lead to sudden loss in the future arising from:

- Impaired ability of particular concentrations of borrowers or groups of borrowers to meet financial commitments, due to major industry or country factors.
- Significant reduction in the market value of charges on real estate held as collateral for loans or reductions in the value of financial investments in sinking funds intended for the liquidation of long term liabilities.
- Exceptional changes in levels and structures of interest rates and currency values.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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### **1.12 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 historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in shareholders' 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%

The useful lives of assets are reviewed and adjusted if appropriate at each reporting date.

### **1.13 Taxation**

Development Finance Limited and Caribbean Microfinance Limited Trinidad and Tobago Limited are exempt from taxation under the Corporation Tax Act, Chapter 75.02 as amended. Other subsidiaries are subject to Corporation Tax.

The subsidiary Caribbean Microfinance (Grenada) Limited was granted a waiver of withholding tax for ten years beginning in 2001.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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### **1. Summary of Significant Accounting Policies (continued)**

#### **1.14 Pensions**

The Company has established under trust a contributory funded pension plan for all permanent employees accounted for using the projected unit credit method. The cost of providing pensions is charged to the statement of income so as to spread the cost over the service lives of the employees in accordance with the advice of qualified actuaries who carry out a full valuation of the fund every three (3) years. An actuarial valuation was completed for financial year ended December 31, 2007. The Company's pension obligation is measured as the present value of the estimated future cash outflows using discount rates related to market securities which have terms to maturity that approximate the terms of the related pension liability. The Plan has been continuously in surplus for many years and a pension holiday has been in effect since January 1, 2000 as advised by the Actuary.

#### **1.15 Computer software**

Computer software is stated at historical cost less accumulated amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

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%.

The useful lives of assets are reviewed and adjusted if appropriate at each reporting date.

#### **1.16 Share capital and 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.

#### **1.17 Leasehold land**

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

#### **1.18 Borrowings**

Borrowings are recognised initially at fair value net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of income.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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### 1. Summary of Significant Accounting Policies (continued)

#### 1.19 Corporate securities

Corporate securities are debt obligations of established, adequately capitalised Caribbean firms. These securities may be listed or unlisted and are usually tradable on an active market. They are intended to be held as long term assets available for sale as part of the Company's loan portfolio depending on asset/liability management strategies. Corporate securities generally have the same risk characteristics as loans.

#### 1.20 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.

#### 1.21 Preference shares

Preference shares with mandatory redemption are classified as a financial liability in accordance with IAS 32 since redemption is mandatory. The preference shares are reported at fair value through the consolidated statement of income.

#### 1.22 New standards and interpretations not yet adopted

- Amendments to IAS 7 *Statement of Cash Flows* – the amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities. The amendments are effective for annual periods beginning on or after January 1, 2010.
- IFRS 9 *Financial Instruments* – establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristic of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. Prior periods need not be restated if the company adopts the standard for reporting periods beginning before January 1, 2012. The standard is effective for annual periods beginning on or after January 1, 2013.
- IAS 24 (Revised 2009), *Related Party disclosures*, (effective for periods beginning on or after January 1, 2011). The revised standard amends the definition of a related party and modifies certain related party disclosure requirements for government related entities.
- Improvements to IFRS 7 *Financial Instruments Disclosures* (effective for periods beginning on or after January 1, 2011) The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate the entity's exposure to risks arising from financial instruments.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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## **2. Disclosure Notes to the Consolidated Financial Statements**

### **2.1 Financial risk management**

The Company'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 key risk factors include:

1. Credit risk
2. Operational risk
3. Risk related to the use of financial instruments.

Operational risk heightens all risk related to factors involved with the use of financial instruments such as interest rates, foreign exchange rates, market prices and liquidity and the recovery of impaired assets.

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 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.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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## 2. Disclosure Notes to the Consolidated Financial Statements (continued)

### 2.2 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. Based on analysis of loan loss history since 1990, the Group estimates this risk at between 0.30% and 0.80% of the portfolio of loans and unlisted investments.

This risk is highly correlated with "Country risk" in terms of governance, economic conditions and the operation of markets. The Company estimates this risk at 1.0% of its loan portfolio in countries other than Trinidad and Tobago, its host country. 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 DFL Caribbean Group manages "Country risk" (as defined above) in various ways.

- Conventional country assessments provide country ratings that are indexed to its assessment of its home country. This relative risk rating provides a loan pricing scale.
- In Guyana and Suriname, there is a subsidiary dedicated to SME in those countries which is geared financially to deal with country risk effects in those countries.
- In other countries in which the Group operates mainly in the OECS, SME are highly vulnerable and the Group must use appropriate risk analyses and risk avoidance and mitigation measures including setting low Country Risk limits.

### 2.3 Credit risk management

The Board of DFL Caribbean Holdings has delegated authority for managing credit risk to the Boards of subsidiary companies and to the Group's Managing Director who is responsible, for implementing credit and risk management policy approved by the Board which relies on oversight by the Board's Audit Committee.

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### Notes to Consolidated Financial Statements

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## 2. Disclosure Notes to the Consolidated Financial Statements (continued)

### 2.3 Credit risk management (continued)

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 throughout the Group.
- 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. Management deals with that risk as follows:

- Management evaluates business proposals using a three-tiered approach that centres 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 judgments 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.

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### Notes to Consolidated Financial Statements

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## 2. Disclosure Notes to the Consolidated Financial Statements (continued)

### 2.3 Credit risk management (continued)

- Management monitors “Business enterprise risk” by regularly reviewing the performance of companies in its portfolio and by arranging with members of the DFL Caribbean Group to provide management and technical services to help identify issues and develop situations. Experience shows that in the Group credit risk is accentuated by Operational risk due to failure to review systems and procedures and to periodically re-train management senior staff, a risk that can be managed.
- 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 a subsidiary that is not involved with credit or investment operations.
- Development Finance Limited has its own internal self-assessment and risk management controls centered on a senior professional manager who is not responsible directly for loan appraisal, loan approval or loan management processes. Loan operations and loan management services are segregated from loan origination and enterprise appraisal responsibilities. An Internal Credit Committee reviews all loan proposals as well as credit decisions on existing loans prior to approval by executive management and the Board.

#### *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 Company. 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.

## DFL CARIBBEAN HOLDINGS LIMITED

### Notes to Consolidated Financial Statements

December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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## 2. Disclosure Notes to the Consolidated Financial Statements (continued)

### 2.3 Credit risk management (continued)

#### *Credit concentration risk* (continued)

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 in manufacturing and agro-industry are reviewed periodically, including access to industry-specific expertise.
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. We estimate this concentration of risk at 1.6% of the portfolio of loans and investments in the tourism industry. 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.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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## 2. Disclosure Notes to the Consolidated Financial Statements (continued)

### 2.4 Operational risk

Operational risk refers to the probability of financial loss from causes associated with the functioning of the Company'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 Company's business processes. In order to update and improve systems and compliance, the Company relied on the professional resources made available within and outside of the Group.

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 Company's reputation while maintaining overall cost effectiveness. The Company 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;
- 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. 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.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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*(Expressed in Trinidad and Tobago Dollars)*

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## 2. Disclosure Notes to the Consolidated Financial Statements (continued)

### 2.5 Risk related to use of financial instruments

#### 2.5.1 Interest rate risk

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).

#### *Movements in interest rates*

The impact of likely interest rate movements on net interest income was simulated using the ranges of rates shown below, taking into account likely changes in foreign currency exchange rates. Rate sensitive assets and liabilities are re-priced every six months on average. Over this average re-pricing period, the mean value of the resulting scenarios was \$1.0 Million within a range of \$950,000 and \$1,050,000. Interest rates are based on the local currency prime rate and the US Ten Year Treasury Bond Yield, which is not highly correlated and which affect the Company's net interest income inversely. An increase in US rates increases net income while an increase in local prime reduces net income.

	<b>Low</b>	<b>High</b>	<b>Actual</b>
Average Local Prime	8.00%	10.00%	10.47%
Yield on US 10-year Treasuries	3.25%	4.25%	3.84%

## DFL CARIBBEAN HOLDINGS LIMITED

### Notes to Consolidated Financial Statements

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#### 2.5 Risk related to use of financial instruments (continued)

	<u>2009</u>	<u>2008</u>
<b>2.5.1 Interest rate risk (continued)</b>		
<b>Rate sensitive assets and liabilities</b>		
Local currency assets	\$ 252,381,865	242,109,336
Foreign currency assets	<u>240,742,642</u>	<u>211,850,464</u>
Total	<u>\$ 493,124,507</u>	<u>453,959,800</u>
Local currency liabilities	\$ 275,182,494	256,075,569
Foreign currency liabilities	<u>139,411,332</u>	<u>46,508,490</u>
Total	<u>\$ 414,593,826</u>	<u>302,584,059</u>

#### 2.5.2 Liquidity risk management

Management of liquidity risk in the Company is affected by re-investment risk that arises from the early redemption of financial instruments in investee companies. Until such funds are reinvested the yields can be 2 % per annum or less. In addition, early redemption can lead to reductions in fair value. This reinvestment risk is managed by identifying the likelihood of early redemption and re arranging the deployment of funds, including investments in new loans.

