



# Development Finance Limited

Annual Report 2007

# Development Finance Limited

## Financial Statements 2007



### Independent Auditors' Report

To the shareholders of Development Finance Limited

### Report on the Financial Statements

We have audited the accompanying financial statements of Development Finance Limited, which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the financial statements

Management is responsible for the preparation and the fair presentation of these financial statements in accordance with International Financial Reporting Standards. 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.

### Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements present fairly, in all material respects the financial position of Development Finance Limited as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers*

PricewaterhouseCoopers  
Port of Spain  
Trinidad, West Indies  
17 April 2008

### Balance Sheet

Expressed in Trinidad and Tobago Dollars

	Notes	Year Ended 31 December	
		2007	2006
<b>Assets</b>			
Balances held with Central Bank	3	\$ 1,463,407	\$ 585,000
Cash and Short Term Funds	4	26,466,629	34,767,396
Long term Investments	5	183,535,874	200,511,678
Loans	6	213,120,078	207,855,246
Unlisted Investments	7	17,901,307	26,548,436
Amounts due from Related Parties	8	78,425,107	48,839,004
Computer Software	9	234,378	230,636
Property and Equipment	10	16,005,652	15,316,813
Leasehold Land		13,790,081	13,790,081
Pension Fund Surplus	11	19,381,700	18,579,000
Other Assets	12	5,946,574	3,841,299
<b>Total Assets</b>		<b>\$ 576,270,788</b>	<b>\$ 570,864,589</b>
<b>Liabilities</b>			
Borrowings	13	\$ 411,403,172	\$ 408,748,124
Dividends		5,993,719	4,934,842
Other Liabilities	14	12,464,568	12,343,107
<b>Total Liabilities</b>		<b>429,861,459</b>	<b>426,026,073</b>
<b>Net Assets</b>		<b>\$ 146,409,329</b>	<b>\$ 144,838,516</b>
<b>Shareholders' Equity</b>			
Ordinary Shares	15	\$ 30,039,300	\$ 30,039,300
Preference Shares	15	40,775,000	26,600,000
Reserves	16	43,144,240	42,281,099
Retained Earnings	17	32,450,789	45,918,117
<b>Shareholders' Equity</b>		<b>\$ 146,409,329</b>	<b>\$ 144,838,516</b>

The notes on the following pages are an integral part of these financial statements.

On 25 February 2008, the Board of Directors of Development Finance Limited authorised these financial statements for issue.

Director

Director

### Income Statement

Expressed in Trinidad and Tobago Dollars

	Notes	Year Ended 31 December	
		2007	2006
Interest Income	18	\$ 17,242,042	\$ 21,685,741
Income from			
Unlisted Investments		2,231,308	1,797,927
Income from Investments	19	17,159,038	17,347,921
		36,632,388	40,831,589
Interest Cost and Related			
Finance Charges	20	(26,221,556)	(23,630,991)
Net Income from			
Interest and Investments		10,410,832	17,200,598
Other Income	21	6,012,028	8,132,984
		16,422,860	25,333,582
Net Charge for Provisions	22	1,157,213	(2,574,179)
Disposal of Investments in Subsidiaries	23	-	(544,496)
General Overheads and			
Corporate Expenses	24	(8,948,667)	(9,748,408)
Net Profit		\$ 8,631,406	\$ 12,466,499
Earnings per share for profit attributable to the Equity Holders of the Company during the year (expressed in \$ per share)	25	\$ 18.02	\$ 34.33

# Development Finance Limited

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### Statement of Changes in Equity Expressed in Trinidad and Tobago Dollars