Vulnerability to this risk requires the Company to keep liquidity at minimal levels as sudden surges in liquidity can be expected. This is effectively managed by matching long term borrowings to new loan disbursements, arranging fixed deposits and maintaining tertiary lines of liquidity where feasible. 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 Company will maintain minimum liquidity levels.

The following represents the Company's asset and liability maturity profile highlighting separately the short term of 12 months and less. The totals in the final column are the total assets and liabilities in the statement of financial position. The profile reflects the company's business as a long term lender. The Company manages liquidity risk by using short term funding instruments to close temporary gaps.

## DFL CARIBBEAN HOLDINGS LIMITED

### Notes to Consolidated Financial Statements

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*(Expressed in Trinidad and Tobago Dollars)*

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## 2. Disclosure Notes to the Consolidated Financial Statements (continued)

### 2.5 Risk related to use of financial instruments (continued)

#### 2.5.2 Liquidity risk management (continued)

The amounts disclosed in the table below include both principal and interest/

##### As at December 31, 2009

	<b>1 to 12 Months</b>	<b>1 to 5 Years</b>	<b>5 to 10 Years</b>	<b>Over 10 Years</b>	<b>Total</b>
Assets	\$ 245,899,844	308,332,169	199,802,880	174,577,543	928,612,436
Liabilities	(154,684,205)	(185,277,311)	(286,168,901)	(172,719,205)	(798,849,622)
Difference	91,215,639	123,054,858	(86,366,021)	1,858,338	129,762,814
Brought forward	-	91,215,639	214,270,497	127,904,476	-
Net Liquidity	\$ <u>91,215,639</u>	<u>214,270,497</u>	<u>127,904,476</u>	<u>129,762,814</u>	<u>-</u>

##### As at December 31, 2008

Assets	\$ 295,580,023	276,644,537	169,513,769	71,338,010	813,076,339
Liabilities	(170,370,618)	(137,385,563)	(242,961,381)	(96,719,256)	(647,436,818)
Difference	125,209,405	139,258,974	(73,447,612)	(25,381,246)	165,639,521
Brought forward	-	125,209,405	264,468,379	191,020,767	-
Net Liquidity	\$ <u>125,209,405</u>	<u>264,468,379</u>	<u>191,020,767</u>	<u>165,639,521</u>	<u>-</u>

#### 2.5.3 Use of estimates and judgments

Management discusses with the Audit Committee the development, selection and disclosure of the Company's critical accounting policies and estimates, and the application of these policies and estimates.

##### 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 1.11.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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### 2. Disclosure Notes to the Consolidated Financial Statements (continued)

#### 2.5.3 Use of estimates and judgments (continued)

##### Key sources of estimation uncertainty (continued)

##### *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 1.8 and 1.10. 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.

#### 2.5.4 Foreign currency risk

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

##### Year ended December 31, 2009

	United States Dollars	Pounds Sterling	Other	Total
Assets	\$ 250,562,755	-	74,704,031	325,266,786
Liabilities	(188,141,370)	-	(84,150,199)	(272,291,569)
Net assets	\$ <u>62,421,385</u>	-	<u>(9,446,168)</u>	<u>52,975,217</u>

##### Year ended December 31, 2008

	United States Dollars	Pounds Sterling	Other	Total
Assets	\$ 238,102,050	465,858	37,776,276	276,344,184
Liabilities	(100,510,513)	-	(18,785,805)	(119,296,318)
Net assets	\$ <u>137,591,537</u>	<u>465,858</u>	<u>18,990,471</u>	<u>157,047,866</u>

## DFL CARIBBEAN HOLDINGS LIMITED

### Notes to Consolidated Financial Statements

December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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## 2. Disclosure Notes to the Consolidated Financial Statements (continued)

### 2.6 Geographical concentrations of assets and liabilities

	Total Assets	%	Total Liabilities	%
<b>As at December 31, 2009</b>				
Trinidad and Tobago	\$ 495,338,954	74	218,854,330	41
Eastern Caribbean	96,740,150	14	69,927,837	13
Guyana and Suriname	79,384,729	12	146,123,995	28
European Union	<u>-</u>		<u>96,853,067</u>	18
<b>Total</b>	<b>\$ <u>671,463,833</u></b>		<b><u>531,759,229</u></b>	
<b>As at December 31, 2008</b>				
Trinidad and Tobago	\$ 438,367,393	69	296,305,232	63
Eastern Caribbean	96,925,146	15	32,427,070	7
Guyana and Suriname	80,456,643	13	12,846,182	3
European Union	<u>19,277,477</u>	3	<u>126,738,153</u>	27
<b>Total</b>	<b>\$ <u>635,026,659</u></b>		<b><u>468,316,637</u></b>	

### 2.7 Capital risk management

The Company monitors capital in terms of (a) Gearing ratios (b) Debt Service payments and (c) minimum Capital Adequacy Ratios in subsidiaries.

- 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 2009 is 1.8 (2008: 1.6).
- The Company normally maintains cash and securities equivalent to 1.5 times debt service obligations due within one year when so mandated by its parent company.
- The Company 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 Company maintains a Capital Adequacy Ratio (CAR) in excess of 15%. At December 31, 2009, the Company's CAR was 24.6% based on risk weightings that are in excess of current regulatory requirements.

## DFL CARIBBEAN HOLDINGS LIMITED

### Notes to Consolidated Financial Statements

December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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## 2. Disclosure Notes to the Consolidated Financial Statements (continued)

### 2.7 Capital risk management (continued)

	<b>Total Assets</b>	<b>Risk weighting</b>	<b>Risk-Adjusted</b>
	\$	%	\$
Cash	34,300,607	0	-
Government securities	120,404,384	20	24,080,877
Loans	350,236,081	150	525,354,121
Un-listed investments	60,270,815	400	241,082,060
All other assets	<u>106,252,255</u>	100	<u>106,252,255</u>
Total assets	<u>671,463,833</u>		<u>896,769,313</u>
Capital and reserves			<u>160,222,221</u>

### 2.8 Contingent liabilities

The Company has entered into customs bonds totalling \$259,253 (2008: \$259,253) on behalf of its clients and has provided contract performance bonds on a fully secured basis with mortgages on property and other assets.

Two employees who will retire in the first quarter of 2010 have accumulated leave which will be taken in 2010 or paid for by the Company. The value of the accumulated leave is \$112,600.

### 2.9 Financial instruments

Financial assets and liabilities are carried at amounts that approximate fair value at the reporting date. The following methods and assumptions have been used to estimate their fair value:

#### Assets

##### (a) Cash and short-term funds

As these assets are short term in nature, the values are taken as indicative of realisable value.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

December 31, 2009

(Expressed in Trinidad and Tobago Dollars)

### 2. Disclosure Notes to the Consolidated Financial Statements (continued)

#### 2.9 Financial instruments (continued)

##### Assets (continued)

##### (b) Loans

Loans are valued net of provisions for losses. These assets result from transactions conducted under typical business conditions in accordance with standard policies and criteria. The rates of interest in the portfolio are market rates and the values of discounted expected cash flows of income and capital that approximate fair value are substantially in accordance with the values reported in the financial statements.

##### Liabilities

- (a) Customer deposits and long-term borrowings with fixed rate characteristics are carried at values that are substantially equal to the present value of the expected cash flows discounted at current market yields.