	Ordinary Shares	Preference Shares	Other Reserves	Retained Earnings	Total Equity
<b>Balance at January 1, 2006</b>	<b>\$ 30,039,300</b>	<b>\$ 26,600,000</b>	<b>\$ 41,034,450</b>	<b>\$ 37,174,846</b>	<b>\$ 134,848,596</b>
Effect of adopting IAS 19 amended	—	—	—	7,956,400	7,956,400
<b>Net Income recognised directly in equity</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>7,956,400</b>	<b>7,956,400</b>
Profit for the year	—	—	—	12,466,499	12,466,499
<b>Total Income recognised for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>20,422,899</b>	<b>20,422,899</b>
Transfer to the EEVF	—	—	—	(825,000)	(825,000)
Transfer to statutory reserve	—	—	1,246,649	(1,246,649)	—
Preference dividend (2005) – 5%	—	—	—	(1,330,000)	(1,330,000)
Ordinary dividend (2005) – 11%	—	—	—	(3,343,263)	(3,343,263)
Preference dividend (2006) – 5%	—	—	—	(1,330,000)	(1,330,000)
Ordinary dividend (2006) – 12%	—	—	—	(3,604,716)	(3,604,716)
<b>Balance at 31 December 2006</b>	<b>\$ 30,039,300</b>	<b>\$ 26,600,000</b>	<b>\$ 42,281,099</b>	<b>\$ 45,918,117</b>	<b>\$ 144,838,516</b>
<b>Balance at January 1, 2007</b>	<b>\$ 30,039,300</b>	<b>\$ 26,600,000</b>	<b>\$ 42,281,099</b>	<b>\$ 45,918,117</b>	<b>\$ 144,838,516</b>
IAS 19 actuarial loss	—	—	—	(242,000)	(242,000)
<b>Net Income recognised directly in equity</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(242,000)</b>	<b>(242,000)</b>
Profit for the year	—	—	—	8,631,406	8,631,406
<b>Total Income recognised for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>8,389,406</b>	<b>8,389,406</b>
Transfer to the EEVF	—	—	—	(825,000)	(825,000)
Transfer to statutory reserve	—	—	863,141	(863,141)	—
Issue of preference shares – 7.5%	—	14,175,000	—	(14,175,000)	—
Preference dividend (2007) – 5%	—	—	—	(1,330,000)	(1,330,000)
Preference dividend (2007) – 7.5%	—	—	—	(1,063,125)	(1,063,125)
Ordinary dividend (2007) – 12%	—	—	—	(3,600,468)	(3,600,468)
<b>Balance at 31 December 2007</b>	<b>\$ 30,039,300</b>	<b>\$ 40,775,000</b>	<b>\$ 43,144,240</b>	<b>\$ 32,450,789</b>	<b>\$ 146,409,329</b>

### Statements of Cash Flow Expressed in Trinidad and Tobago Dollars

	Notes	Year Ended 31 December 2007	2006
<b>Operating Activities</b>			
Net Profit		\$ 8,631,406	\$ 12,466,499
Adjustments for non-cash items in operating activities	26	(16,035,094)	(8,580,382)
<b>Cash Flows Before Changes in Operating Assets</b>		<b>(7,403,688)</b>	<b>3,886,117</b>
<b>Changes In Operating Assets</b>			
New loans, corporate securities and unlisted investments		(56,715,082)	(16,727,883)
Collections and repayments on loans and unlisted investments		76,214,637	88,866,773
Decrease in balance held at Central Bank		(878,407)	1,350,000
Increase in other assets		(36,932,354)	(9,674,518)
Increase in other liabilities		121,361	3,697,053
		(18,189,845)	67,511,425
<b>Cash Provided By/(Used In) Operating Activities</b>		<b>(25,593,533)</b>	<b>71,397,542</b>
<b>Investing Activities</b>			
Additions to property, plant and equipment		(1,861,782)	(847,586)
Proceeds on sale of property, plant and equipment		259,710	377,813
<b>Cash Used In Investing Activities</b>		<b>(1,602,072)</b>	<b>(469,773)</b>
<b>Financing Activities</b>			
New borrowings		30,558,850	22,507,894
Repayment of borrowings		(6,729,295)	(67,339,574)
Dividends paid		(4,934,716)	(4,673,263)
<b>Cash Used In Financing Activities</b>		<b>18,894,838</b>	<b>(49,504,943)</b>
<b>Net Increase/(Decrease) in Cash And Short Term Funds</b>		<b>(8,300,767)</b>	<b>21,422,826</b>
<b>Cash And Short Term Funds at Beginning Of Year</b>		<b>34,767,396</b>	<b>13,344,570</b>
<b>Cash And Short Term Funds at End Of Year</b>		<b>\$ 26,466,629</b>	<b>\$ 34,767,396</b>

### Notes To The Financial Statements Expressed in Trinidad and Tobago Dollars

#### 1 General Information

Development Finance Ltd (DFL) is a member of the DFL Caribbean Group which 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.

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.

Development Finance Ltd 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

The Company has its registered office at 10 Cipriani Boulevard, Port of Spain.