	<u>Financial Assets</u>		<u>Financial Liabilities</u>		<u>Total Carrying Amount</u>	<u>Fair Value</u>
	<u>At Fair Value</u>	<u>Loans and Receivables</u>	<u>At Fair Value</u>	<u>Amortised Cost</u>		
	\$	\$	\$	\$	\$	\$
<b>As at December 31, 2009</b>						
Balances with Central Bank	-	3,150,000	-	-	3,150,000	3,150,000
Cash and cash equivalents	-	34,300,607	-	-	34,300,607	34,300,607
Long-term investments	-	120,404,384	-	-	120,404,384	120,404,384
Loans	-	350,236,081	-	-	350,236,081	350,236,081
Unlisted investments	60,270,515	-	-	-	60,270,515	60,270,515
Receivables and prepayments	-	46,132,500	-	-	46,132,500	46,132,500
Preference shares	-	-	(1,912,898)	-	(1,912,898)	(1,912,898)
Other liabilities	-	-	(6,979,992)	-	(6,979,992)	(6,979,992)
Borrowings	-	-	-	(522,866,339)	(522,866,339)	(522,866,339)
	<u>60,270,515</u>	<u>554,223,572</u>	<u>(8,892,810)</u>	<u>(522,866,339)</u>	<u>82,734,858</u>	<u>82,734,858</u>

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

December 31, 2009

(Expressed in Trinidad and Tobago Dollars)

### 2. Disclosure Notes to the Consolidated Financial Statements (continued)

#### 2.10 Financial instruments (continued)

	<u>Financial Assets</u>		<u>Financial Liabilities</u>		Total Carrying Amount	Fair Value
	At Fair Value \$	Loans and Receivables \$	At Fair Value \$	Amortised Cost \$		
<b>As at 31 December 2008</b>						
Balances with Central Bank	-	1,485,000	-	-	1,485,000	1,485,000
Cash and cash equivalents	-	22,989,276	-	-	22,989,276	22,989,276
Long-term investments	-	136,703,000	-	-	136,703,000	136,703,000
Loans and corporate securities	15,787,778	320,695,251	-	-	336,483,029	336,483,029
Unlisted investments	62,289,068	-	-	-	62,289,068	62,289,068
Receivables and prepayments	-	17,707,415	-	-	17,707,415	17,707,415
Preference shares	-	-	(2,319,786)	-	(2,319,786)	(2,319,786)
Other liabilities	-	-	(13,368,593)	-	(13,368,593)	(13,368,593)
Borrowings	-	-	-	(452,628,258)	(452,628,258)	(452,628,258)
	<u>78,076,846</u>	<u>499,579,942</u>	<u>(15,688,379)</u>	<u>(452,628,258)</u>	<u>109,340,151</u>	<u>109,340,151</u>

Financial instruments at fair value were valued on the basis of level 3 inputs. Refer Note 1.7 regarding unlisted investments.

	<u>2009</u>	<u>2008</u>
<b>3. Balances held with Central Bank</b>		
Reserve requirement for fixed deposits	\$ <u>3,150,000</u>	<u>1,485,000</u>
<b>4. Cash and Cash Equivalents</b>		
Local currency	\$ 5,354,700	1,979,330
Foreign currency	<u>28,945,907</u>	<u>21,009,946</u>
	\$ <u>34,300,607</u>	<u>22,989,276</u>

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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*(Expressed in Trinidad and Tobago Dollars)*

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	<u>2009</u>	<u>2008</u>
<b>5. Long-Term Investments</b>		
Local currency investments:		
Bond redemption funds	\$ 115,943,114	117,425,523
Foreign currency investments	<u>4,461,270</u>	<u>19,277,477</u>
	<u>\$ 120,404,384</u>	<u>136,703,000</u>

The bond redemption funds secure the floating rate bonds which mature in series from 2007 to 2010, 2002 to 2011, 2017 to 2022 and 2030 respectively (Note 12) 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 bonds.

	<u>2009</u>	<u>2008</u>
<b>6. Loans and Corporate Securities</b>		
<b>Loans</b>		
Principal	\$ 370,496,595	325,220,854
Accrued interest	<u>2,805,538</u>	<u>2,452,739</u>
	373,302,133	327,673,593
Provision for losses	<u>(23,066,052)</u>	<u>(1,439,380)</u>
	<u>\$ 350,236,081</u>	<u>326,234,213</u>
<b>Corporate Securities</b>		
Principal	\$ -	10,000,000
Accrued Interest	<u>-</u>	<u>248,816</u>
	<u>-</u>	<u>10,248,816</u>
<b>Total loans and corporate securities</b>	<u>\$ 350,236,081</u>	<u>336,483,029</u>

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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### 6. Loans and Corporate Securities (continued)

#### 6.1 Maximum credit exposure

The maximum exposure to credit risk in the Company (loans plus commitments) at December 31, 2009 without taking account of any collateral held or other credit enhancements was \$379,101,264 (2008: \$375,067,890).

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

Loans that were neither past due nor impaired as at December 31, 2009 amounted to 87% of the total portfolio (2008: 87%).

Loans past due but not impaired as at December 31, 2009 amounted to 12.0% of the total portfolio (2008 7.2%). Of these loans 7.5 % were 90-180 days past due and 4.5% were over 180 days. This included loans with renegotiated terms amounting to zero (zero in 2008) and zero loans that were re-scheduled or re-structured during the year.

#### 6.2 Concentrations in the loans and corporate securities portfolio

The following table shows that tourism continues to constitute a major economic sector risk concentration in the loan portfolio.

	<u>2009</u>		<u>2008</u>	
Manufacturing	\$ 73,671,730	21%	94,508,649	28%
Food and beverage	18,326,099	5%	24,558,545	7%
Tourism	108,253,536	31%	116,790,581	35%
Industrial and commercial services	<u>149,984,816</u>	43%	<u>100,625,254</u>	30%
Total outstanding	\$ <u>350,236,081</u>		<u>336,483,029</u>	

#### Sectoral analysis of loan commitments – Development Finance Limited Group

	<u>2009</u>		<u>2008</u>	
Manufacturing	\$ 18,701		2,291,055	
Food and beverage	3,093,827		2,413,827	
Tourism	7,966,875		10,290,539	
Industrial and commercial services	<u>17,785,780</u>		<u>23,589,440</u>	
Total outstanding	\$ <u>28,865,183</u>		<u>38,584,861</u>	

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# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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	<u>2009</u>	<u>2008</u>
<b>6. Loans and Corporate Securities (continued)</b>		
<b>6.3 Allowance account for credit losses</b>		
Provision for loan losses		
Development Finance Limited Group	\$ 21,824,824	335,217
Microfin Caribbean Holdings Limited Group	<u>1,241,228</u>	<u>1,104,163</u>
Total provision	\$ <u>23,066,052</u>	<u>1,439,380</u>
<b>6.3.1 Movement in provision for loan losses – Development Finance Limited Group</b>		
Balance at beginning of year	\$ 335,217	1,571,408
Charge for the year	21,715,427	89,984
Write back of loan provision	-	(1,326,175)
Loans written off against the provision	<u>(225,820)</u>	<u>-</u>
Balance at end of year	\$ <u>21,824,824</u>	<u>335,217</u>
<b>6.3.2 Movement in provision for loan losses – Microfin Caribbean Holdings Limited Group</b>		
Balance at beginning of year	\$ 1,104,164	473,045
Charge for the year	921,391	1,165,056
Loans written off against the provision	<u>(784,327)</u>	<u>(533,937)</u>
Balance at end of year	\$ <u>1,241,228</u>	<u>1,104,164</u>

## 7. Unlisted Investments

Since the Company has not made new investments of this type since 2007, the fair value of this portfolio held by Development Finance Limited will decline normally with redemptions and there is little expectation of significant fair value gains unless there is a substantial reduction in the discount rates or significant recovery on impaired assets. The conversion option in convertible bonds will not be exercised and these will be classified as bonds in subsequent years, thus requiring a lower discount rate.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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### 7. Unlisted Investments (continued)

The market yield used to determine discount rates is explained in Note 7.4. The discount rates used to value the portfolio were as follows:

Year	Bonds	Convertible Bonds	Ordinary Shares	Preference Shares
2009	8.04%	10.67%	10.67%	9.61%
2008	8.69%	10.87%	10.87%	9.82%

The statistical analysis of the distribution of the scenarios resulting from this range of values (and from probability adjustments of cash flows) showed that the discount rates were within the 95% confidence level generated by the distribution and were not significantly different from the mean values.

	<u>2009</u>	<u>2008</u>
<b>Fair value December 31</b>		
Development Finance Limited	\$ 5,734,829	8,083,290
Caribbean Development Capital Limited	<u>54,535,686</u>	<u>54,205,778</u>
	\$ <u>60,270,515</u>	<u>62,289,068</u>

### 7.1 Valuation of the unlisted investments

#### Development Finance Limited

Opening fair value	\$ 8,083,290	17,901,307
Principal repayments	<u>(2,348,461)</u>	<u>(10,122,139)</u>
Adjusted opening fair value	5,734,829	7,779,168
Valuation gains	<u>-</u>	<u>304,122</u>
Closing fair value	\$ <u>5,734,829</u>	<u>8,083,290</u>

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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(Expressed in Trinidad and Tobago Dollars)

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	<u>2009</u>	<u>2008</u>
<b>7. Unlisted Investments (continued)</b>		
<b>7.2 Sectoral analysis</b>		
<b>Caribbean Development Capital Limited</b>		
Opening fair value	\$ 54,205,778	47,704,052
Additions at cost	10,287,507	17,916,395
Principal repayments	(10,315,937)	(10,192,245)
Balance before fair value adjustments	54,177,348	55,428,202
Valuation gains (losses)	358,338	(1,222,424)
Closing fair value	\$ <u>54,535,686</u>	<u>54,205,778</u>
<b>Development Finance Limited</b>		
Manufacturing	\$ 1,889,813	1,689,596
Tourism	3,812,608	5,202,328
Industrial and Commercial Services	32,408	1,191,366
	\$ <u>5,734,829</u>	<u>8,083,290</u>
<b>Caribbean Development Capital Limited</b>		
Manufacturing	\$ 7,645,215	9,290,041
Tourism	11,352,957	8,921,766
Industrial and Commercial Services	35,537,514	35,993,971
	\$ <u>54,535,686</u>	<u>54,205,778</u>

### 7.3 Maximum credit exposure

The maximum exposure to credit risk (mezzanine debt plus commitments) at December 31, 2009 without taking account of any collateral held or other credit enhancements was \$60,270,515 (2008: \$62,289,068).

This credit risk exposure is not mitigated by any related credit derivatives or similar instruments.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

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### 7. Unlisted Investments (continued)

#### 7.4 Market risk – sensitivity analysis

Collateral held as security generally include mortgages on land and buildings subordinated to senior long-term debt and other credit enhancements such as secured/unsecured personal guarantees, and chattel mortgages on inventory and other assets.

The portfolio paying as contracted, that is, neither past due nor impaired, was 100% (2008: 100%).

There were no unlisted investments where terms were re-negotiated that otherwise would have experienced diminution in value or permanent impairment.

There was no diminution in the value of investments during 2009 (2008: \$1,222,429).

Estimation of the fair value of the unlisted investments portfolios can have a significant impact on the net profit of the Company. The discount rate used in the valuation relies on the market yield of the most highly rated corporate bonds traded actively on the Trinidad and Tobago market.

<b>Range of values of key input</b>	<b>LOW</b>	<b>HIGH</b>	<b>ACTUAL</b>
Corporate bonds	5.00%	8.00%	6.47%

Statistical analysis of the distribution of the scenarios resulting from this range of values and from probability adjustments of cash flows showed that the discount rates listed in Note 7 were within the 95% confidence level generated by the distribution and were not significantly different from the mean values.

#### 7.5 Asset held for sale

On November 9, 2009, Caribbean Development Capital Limited purchased three parcels of land situated on the island of Tobago from Development Finance Limited. The assets have been recognised as an asset held for sale given that there is no intention for the land to be used for own use nor as an investment property. It is management's intention to sell the assets and has therefore approved the classification of these assets as held for sale.

**DFL CARIBBEAN HOLDINGS LIMITED**

## Notes to Consolidated Financial Statements

December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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	<u>2009</u>	<u>2008</u>
<b>8. Computer Software</b>		
Opening Net Book Amount	\$ 563,894	644,018
Additions	19,520	98,116
Amortisation Charges	(142,886)	(178,240)
	\$ <u>440,528</u>	<u>563,894</u>

**9. Property and Equipment**

	<u>Building</u>	<u>Furniture/ Equipment</u>	<u>Total</u>
<b>Year ended December 31, 2009</b>			
Opening net book amount	\$ 15,665,135	3,309,544	18,974,679
Additions	-	2,743,300	2,743,300
Disposals	-	(100,620)	(100,620)
Depreciation charge	(1,474,072)	(1,080,463)	(2,554,535)
Closing net book amount	\$ <u>14,191,063</u>	<u>4,871,761</u>	<u>19,062,824</u>
<b>At December 31, 2009</b>			
Cost/valuation	\$ 15,523,213	12,163,802	27,687,015
Accumulated depreciation	(1,332,150)	(7,292,041)	(8,624,191)
Closing net book amount	\$ <u>14,191,063</u>	<u>4,871,761</u>	<u>19,062,824</u>

**DFL CARIBBEAN HOLDINGS LIMITED**

## Notes to Consolidated Financial Statements

December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)***9. Property and Equipment (continued)**

		<b>Building</b>	<b>Furniture/ Equipment</b>	<b>Total</b>
<b>Year ended December 31, 2008</b>				
Opening net book amount	\$	11,468,433	3,363,362	14,831,795
Additions		-	1,087,967	1,087,967
Revaluation		4,523,213	-	4,523,213
Disposals		-	(178,021)	(178,021)
Depreciation charge		(326,511)	(963,764)	(1,290,275)
Closing net book amount	\$	<u>15,665,135</u>	<u>3,309,544</u>	<u>18,974,679</u>
<b>At December 31, 2008</b>				
Cost/valuation	\$	16,855,708	10,967,922	27,823,630
Accumulated depreciation		<u>(1,190,573)</u>	<u>(7,658,378)</u>	<u>(8,848,951)</u>
Closing net book amount	\$	<u>15,665,135</u>	<u>3,309,544</u>	<u>18,974,679</u>

		<b>2009</b>	<b>2008</b>
<b>10. Pension Fund</b>			
<b>The amounts recognised in the statement of financial position are as follows:</b>			
Present value of obligation	\$	(22,795,300)	(19,344,900)
Fair value of plan assets		<u>42,510,900</u>	<u>39,603,200</u>
Asset in the statement of financial position	\$	<u>19,715,600</u>	<u>20,258,300</u>
<b>Movement of amounts recognised in the statement of financial position:</b>			
Asset recognised in the statement of financial position, beginning of year	\$	20,258,300	19,381,700
Amount recognised in the statement of income		1,096,200	1,207,000
Amounts recognised in the statement of comprehensive income		<u>(1,638,900)</u>	<u>(330,400)</u>
Asset in the statement of financial position, end of year	\$	<u>19,715,600</u>	<u>20,258,300</u>

**DFL CARIBBEAN HOLDINGS LIMITED**

## Notes to Consolidated Financial Statements

December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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	<u>2009</u>	<u>2008</u>
<b>10. Pension Fund (continued)</b>		
<b>The amounts recognised in the statement of income are as follows:</b>		
Current service cost	\$ 883,700	933,700
Interest cost	1,712,000	1,670,000
Expected return on assets	(3,836,200)	(3,810,700)
Past service cost – vested benefit	<u>144,300</u>	<u>-</u>
Total included in employee costs	\$ <u>(1,096,200)</u>	<u>(1,207,000)</u>
Expected return on plan assets	\$ 3,836,200	3,810,700
Benefits paid	(514,200)	(400,000)
Actuarial loss on plan assets	<u>(414,300)</u>	<u>(3,091,600)</u>
Actual return on plan assets	\$ <u>2,907,700</u>	<u>319,100</u>
<b>Changes in the fair value of Plan assets</b>		
Opening fair value of plan assets	\$ 39,603,200	38,350,700
Adjustment	-	933,400
Expected return on plan assets	3,836,200	3,810,700
Benefits paid	(514,200)	(400,000)
Actuarial loss on plan assets	<u>(414,300)</u>	<u>(3,091,600)</u>
Closing fair value of plan assets	\$ <u>42,510,900</u>	<u>39,603,200</u>
<b>Changes in the present value of the obligation</b>		
Opening present value of obligation	\$ 19,344,900	18,969,000
Adjustment	-	(55,200)
Current service cost	883,700	933,700
Past service cost – vested benefits	144,300	-
Interest cost	1,712,000	1,670,000
Benefits paid	(514,200)	(400,000)
Actuarial gain (loss)	<u>1,224,600</u>	<u>(1,772,600)</u>
Closing fair value of obligation	\$ <u>22,795,300</u>	<u>19,344,900</u>

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# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

December 31, 2009

(Expressed in Trinidad and Tobago Dollars)

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	<u>2009</u>	<u>2008</u>
<b>10. Pension Fund (continued)</b>		
<b>The principal actuarial assumptions used were:</b>		
Discount rate	7.50%	8.75%
Future salary increases	5.00%	6.50%
Expected return on plan assets	8.30%	9.75%

### Post retirement mortality

#### *Group annuitants 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.

	<u>2009</u>	<u>2008</u>
<b>The major categories of the plan assets are:</b>		
Local equities	35%	45%
Government securities	24%	20%
Short-term securities	10%	10%
Mutual Funds	5%	10%
Other	<u>26%</u>	<u>12%</u>

<b>Actual return on plan assets</b>	\$	<u>3,421,900</u>	<u>719,100</u>
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### 11. Other Assets

Asset held in trust (Note 11.1)	\$	28,083,730	-
Home mortgage loans		2,135,250	2,621,078
Motor vehicle and computer loans		2,304,753	2,896,461
Pre-investment study		378,767	441,895
Receivables and prepayments		<u>13,230,000</u>	<u>11,747,981</u>
	\$	<u>46,132,500</u>	<u>17,707,415</u>

**11.1** This amount represents funds received from the European Investment Bank (EIB) to be used for projects to be undertaken by Development Finance Limited.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

December 31, 2009

(Expressed in Trinidad and Tobago Dollars)

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	<u>2009</u>	<u>2008</u>
<b>12. Borrowings</b>		
Short-term borrowings	\$ 59,334,302	26,500,000
Long-term borrowings	379,225,751	351,515,064
Conditional borrowings and private equity funding	77,306,062	74,064,789
Interest accrued on long term borrowings	<u>7,000,224</u>	<u>548,405</u>
	<u>\$ 522,866,339</u>	<u>452,628,258</u>

Monitoring of loan agreements is co-ordinated centrally as part of the Group's finance and compliance functions. The Company's borrowings are mainly long term and 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 Company 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.