On 31 December, 2006 Development Finance Ltd became a subsidiary of DFL Caribbean Holdings Limited. The company was owned previously by shareholders who transferred their shares to DFL Caribbean Holdings Limited.

#### 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.

##### 1.2 Use of Critical Estimates

The preparation of financial statements in accordance with IFRS requires the use of certain critical estimates. It also requires management, represented by the Company Managing Director and the Company's Chief Financial Officer, to exercise judgment in the process of applying the Company's accounting policies. Estimates that involve a higher degree of complexity or assumptions and estimates that are significant in the financial statements are generally explained in the Notes to the Financial Statements.

# Development Finance Limited

## Financial Statements 2007

### 1 General Information (continued)

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

##### 1.3 Adoption of Standards

In 2005, the Company adopted IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures. It replaced IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. IFRS 7 requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments. Specified minimum disclosure is mandatory concerning credit risk, liquidity risk and market risk, including sensitivity to market risk.

In 2006 the Company adopted the amendment to IAS 19 (revised 2006). This adoption led to the inclusion of \$7,956,400 in equity as reflected in the 2006 Statement of Changes in Equity.

The adoption of IFRIC 7,8,9,10,11 and 12 had no impact on the Company's policies or results.

The Company has chosen not to early adopt the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2007:

IFRS 8, Operating Segments.

The application of this standard will not have a material impact on the entity's financial statements in the period of initial application.

##### 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 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Company operates two segments, loans and related investments and equity investments.

##### 1.6 Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The financial statements are presented in Trinidad and Tobago dollars, which is the Company's functional currency.

Transactions denominated in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the dates of the transactions, and gains or losses arising on the settlement of such transactions are recognised in the Income Statement.

##### 1.7 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 2003. These securities are managed by Trustees by way of Trust Deeds.

##### 1.8 Unlisted investments in small and medium sized enterprises

Unlisted investments are risk investments comprising 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, and also uses other sources of funding as described in Note 13.2. 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 Income Statement. 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 data 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 rates adjusted by premiums that reflect corporate risk, equity risk and volatility in small capital markets. The rates are adjusted for taxes where applicable as in the case of investments in ordinary shares and convertible debt.

Fair Value is not affected by improvements in the performance of the companies in which investments were made.

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

Fair Value is reviewed, where applicable, in comparison with Net Asset Value of equity investments, reliable third party transaction data and with other objective evidence that may be available. Analysis of historical Fair Value ("backtesting") showed a reasonable correlation between estimated and realised Fair Value at the 95% confidence level. If expected cash flows cannot be determined reliably on the basis of history of receipts, current business projections or contractual arrangements and there is objective evidence that the investment is permanently impaired, the investment is carried at its Net Realisable Value under current market conditions discounted to present value.

##### 1.9 Revenue Recognition

###### Interest

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

Loan origination fees, if material, are recognised as income over the life of the loan net of incremental direct costs. Such loan origination costs are relevant as they would not have been incurred if the company had not acquired the loan. Commitment fees are deferred and recognised as income upon expiration of the commitment if the commitment had not been exercised previously or over the life of the loan.

##### 1.10 Classification of Impaired Loans

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

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

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

A loan that is in the process of collection may be classified separately in

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### 1 General Information (continued)

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

##### 1.10 Classification of Impaired Loans (continued)

“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

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 can create an impairment loss unless the nominal interest is adjusted to compensate for the reduction in Fair Value.

##### 1.11 Specific Provision for Loan Losses

All loans are carried at Fair Value and where required are reduced to that amount by specific provisions for loan losses. Impaired loans are valued annually and are carried at Net Realisable Value discounted to Present Value based on the contracted loan rate and the likely timing of cash flows, including realisation. This method produces a result that approximates the Fair Value of the loan. Specific provisions are made on every impaired loan as and when a specific provision is 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.

##### 1.12 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 and is calculated by a simulation of contingency loss based on imprecise estimates and probabilities. It is reviewed annually and adjusted to account for changes in asset composition, operational risk loss experience and for changes in economic conditions and statistical assumptions that define the probability and impact of risk factors likely to affect business, currency and financial markets generally.

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.

##### 1.13 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 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

##### 1.13 Property and Equipment (continued)

will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement 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 income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset’s original cost is transferred from Other Reserves to Retained Earnings.