### 12.1 Long-term borrowings

	<u>Interest Rate</u>	<u>2009</u>	<u>2008</u>
TT\$ Floating Rate Bonds due 2008-2030	5.0%-10.25%	\$ 235,000,000	252,500,000
US\$ Floating Rate Bonds due 2030	4.74%	18,172,558	17,984,501
US\$ Variable Rate Loans	5.247%-6.37%	126,053,193	80,951,985
Fixed Rate Loans from the EEVF	5%	<u>-</u>	<u>78,578</u>
		<u>\$ 379,225,751</u>	<u>351,515,064</u>

### 12.2 Conditional borrowings and private equity funding

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

The conditions of the contracts require the Company to pay fixed and participating rates of interest to the EIB which bears a proportionate share of risk under certain defined circumstances. The liabilities to the EIB in respect of conditional borrowings are at fair value if the participating rates of interest are taken into account.

## DFL CARIBBEAN HOLDINGS LIMITED

### Notes to Consolidated Financial Statements

December 31, 2009

(Expressed in Trinidad and Tobago Dollars)

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#### 12. Borrowings (continued)

##### 12.2 Conditional borrowings and private equity funding (continued)

The Company is exposed to foreign currency risk in respect of borrowings made in currencies other than the Trinidad and Tobago dollar and generally compensates for this risk through pricing and timing of earnings.

	<u>2009</u>	<u>2008</u>
<b>Loan</b>		
EIB Risk 5C	\$ 263,575	263,576
EIB Loan 6	(2,091,619)	1,821,803
EIB Loan 8	51,000	51,000
EIB Loan 9	16,116,303	15,426,894
EIB Loan 10	44,728,691	44,728,691
EIB Loan 11	<u>18,238,112</u>	<u>11,772,826</u>
	\$ <u>77,306,062</u>	<u>74,064,790</u>

The repayment of loans 5C, 6, and 8, are as follows:

- i) Normal repayments of Loan 5C is based on 50% of all income received from investments up to September 2009. Also, Loan 5C has a fixed interest cost of 2%. Compulsory prepayments are due on disposal of the underlying investment net of proven and agreed losses on loans 5C and 6 which makes it likely that Loan 5C will be fully repaid by 2010.
- ii) All or any part of loans 5C and 6 may be prepaid on giving one month's notice in writing.

#### 13. 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 in accordance with IAS 32 since redemption is mandatory over the period 2014 to 2018. In accordance with IAS 39 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.

	<u>2009</u>	<u>2008</u>
Liability at start of year	\$ 2,319,786	8,614,034
Fair value losses	<u>(406,888)</u>	<u>(6,294,248)</u>
Liability at end of year	\$ <u>1,912,898</u>	<u>2,319,786</u>

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## DFL CARIBBEAN HOLDINGS LIMITED

### Notes to Consolidated Financial Statements

December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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	<u>2009</u>	<u>2008</u>
<b>14. Other Liabilities</b>		
EEVF Caribbean Trust	\$ 1,464,970	4,639,371
Other creditors and accruals	4,870,172	8,084,372
Preference shares issued by DFL Caribbean Holdings	<u>644,850</u>	<u>644,850</u>
	\$ <u>6,979,989</u>	<u>13,368,593</u>

The EEVF Trust is an un-related party governed by its own independent Trustees.

	<u>2009</u>	<u>2008</u>
<b>15. Share Capital</b>		
<b>Authorised</b>		
Unlimited number of ordinary shares of no par value		
<b>Issued and fully paid</b>		
300,393 ordinary shares of no par value	\$ <u>56,639,300</u>	<u>56,639,300</u>

<b>16. Other Reserves</b>		
Statutory reserve	\$ 14,991,127	14,778,638
Revaluation reserve	19,014,283	19,014,283
Contingency for general banking risks	<u>19,000,000</u>	<u>19,000,000</u>
	\$ <u>53,005,410</u>	<u>52,792,921</u>

#### 16.1 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 institution. The reserve is not available for distribution.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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### 16. Other Reserves (continued)

#### 16.2 Contingency for general banking risks

The contingency for general banking risks is based on a minimum of 3.15% of the year-end loan portfolio allocated to SME portfolio risk and 0.40% of total assets allocated to operational and other risk. Historical analysis shows that the relationship between the loan loss provision and gross portfolio at year-end between 1991 and 2008 (18 years) is represented by a statistical distribution that shows a mean of 3.15% and a 95% confidence interval of 2.2% to 4.0%. This general statistic cannot be applied annually.

	<u>2009</u>	<u>2008</u>
<b>17. Retained Earnings</b>		
Opening retained earnings	\$ 53,698,624	49,150,053
IAS 19 actuarial loss (Note 10)	(1,638,900)	(330,400)
(Loss) profit for the year	(18,678,076)	5,001,549
Transfer to statutory reserve	(212,489)	(125,468)
Currency translation differences	-	2,890
Change in non-controlling interest	(411,481)	-
Dividends	<u>(5,723,117)</u>	<u>-</u>
	\$ <u>27,034,561</u>	<u>53,698,624</u>
<b>18. Interest Income</b>		
Loans	\$ 37,754,575	30,502,660
Corporate Securities	<u>949,027</u>	<u>438,556</u>
	\$ <u>38,703,602</u>	<u>30,941,216</u>
<b>19. Income from Investments</b>		
Long term investments	\$ 11,159,469	13,826,665
Fixed deposits	<u>-</u>	<u>444,312</u>
	\$ <u>11,159,469</u>	<u>14,270,977</u>

## DFL CARIBBEAN HOLDINGS LIMITED

### Notes to Consolidated Financial Statements

December 31, 2009

(Expressed in Trinidad and Tobago Dollars)

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	<u>2009</u>	<u>2008</u>
<b>20. Interest Cost and Related Finance Charges</b>		
Interest Expense	\$ <u>30,436,777</u>	<u>34,320,412</u>
<b>21. Other Income</b>		
Income from management services	\$ -	1,534,370
Fee and trading income	2,739,818	2,234,678
Change in fair value of financial liability (Preference Shares)	(406,888)	6,436,909
Change in fair value of investment property	245,000	-
Valuation losses	-	(918,302)
Net foreign exchange gains (losses)	733,882	(218,682)
Bank interest	-	179,343
Other income	<u>5,010,162</u>	<u>11,433,688</u>
	\$ <u>8,321,974</u>	<u>20,682,004</u>

### 22. Other Financial Charges and Related Losses

In 1992 the Company had established an offshore Trust for the repayment of sterling debt which was matched by sterling investments. Both assets and liabilities were settled but the approval of local residual interests in the Trust was required to extinguish the Trust. The assets were converted to USD in 2008 by which time the value of sterling had suddenly declined by 20% resulting in a loss of \$4,252,755 on conversion. The required approvals were obtained late in 2008 and the funds were received in February 2009.

In July 2008, the Company retired fixed rate USD debt of US\$4.4 Million in order to eliminate interest rate risk caused by sharp reductions in USD interest rates in 2007 and in 2008. This created an exit cost of \$2,147,188 calculated on the basis of the remaining term of the loan. In 2009, there were no such charges or losses.