Depreciation 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 balance sheet date.

##### 1.14 Taxation

The Company is exempt from taxation under the Corporation Tax Act, Chapter 75.02 as amended.

##### 1.15 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 income statement 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 is in progress as at 31 December, 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 1 January, 2000 as advised by the Actuary.

##### 1.16 Computer Software

Computer Software is stated at historical cost less 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 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.

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 balance sheet date.

##### 1.17 Share Capital and Dividends

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

##### 1.18 Leasehold Land

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

##### 1.19 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 income statement.

## 2 Disclosure Notes to the Financial Statements

### 2.1 Financial Risk Management

The Company’s Mission, and the characteristics of the economies in which it operates, presents credit concentrations and SME risk which form a matrix of financial risk, strongly influenced by dynamic relationships among key risk factors that cause Capital risk management to be 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 its 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.

# Development Finance Limited

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

#### 2.2 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 Company's concentration risk management strategy includes the following measures.

- 1) Identification of likely areas of concentration and assessment of the joint probabilities of default using suitable methodologies and data where available and appropriate judgment based on reasonableness in the light of experience.
- 2) The Board approves aggregate credit limits, in terms of capital and reserves, based on objective criteria and analyses regarding:
  - a) Significant exposures to an individual counterparty or group of related counterparties.
  - b) Credit exposures to counterparties in the same economic/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 Company'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.

#### 2.3 Small and Medium Sized Enterprises (SME) Risk

The Company's risk profile is elevated because its loans and investments are in Small and Medium-sized Enterprises (SME) which in most Caribbean countries are vulnerable to interruptions in the supply chain due to transport facilities, weather, utilities, licensing regimes and natural disasters such as hurricanes and flooding. These companies are also vulnerable to sudden changes in customer preferences due to global influences and household incomes. This risk is estimated at 0.80% of the portfolio of loans and unlisted investments.

SME risk is 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

#### 2.3 Small and Medium Sized Enterprises (SME) Risk (continued)

and Country risk is grounded in economic and political circumstances. This includes the inability of countries to increase competitiveness by improving infrastructure, delivering appropriately trained entrants to the work force and creating conditions that allow markets to function effectively. This reduces sustained access by SME to markets and operating finance even though Caribbean financial markets are highly liquid.

DFL manages "Country Risk" (as defined above) in various ways.

- It uses conventional country assessments to provide country ratings indexed to its assessment of its home country based on independent, authoritative publications. This relative risk rating provides a loan pricing scale.
- In Guyana and Suriname, the proximity of a dedicated subsidiary to SME in those countries is better geared financially to deal with the country risk effects in those countries.
- In the other countries in which the Company operates mainly in the OECS, SME are vulnerable and the Company must exercise analytical judgment to allow DFL to mix its loan portfolio appropriately.

#### 2.4 Credit Risk

The Board of DFL Caribbean Holdings Ltd, the parent company, has delegated authority for managing credit risk to the Boards of subsidiary companies and to the Company's Managing Director who is responsible, subject to oversight by the Board's Audit Committee for implementing credit and risk management policies approved by the Board including:

- 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.
- Providing advice, guidance and specialist skills and training to business units to promote best practice throughout the Group in the management of credit risk.
- Developing and maintaining the Group's risk rating and pricing systems and its procedures for determining impairment loss.

Credit risk in the Company 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 carefully 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 on its viability. These evaluations include analysis of market and technical factors related to the industry and to the enterprise as well as assessments 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 centres on a normal risk threshold. There are two ratings above this level and two ratings below. Loan pricing is based on the risk level which is a composite rating of Enterprise, Industry and Country risk. Results based on scores that are higher than statistically derived normal ranges are subject to independent review.
- Management monitors "Business Enterprise Risk" by regularly reviewing the performance of companies in its portfolio and by arranging with members of the DFL Caribbean Group to provide management and technical services to help identify issues and develop solutions. Experience shows that in DFL credit risk is accentuated by Operational Risk due to failure to review systems and procedures and to periodically re-train senior staff, a risk that can be managed.
- The Company's credit risk is managed primarily at source by the Management and Boards of subsidiaries and monitored through the Enterprise Risk Management Framework managed by a subsidiary that is not involved with credit or investment operations.
- Development Finance Ltd has its own Internal Self-assessment and Risk Management controls centred 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.

# Development Finance Limited

## Financial Statements 2007

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

#### 2.5 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 operations. In order to up-date and improve systems and compliance, the Company relied on professional resources made available by its parent company 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 systems 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 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-Assessments and operational reviews
- Reporting and analysis of operational losses including "near misses"
- Training and professional development in internal control systems and procedures

#### 2.5 Operational Risk (continued)

- Segregation of duties in critical aspects of loan management, information systems and expense control including the independent authorisation of transactions and access to systems.

Compliance with standards is supported by 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 of the Parent Company.

#### 2.6 Risk related to use of financial instruments

##### 2.6.1 Market Risk

Market Risk is the risk to the company's financial condition resulting from adverse movements in the level or volatility of market prices such as interest rates and exchange rates that are related with the value of financial instruments.

##### 2.6.2 Foreign Currency Risk

There was a Net Foreign Currency Asset position of \$76,767,934 at 31 December 2007. This provides strategic advantages related to the Company's activities but creates an exposure to appreciation of the TT\$ currency.

The current US\$ to TT\$ exchange rate used in these financial statements was 6.3412 (6.3119 2006)

A 1% change in the exchange rate will result in a change of approximately \$800,000 in the Company's net profit. The reporting 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:

	United States Dollars	Pounds Sterling	Other	Total
<b>Year Ended 31 December 2007</b>				
Assets	\$ 172,287,909	\$ 23,421,277	\$ 1,121,894	\$ 196,831,080
Liabilities	(117,444,223)	–	(2,618,923)	(120,063,146)
Net Assets	\$ 54,843,686	\$ 23,421,277	\$ (1,497,029)	\$ 76,767,934
<b>Year Ended 31 December 2006</b>				
Assets	\$ 186,591,794	\$ 22,957,673	\$ 1,120,266	\$ 210,669,733
Liabilities	(93,314,678)	–	(2,909,839)	(96,224,517)
Net Assets	\$ 93,277,116	\$ 22,957,673	\$ (1,789,573)	\$ 114,445,216

#### 2.7 Movements in Interest Rates

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:

- differences in the times at which interest rate movements occur (Timing risk)
- uncorrelated changes in interest rate indices (Index risk)
- fixed income debt in \$US on-lent at floating rates (Basis risk).

##### 2.7.1 Movements in Interest Rates

The impact of likely interest rate movements on Net Interest Income was simulated using the rates shown below. At the 95% confidence interval, the likely variation (plus or minus) is approximately \$ 770,634 (2006 - \$680,000). This could change the Company's Net Profit by 8% (2006 - 6%) and its Capital and Reserves by – 0.5% (2006 -0.9%).

	Low	High	Actual
Average Local Prime	9.0%	12.0%	11.75%
Yield on US 10-year Treasuries	3.73%	4.73%	4.03%

#### 2.7.1 Movements in Interest Rates (continued)

Rate Sensitive Assets and Liabilities	2007	2006
Local currency assets	\$ 206,452,691	\$ 221,259,019
Foreign currency assets	163,300,578	148,897,065
<b>Total</b>	<b>\$ 369,753,269</b>	<b>\$ 370,156,084</b>
Local currency liabilities	\$ 237,760,074	\$ 293,440,000
Foreign currency liabilities	34,889,615	19,973,263
<b>Total</b>	<b>\$ 272,649,689</b>	<b>\$ 313,413,263</b>

#### 2.8 Liquidity Risk

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. Re-investment risk arises from the early redemption of financial instruments in investee companies. Until such funds are re-invested the yields can be 5.0% per annum or less. In addition early redemption can lead to reductions in Fair Value. The latter risk is effectively managed by determining the likelihood of early redemption and setting the Fair Value appropriately.

Vulnerability to this risk requires DFL 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 to avoid reliance on liquidity. In 2007, the Company already has adequate funding in place to meet its planned portfolio growth requirements. The Company will maintain minimum liquidity levels. It has strong secondary and tertiary lines of liquidity.

# Development Finance Limited

## Financial Statements 2007

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

#### 2.8 Liquidity Risk (continued)

As illustrated in the table below, the forward liquidity positions provide comfortable tolerance for volatility in recoverable asset values.