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	<u>2009</u>	<u>2008</u>
<b>23. Net Charge for Provisions</b>		
<b>Loans</b>		
Charge for the year	\$ 22,636,818	1,255,039
Write back of loan provision	<u>-</u>	<u>(682,310)</u>
Net charge for the year	\$ <u>22,636,818</u>	<u>572,729</u>

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Consolidated Financial Statements

December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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	<u>2009</u>	<u>2008</u>
<b>24. General Overheads and Corporate Expenses</b>		
Included in general overheads and corporate expenses are the following:		
Corporate marketing and business development	\$ 3,426,448	2,392,826
Regulatory and professional fees and expenses	1,679,228	820,748
Assurance, business process improvement and compliance	1,232,335	831,644
Accommodation and communication	3,530,367	3,583,821
General corporate and ICT expenses	4,045,902	3,091,871
Personnel	11,746,639	10,209,005
Depreciation	<u>2,554,535</u>	<u>1,438,145</u>
	\$ <u>28,215,454</u>	<u>22,368,060</u>

## 25. Earnings Per Share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of shares in issue during the year.

	<u>2009</u>	<u>2008</u>
Profit attributable to equity holders of the Company	\$ (18,678,076)	5,001,549
Weighted average number of ordinary shares in issue	300,393	300,393
Basic (loss) earnings per share (expressed in \$ per share)	<u>(62.17)</u>	<u>16.65</u>

## DFL CARIBBEAN HOLDINGS LIMITED

### Notes to Consolidated Financial Statements

December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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	<u>2009</u>	<u>2008</u>
<b>26. Adjustments for Non-Cash Items in Operating Activities</b>		
Depreciation	\$ 2,554,535	1,500,079
Loss on disposal of property and equipment	5,508	7,021
Provision for loans	22,636,818	572,730
Pension fund income	(1,096,200)	(1,207,000)
Change in fair values of financial assets and liabilities	(226,885)	(6,418,961)
Net foreign exchange (gain) loss	(1,018,460)	5,310,458
Interest credited to the EEVF and Microfin Holdings	138,562	293,765
Interest Income	(53,420,254)	(48,274,822)
Interest Expense	28,311,547	30,066,677
Dividend Income	<u>(3,907,560)</u>	<u>(113,284)</u>
	(6,022,389)	(18,263,337)
Net interests credited to bond redemption funds	<u>(11,159,469)</u>	<u>(12,949,034)</u>
	\$ <u>(17,181,858)</u>	<u>(31,212,371)</u>

### 27. Subsequent Event

On March 1, 2010, Development Finance Limited redeemed bonds totaling \$37 million. The bonds were redeemed in response to a put option exercised by 42% of the bondholders. This significantly reduces interest expense in 2010, however the redemption has had a significant impact on the liquidity of the Company. The Company has initiated negotiations with its major shareholders to address capitalisation and funding requirements to rectify the situation. The Company has also notified the regulators of these developments.

Unconsolidated Financial Statements of

**DFL CARIBBEAN HOLDINGS LIMITED**

December 31, 2009

*(Expressed in Trinidad and Tobago Dollars)*

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# DFL CARIBBEAN HOLDINGS LIMITED

December 31, 2009

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**KPMG**  
**Chartered Accountants**  
Trinre Building  
69-71 Edward Street  
P.O. Box 1328  
Port of Spain  
Trinidad and Tobago, W.I.

Telephone (868) 623 1081  
Fax (868) 623 1084  
e-Mail kpmg@kpmg.co.tt

## **Independent Auditor's Report to the shareholders of DFL Caribbean Holdings Limited**

### ***Report on the Unconsolidated Financial Statements***

We have audited the accompanying unconsolidated financial statements of DFL Caribbean Holdings Limited (the Company), which comprise the unconsolidated statement of financial position as at December 31, 2009 and the unconsolidated statements of income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes. The unconsolidated financial statements of the Company as at December 31, 2008, were audited by other auditors whose report dated October 5, 2009 expressed an unqualified opinion on those statements.

### ***Management's responsibility for the unconsolidated financial statements***

Management is responsible for the preparation and the fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on these unconsolidated 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 whether the unconsolidated financial statements are free from material misstatement.

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



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

*Opinion*

In our opinion, the accompanying unconsolidated financial statements present fairly, in all material respects the financial position of DFL Caribbean Holdings Limited as at December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature of the KPMG firm, written in black ink.

Chartered Accountants

January 5, 2011  
Port of Spain  
Trinidad and Tobago, West Indies

**DFL CARIBBEAN HOLDINGS LIMITED**


## Unconsolidated Statement of Financial Position

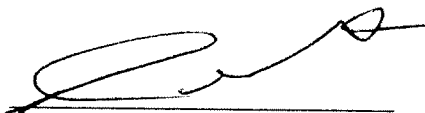
December 31, 2009

	Notes	2009	2008
<b>ASSETS</b>			
Cash and cash equivalents		\$ 17,902	640,865
Asset held in Trust	3	28,083,730	-
Investment in subsidiaries	4	80,331,451	84,624,220
Due from subsidiaries	5	<u>2,093,460</u>	<u>1,649,941</u>
<b>Total Assets</b>		<u>110,526,543</u>	<u>86,915,026</u>
<b>LIABILITIES</b>			
Borrowings	6	26,571,759	-
Due to subsidiaries	7	10,751,617	8,129,442
Taxation payable		11,620	-
Other liabilities	8	<u>827,084</u>	<u>766,616</u>
<b>Total Liabilities</b>		<u>38,249,928</u>	<u>8,896,058</u>
<b>Net Assets</b>		<u>72,364,463</u>	<u>78,018,968</u>
<b>SHAREHOLDERS' EQUITY</b>			
Ordinary shares	9	56,639,300	56,639,300
Reserves	10	5,000,000	5,000,000
Retained earnings		<u>10,725,163</u>	<u>16,379,668</u>
<b>Total Shareholders' Equity</b>		<u>72,364,463</u>	<u>78,018,968</u>

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

These unconsolidated financial statements have been approved for issue by the Board of Directors on January 5, 2011 and signed on its behalf by:

Director 

Director 

**DFL CARIBBEAN HOLDINGS LIMITED**

## Unconsolidated Statement of Income

Year ended December 31, 2009

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	Notes	2009	2008
<b>Fee income</b>	11	\$ 1,543,955	-
<b>Dividend income from subsidiaries</b>		2,533,340	-
<b>Management fees</b>		<u>-</u>	<u>54,000</u>
		4,077,295	54,000
<b>Change in value of investments</b>		<u>(4,292,769)</u>	<u>13,123,026</u>
<b>Total (expense) income</b>		(215,474)	13,177,026
<b>Interest cost and related finance charges</b>		<u>(665,169)</u>	<u>-</u>
<b>Net (expense) income from interest and investments</b>		(880,643)	13,177,026
<b>Foreign exchange loss</b>		<u>(279,254)</u>	<u>-</u>
		(1,159,897)	13,177,026
<b>General overheads and corporate expenses</b>	12	<u>(1,162,126)</u>	<u>(1,069,249)</u>
<b>(Loss) profit before taxation</b>		(2,322,023)	12,107,777
<b>Taxation</b>	13	<u>(15,262)</u>	<u>(257)</u>
<b>(Loss) profit after tax</b>		\$ <u>(2,337,285)</u>	<u>12,107,520</u>

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

## DFL CARIBBEAN HOLDINGS LIMITED

### Unconsolidated Statement of Changes in Equity

Year ended December 31, 2009

	<b>Ordinary Shares</b>	<b>Other Reserves</b>	<b>Retained Earnings</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Year ended December 31, 2009</b>				
Opening balance at January 1, 2009	56,639,300	5,000,000	16,379,668	78,018,968
<b>Comprehensive income for the year</b>				
Loss after tax	-	-	(2,337,285)	(2,337,285)
<b>Transaction with owners recorded directly in equity</b>				
Dividends to equity holders	-	-	(3,317,220)	(3,317,220)
<b>Balance at December 31, 2009</b>	<u>56,639,300</u>	<u>5,000,000</u>	<u>10,725,163</u>	<u>72,364,463</u>
<b>Year ended December 31, 2008</b>				
Opening balance at January 1, 2008	56,639,300	5,000,000	4,272,148	65,911,448
<b>Comprehensive income for the year</b>				
Profit after tax	-	-	12,107,520	12,107,520
<b>Balance at December 31, 2008</b>	<u>56,639,300</u>	<u>5,000,000</u>	<u>16,379,668</u>	<u>78,018,968</u>

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

## DFL CARIBBEAN HOLDINGS LIMITED

### Unconsolidated Statement of Cash Flows

Year ended December 31, 2009

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Loss) profit for the year	\$ (2,337,285)	12,107,520
Adjustments for:		
Interest expense	665,169	-
Foreign exchange loss	279,254	-
Tax expense	15,262	257
Net loss (gain) in value of subsidiaries	<u>4,292,769</u>	<u>(13,123,026)</u>
<b>Cash flows before changes in operating assets</b>	<u>2,915,169</u>	<u>(1,015,249)</u>
Change in other liabilities	148,316	(5,860,968)
Change in related party balances	<u>(28,817,374)</u>	<u>6,883,690</u>
	<u>(28,669,057)</u>	<u>1,022,722</u>
Interest paid	(653,312)	-
Taxation paid	<u>(3,642)</u>	<u>(11,458)</u>
	<u>(656,954)</u>	<u>(11,458)</u>
<b>Cash used in operating activities</b>	<u>(26,410,842)</u>	<u>(3,985)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Dividend received	<u>2,533,340</u>	-
<b>Cash provided by investing activities</b>	<u>2,533,340</u>	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(3,317,220)	-
New borrowings	<u>26,571,759</u>	-
<b>Cash provided by financing activities</b>	<u>23,254,539</u>	-
<b>Net decrease in cash and cash equivalents</b>	(622,963)	(3,985)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>640,865</u>	<u>644,850</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ <u>17,902</u>	<u>640,865</u>

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

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Unconsolidated Financial Statements

December 31, 2009

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### General Information

DFL Caribbean Holdings Limited (DFLCHL or the Company) is a member of the DFL Caribbean Group which is organised by subsidiaries separated by the nature of their operations and/or by geographical locations and governed by a parent company which through a special-purpose subsidiary provides service to the Group based on specific competences.