##### As at 31 December 2007

	1 to 12 Months	1 to 5 Years	5 to 10 Years	Over 10 Years	TOTAL
Assets	\$ 281,057,218	\$ 257,059,241	\$ 126,929,347	\$ 83,144,642	\$ 748,190,448
Liabilities	(84,270,196)	(180,173,053)	(96,877,774)	(271,730,798)	(633,051,821)
Difference	\$ 196,787,022	\$ 76,886,188	\$ 30,051,573	\$ (188,586,156)	\$ 115,138,627
Brought Forward	\$ –	\$ 196,787,022	\$ 273,673,210	\$ 303,724,783	
Net Liquidity	\$ 196,787,022	\$ 273,673,210	\$ 303,724,783	\$ 115,138,627	

##### As at 31 December 2006

	1 to 12 Months	1 to 5 Years	5 to 10 Years	Over 10 Years	TOTAL
Assets	\$ 207,585,541	\$ 180,551,177	\$ 170,362,282	\$ 183,235,906	\$ 741,734,906
Liabilities	(74,773,509)	(282,639,207)	(56,777,780)	(215,025,939)	(629,216,435)
Difference	\$ 132,812,032	\$ (102,088,030)	\$ 113,584,502	\$ (31,790,033)	\$ 112,518,471
Brought Forward	\$ –	\$ 132,812,032	\$ 30,724,002	\$ 144,308,504	
Net Liquidity	\$ 132,812,032	\$ 30,724,002	\$ 144,308,504	\$ 112,518,471	

#### 2.9 Geographical Concentrations of Assets and Liabilities

##### As at 31 December 2007

	Total Assets	%	Total Liabilities	%
Trinidad and Tobago	\$ 479,810,647	84%	\$ 312,974,922	73%
Eastern Caribbean	41,454,630	7%	16,785,489	4%
Guyana and Suriname	31,618,662	5%	–	0%
European Union	\$ 23,386,849	4%	\$ 100,101,048	23%
<b>Total</b>	<b>\$ 576,270,788</b>		<b>\$ 429,861,459</b>	

##### As at 31 December 2006

	Total Assets	%	Total Liabilities	%
Trinidad and Tobago	\$ 472,082,387	82%	\$ 332,853,865	78%
Eastern Caribbean	41,685,000	8%	19,540,518	5%
Guyana and Suriname	40,825,131	7%	–	0%
European Union	\$ 16,272,071	3%	\$ 73,631,690	17%
<b>Total</b>	<b>\$ 570,864,589</b>		<b>\$ 426,026,073</b>	

#### 2.10 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. The Company can expand total assets as planned over the next three years without exceeding these limits.
- The Company normally maintains cash and securities equivalent to 1.5 times debt service obligations due within one year.
- 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 2007, based on the following distribution of weights applied to classes of assets, the Company's CAR was 26.1% based on the Basle method of calculation.

#### 2.10 Capital Risk Management (continued)

	Total Assets \$	Risk weighting %	Risk-Adjusted \$
Cash	27,930,036	0%	--
Government securities	183,535,874	20%	36,707,175
Loans	213,120,078	150%	319,680,117
Un-listed investments (Equity)	17,901,307	400%	71,605,228
All other assets	133,783,492	100%	133,783,492
<b>Total Assets</b>	<b>576,270,788</b>		<b>561,776,012</b>
Capital and Reserves			<u>146,409,329</u>

#### 2.11 Contingent Liabilities

The Company has entered into customs and performance bonds on behalf of its clients totalling \$259,253 (2006 - \$259,253).

#### 2.12 Financial Instruments

Financial Assets and Liabilities are carried at amounts that approximate Fair Value at the balance sheet date. The following methods and assumptions have been used to estimate their 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.

###### (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

- 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.