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 in support of which the Group provides technical, management development and consulting services to private enterprises and for private sector development.

DFL Caribbean Holdings Limited is incorporated as a private limited liability company in the Republic of Trinidad and Tobago. Its registered office is 10 Cipriani Boulevard, Port of Spain. The subsidiaries are centralised in the holding company, DFL Caribbean Holdings Limited, which has the general responsibility for establishing and supervising the policies of subsidiaries, either directly or through delegation of authority and for ensuring that:

Each subsidiary, including the holding company, is capitalised adequately in terms of regulatory and prudential management requirements, business opportunities and risk.

- The holding company does not incur expenses or take on commitments that are not adequately covered by dividends and other income from subsidiaries taking into account volatility in such expected cash flows.
- At no time the total debt of the holding company will exceed 100% of its capital and reserves and any debt contracted by the holding company must be fully capable of being serviced from dividends and other income from the subsidiaries.
- The holding company shall not provide guarantees for the debt or other obligations of any entity other than a subsidiary in which it has more than 75% ownership unless the guarantee is shared with the minority shareholder(s) of adequate financial standing.
- The holding company has adequate liquidity to meet current and future obligations (including provision for contingencies) by maintaining a liquidity policy which must be reviewed in the light of needs and market conditions every six months.

## DFL CARIBBEAN HOLDINGS LIMITED

### Notes to Unconsolidated Financial Statements

December 31, 2009

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#### General Information (continued)

The subsidiary, Development Finance Limited (DFL), is 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 (1995) 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) 1993 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 (DFLSA) is a 87% subsidiary of Development Caribbean Holdings Limited Limited which was incorporated in the Republic of Guyana on October 6, 2004 and began operations in 2005. Its principal activities are that of term lenders in Small and Medium-sized private industrial and commercial enterprises in Guyana and in Surinam. The company also carries on the business of microfinance. It is licensed as a non-depository financial institution by the Bank of Guyana and its registered office is 78 Church Street, Georgetown, Guyana. It has a branch in Suriname which was licenced by the Central Bank of Suriname as a bank falling under the supervision of the Central Bank of Suriname on January 15, 2007.

The subsidiary, Caribbean Development Capital Limited (DevCap) (100% owned) was incorporated in November 1991 as a private limited liability company in the Republic of Trinidad and Tobago and its principal activity is private equity investing, mezzanine financing in private enterprises in the Caribbean and the management of related Funds.

- The subsidiary, Devcap Fund Management Company Limited (100% owned) was set up to manage an equity fund on behalf of the parent company. The fund is for private equity financing and mezzanine financing in small and medium-sized business enterprises in the Caribbean.
- The subsidiary, CDN Management Services Limited (100% owned), was incorporated in November 1997 as a private limited liability company in the Republic of Trinidad and Tobago and its principal activities are the provision of strategic and operational services to the Group and management development and consulting services to small and medium sized enterprises and private sector development services.

The subsidiary, Microfin Caribbean Holdings Limited (75.42% owned in 2009, 87% owned in 2008) was incorporated on January 23, 2004 as a private limited liability company in the Republic of Trinidad and Tobago and its principal activity is the management of subsidiaries and associated companies providing microcredit and related financial services on a commercial basis.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Unconsolidated Financial Statements

December 31, 2009

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### General Information (continued)

- Its subsidiary Caribbean Microfinance Trinidad and Tobago (100% owned) was incorporated on July 15, 1999 as a private limited liability company in the Republic of Trinidad and Tobago and its principal activity is providing microcredit and related financial services on a commercial basis directly and acting as an intermediary to other microfinance institutions.
- Its subsidiary Caribbean Microfinance (St. Lucia) Limited (100% owned) was incorporated in May 2002 as a private limited liability company in St. Lucia and is licensed under Section 4 of the St. Lucia Banking Act #7 of 1991.
- Its subsidiary Caribbean Microfinance (Grenada) Limited (100% owned) was incorporated in July 2002 as a private limited liability company in Grenada and is licensed under Section 3 (1) of the Grenada Banking Act 1993 (No. 40 of 1993).

On August 1, 2006 Caribbean Microfinance Trinidad and Tobago Limited Caribbean Microfinance Grenada Limited and Caribbean Microfinance St Lucia Limited became subsidiaries of Microfin Caribbean Holdings Limited. These companies were owned by previous shareholders who also owned Caribbean Microfinance Trinidad and Tobago Limited. This is a common control transaction as the previous owners of the subsidiaries continue to be the current owners through Microfin Caribbean Holdings Limited.

These unconsolidated financial statements were approved for issue by the Board of Directors on January 5, 2011.

## 1. Summary of Significant Accounting Policies

### 1.1 Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) in Trinidad and Tobago dollars. The unconsolidated financial statements are prepared on the basis of historical cost conversion, except for investments available for sale which are measured at fair value.

Investments in subsidiaries are valued at fair value as reflected by net asset values.

The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the "Group"). In the consolidated financial statements, subsidiary undertakings - which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. The consolidated financial statements can be obtained from the company's registered office.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Unconsolidated Financial Statements

December 31, 2009

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### 1. Summary of Significant Accounting Policies (continued)

#### 1.1 Basis of preparation (continued)

Users of these stand-alone financial statements should read them together with the Group's consolidated financial statements as at and for the year ended December 31, 2009 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

#### 1.2 Use of critical estimates

Critical estimates are derived from analysis of verifiable data or where required, on professional judgement. Where critical estimates are subject to a range of values, likely values are used to generate scenarios with equal probabilities. The critical estimates are tested against the resulting mean and 95% confidence interval. Validity of the likely input values depends on evaluations of financial market factors, the business environment and the continuity of client enterprises. Significant sensitivity to assumptions is generally disclosed in the notes.

#### 1.3 Adoption of standards

The unconsolidated financial statements comply with International Financial Reporting Standards (IFRS) which became applicable effective December 31, 2009, including all amendments and interpretations which became applicable during the year.

#### 1.4 Comparative information

Wherever changes in presentation have been made during the year the comparative figures for the prior year have been reclassified accordingly.

#### 1.5 Foreign currency translation

Items included in the unconsolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). In the case of the St. Lucia and Grenada subsidiaries, the functional currency is the Eastern Caribbean dollar. In the case of DFLSA Incorporated, this functional currency is the United States dollar since substantially all the transactions, assets, liabilities and a substantial amount of equity of DFLSA Incorporated are denominated in this currency.

The unconsolidated financial statements are presented in Trinidad and Tobago dollars, which is the Company's functional and presentational currency. Transactions denominated in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the dates of the transactions.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Unconsolidated Financial Statements

December 31, 2009

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### **1. Summary of Significant Accounting Policies (continued)**

#### **1.5 Foreign currency translation (continued)**

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 recognized in the statement of income.

#### **1.6 Revenue recognition**

##### *Fees and commissions*

Fees and commission income are recognised as the related services are performed.

##### *Dividend income*

Dividend income is recognised when the right to receive payment is established.

#### **1.7 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. The calculation is based on statistical analysis of portfolio risk history and operational risk events. The calculation is reviewed annually to account for changes in risk asset composition, operational risk loss experience and for changes in economic conditions. The probability and impact of risk factors likely to affect business, currency and financial markets generally are assumed to be similar to the long term history which is updated.

#### **1.8 Dividend Distribution**

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

#### **1.9 Taxation**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the unconsolidated statement of income except to the extent that it relates to items recognised directly in equity.

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

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Unconsolidated Financial Statements

December 31, 2009

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### 1. Summary of Significant Accounting Policies (continued)

#### 1.9 Taxation (continued)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### 1.10 Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of income.

#### 1.11 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.

#### 1.12 New standards and interpretations not yet adopted

- Amendments to IAS 7 *Statement of Cash Flows* – the amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities. The amendments are effective for annual periods beginning on or after January 1, 2010.
- IFRS 9 *Financial Instruments* – establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristic of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. Prior periods need not be restated if the company adopts the standard for reporting periods beginning before January 1, 2012. The standard is effective for annual periods beginning on or after January 1, 2013.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Unconsolidated Financial Statements

December 31, 2009

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### 1. Summary of Significant Accounting Policies (continued)

#### 1.12 New standards and interpretations not yet adopted (continued)

- IAS 24 (Revised 2009), *Related Party disclosures*, (effective for periods beginning on or after January 1, 2011). The revised standard amends the definition of a related party and modifies certain related party disclosure requirements for government related entities.
- Improvements to *IFRS 7 Financial Instruments Disclosures* (effective for periods beginning on or after January 1, 2011) The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate the entity's exposure to risks arising from financial instruments.
- Improvements to *IAS 1 Presentation of Financial Statements* (effective for periods beginning on or after January 1, 2011) The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes.

The Company is currently in the process of evaluating the potential effect of these standards.

### 2. Financial Instruments

Financial assets and liabilities are carried at amounts that approximate fair value at the reporting date.

### 3. Assets Held in Trust

This amount represents funds received from the European Investment Bank (EIB) to be used for projects to be undertaken by Development Finance Limited.

### 4. Investment in Subsidiaries

	<u>2009</u>	<u>2008</u>
Development Finance Limited	\$ 65,557,841	70,082,463
Caribbean Development Capital Limited	12,278,809	11,169,286
Microfin Caribbean Holdings Limited	<u>2,494,801</u>	<u>3,372,471</u>
	\$ <u>80,331,451</u>	<u>84,624,220</u>

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Unconsolidated Financial Statements

December 31, 2009

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	<u>2009</u>	<u>2008</u>
<b>5. Due from Subsidiary</b>		
Caribbean Development Capital Limited	\$ 1,940,941	1,649,941
DFLSA Incorporated	<u>152,519</u>	<u>-</u>
	\$ <u>2,093,460</u>	<u>1,649,941</u>

### 6. Borrowings

The European Investment Bank (EIB) has provided the Company with a loan (DFL Regional SME Loan) of 9 Million Euros of which the first tranche of 3 Million Euros has been disbursed. The loan is to be used for the financing of projects to be carried out by small and medium sized companies in the Caribbean. The financing cost of this loan is calculated on each tranche based on either a fixed or a floating rate.

The borrowings are to be repaid in Trinidad and Tobago dollars, based on a rate of conversion determined by the Central Bank of Trinidad and Tobago. The final repayment date shall be no later than twelve years from the final disbursement date of each tranche.

	<u>2009</u>	<u>2008</u>
<b>7. Due to Subsidiary</b>		
Development Finance Limited	\$ 12,565,252	9,943,077
Advances made by Development Finance Limited	<u>(1,813,635)</u>	<u>(1,813,635)</u>
	\$ <u>10,751,617</u>	<u>8,129,442</u>

Amounts due to DFL as a result of the transfer of shares from DFL to DFL Caribbean Holdings Limited.

	<u>2009</u>	<u>2008</u>
<b>8. Other Liabilities</b>		
Preference shares	\$ 644,850	644,850
Other accruals	<u>182,234</u>	<u>121,765</u>
	\$ <u>827,084</u>	<u>766,615</u>

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Unconsolidated Financial Statements

December 31, 2009

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### 8. Other Liabilities (continued)

Preference shares issued by DFL Caribbean Holdings Limited at a price of \$450 per share may be converted at fixed prices into fixed numbers of ordinary shares between Wednesday May 30, 2012 and May 30, 2017. The Preference Shares are redeemable at \$450.00 per share in tranches of 18,500 shares per year beginning May 30, 2018. In accordance with IAS 32 and IAS 39 these shares were classified as a financial liability.

	<u>2009</u>	<u>2008</u>
<b>9. Share Capital</b>		
<b>Authorised</b>		
An unlimited number of ordinary shares of no par value		
<b>Issued and fully paid</b>		
300,393 ordinary shares of no par value	\$ <u>56,639,300</u>	<u>56,639,300</u>

### 10. Other Reserves

Contingency for general banking risks	\$ <u>5,000,000</u>	<u>5,000,000</u>
---------------------------------------	---------------------	------------------

The contingency for general banking risks is based on a minimum of 3.15% of the year-end loan portfolio allocated to SME portfolio risk and 0.40% of total assets allocated to operational and other risk. Historical analysis shows that the relationship between the loan loss provision and gross portfolio at year-end between 1991 and 2008 (18 years) is represented by a statistical distribution that shows a mean of 3.15% and a 95% confidence interval of 2.2% to 4.0%. This statistic is reviewed annually.

### 11. Fee Income

Fee Income is derived from the provision of specialised management services to subsidiaries in accordance with long term contracts.

# DFL CARIBBEAN HOLDINGS LIMITED

## Notes to Unconsolidated Financial Statements

December 31, 2009

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	<u>2009</u>	<u>2008</u>
<b>12. General Overheads and Corporate Expenses</b>		
Included in general overheads and corporate expenses are the following:		
Corporate marketing and business development	\$ 369,878	90,730
Regulatory and professional fees and expenses	1,201	2,439
Assurance, business process improvement and compliance	426,510	391,735
General corporate and ICT expenses	95,904	83,495
Personnel	<u>268,633</u>	<u>500,850</u>
	\$ <u>1,162,126</u>	<u>1,069,249</u>

### 13. Taxation

Prior year tax	\$ 180	-
Current tax	<u>15,082</u>	<u>257</u>
	\$ <u>15,262</u>	<u>257</u>

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

	<u>2009</u>	<u>2008</u>
(Loss) profit before taxation	\$ <u>(2,322,023)</u>	<u>12,077,777</u>
Corporation tax at the statutory rate of 25%	\$ (580,506)	3,026,931
Non taxable expense (income)	1,073,192	(3,280,756)
Current year losses for which no deferred tax asset was recognized	(492,686)	253,825
Green Fund levy	5,081	203
Business levy	<u>10,181</u>	<u>54</u>
Charge to statement of income	\$ <u>15,262</u>	<u>257</u>

The amount of unused tax losses for which no deferred tax asset is recognised in these financial statements is \$1,577,843 (2008: \$1,015,249). These losses have not yet been agreed with the Board of Inland Revenue.



## **DFL CARIBBEAN HOLDINGS LIMITED**

P.O. Box 187, 10 Cipriani Boulevard  
Port-of-Spain, Trinidad & Tobago, W.I.

[Tel:- \(868\) 625-5104](tel:(868)625-5104)

Fax:- (868) 623-8491

Website:- [www.dflcaribbean.com](http://www.dflcaribbean.com)

### **SUBSIDIARIES OF DFL CARIBBEAN HOLDINGS LIMITED**



## **DEVELOPMENT FINANCE LIMITED**

P.O. Box 187, 10 Cipriani Boulevard  
Port-of-Spain, Trinidad & Tobago, W.I.

[Tel:- \(868\) 625-5104](tel:(868)625-5104)

Fax:- (868) 623-8491

Website:- [www.dflcaribbean.com](http://www.dflcaribbean.com)



## **DFLSA INCORPORATED**

### Guyana Branch Address

78 Church Street, Georgetown

[Tel:- 011-\(592\)-225-9674/5](tel:011-592-225-9674/5)

Fax:- 011-(592)-225-9679

### Suriname Branch Address

Hk Malebatrum/ Keizerstraat #1

Cabell Building, Unit 101, Paramaribo

[Tel:- 011-\(597\)-471-804](tel:011-597-471-804)

Fax:- 011-(597)-471-811



## **CARIBBEAN DEVELOPMENT CAPITAL LIMITED**

P.O. Box 187, 10 Cipriani Boulevard  
Port-of-Spain, Trinidad & Tobago, W.I.

[Tel:- \(868\) 623-4665](tel:(868)623-4665)

Fax:- (868) 623-8491

Website:- [www.devcapital.com](http://www.devcapital.com)



## **CDN MANAGEMENT SERVICES LIMITED**

P.O. Box 187, 10 Cipriani Boulevard  
Port-of-Spain, Trinidad & Tobago, W.I.

[Tel:- \(868\) 623-4665](tel:(868)623-4665)

Fax:- (868) 623-8491



## **MICROFIN CARIBBEAN HOLDINGS LIMITED**

### **Subsidiaries:-**

#### **CARIBBEAN MICROFINANCE (TRINIDAD & TOBAGO) LIMITED**

- Ramsingh's Building, #11 Southern Main Road  
Chaguanas  
[Tel:- \(868\) 665- 0301](tel:+8686650301)      Fax:- (868) 672-1622
- #54 Independence Avenue  
San Fernando  
[Tel:- \(868\) 652-6842](tel:+8686526842)      Fax:- (868) 657-7628
- First floor, Tunapuna Place  
LP 333, Eastern Main Road  
[Tel:- \(868\) 662-0252](tel:+8686620252)      Fax:- (868) 663-1297

#### **CARIBBEAN MICROFINANCE (ST. LUCIA) LIMITED**

38 Micoud Street, Castries  
St. Lucia  
[Tel:- \(758\) 453-1780](tel:+7584531780)      Fax:- (758) 452-7623

#### **CARIBBEAN MICROFINANCE (GRENADA) LIMITED**

2<sup>nd</sup> Floor, Bruce Street Mall  
Bruce Street, St. George's  
Grenada  
[Tel:- \(473\) 435-4355](tel:+4734354355)      Fax:- (473) 435-4626