# Development Finance Limited

## Financial Statements 2007

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

#### 2.12 Financial Instruments (continued)

	At Fair Value	Loans and Receivables	Amortised Cost	Financial Liability	Total Carrying Amount	Fair Value
<b>As at 31 December 2007</b>						
Balances with Central Bank	–	1,463,407	–	–	1,463,407	1,463,407
Cash and Short Term Funds	–	26,466,629	–	–	26,466,629	26,466,629
Long Term Investments	–	–	183,535,874	–	183,535,874	183,535,874
Loans	38,675,472	177,244,306	–	–	213,120,078	213,120,078
Unlisted Investments	17,901,307	–	–	–	17,901,307	17,901,307
Amounts due to Related Parties	–	78,425,107	–	–	78,425,107	78,425,107
				–		
				–		
<b>Borrowings</b>	–	–	–	411,403,172	411,403,172	411,403,172
<b>As at 31 December 2006</b>						
Balances with Central Bank	–	585,000	–	–	585,000	585,000
Cash and Short Term Funds	–	34,767,396	–	–	34,767,396	34,767,396
Long Term Investments	–	–	200,511,678	–	200,511,678	200,511,678
Loans	–	207,855,246	–	–	207,855,246	207,855,246
Unlisted Investments	26,548,436	–	–	–	26,548,436	26,548,436
Amounts due to Related Parties	–	48,839,004	–	–	48,839,004	48,839,004
				–		
				–		
<b>Borrowings</b>	–	–	–	408,748,124	408,748,124	408,748,124

### Notes to the Balance Sheet

#### 3 Balances held with Central Bank

	2007	2006
Local currency	\$ 1,463,407	\$ 585,000

This balance meets the regulatory requirement of the Central Bank which stipulates that a reserve equivalent to 9% of deposits be maintained with the Central Bank. These balances are non-interest bearing.

#### 4 Cash And Short Term Funds

	2007	2006
Local currency	\$ 4,498,186	\$ 6,460,644
Foreign currency	21,968,443	28,306,752
Total Other Cash and Short Term Funds	\$ 26,466,629	\$ 34,767,396

#### 5 Long Term Investments

	2007	2006
Local currency investments		
- Bond redemption funds	\$ 120,811,453	\$ 141,661,599
Foreign currency investments	62,724,421	58,850,079
	\$ 183,535,874	\$ 200,511,678

Long term investments comprise:

- Fixed income investment grade sterling securities.
- Trinidad and Tobago Sovereign Bonds held in a Custodian Trust with Scotia Trust and Merchant Bank Limited in favour of the European Investment Bank in respect of a loan of 8 Million Euros.
- 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 13) 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.

### 6 Loans

	2007	2006
Principal	\$ 211,577,696	\$ 207,778,615
Accrued interest	2,226,319	1,917,781
	213,804,015	209,696,396
Provision for losses (Note 6.5)	(683,937)	(1,841,150)
	\$ 213,120,078	\$ 207,855,246

#### 6.1 Maximum credit exposure

The maximum exposure to credit risk in the Company (loans plus commitments) at 31 December 2007 without taking account of any collateral held or other credit enhancements was \$316,494,881. (2006 - \$297,316,493)

#### 6.2 Concentrations in the Loans Portfolio

The following table shows that tourism constitutes a major economic sector risk concentration in the loan portfolio as at 31 December 2007.

	2007	2006
Manufacturing	\$ 56,530,717 28%	\$ 55,487,843 26%
Food and beverage	12,193,430 6%	10,203,351 5%
Tourism	113,668,131 50%	94,276,119 45%
Industrial and commercial services	30,727,800 16%	49,729,083 24%
Total outstanding	\$ 213,120,078	\$ 209,696,396

#### 6.3 Sectoral Analysis of Loan Commitments

	2007	2006
Manufacturing	\$ 13,280,624	\$ 28,352,393
Food and beverage	9,910,760	7,299,109
Tourism	36,873,262	29,300,000
Industrial and commercial services	58,311,207	22,668,595
Total outstanding	\$ 118,375,853	\$ 87,620,097

# Development Finance Limited

## Financial Statements 2007

### Notes to the Balance Sheet (continued)

#### 6 Loans (continued)

##### 6.3 Sectoral Analysis of Loan Commitments (continued)

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

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

Loans that were neither past due nor impaired as at 31 December 2007 amounted to 81.0% of the total portfolio.

Loans past due but not impaired as at 31 December 2007 amounted to 14.7% of the total portfolio (2006 12.4%).

##### 6.4 Loans past due or impaired

A Major Loan is any loan in excess of US\$ 1.5 Million or 7.5% of Capital and Reserves.

Three Major Loans amounting to \$ 41.2 Million (net of loan loss provisions) are in the process of collection and are classified as "Collateral Dependent".

##### 6.5 Allowance account for credit losses

	2007	2006
Provision for Loan Losses		
Total Provision	\$ 683,937	\$ 1,841,150

##### 6.5.1 Movement in provision for Loan Losses

	2007	2006
Balance at beginning of year	\$ 1,841,150	\$ 6,479,962
Provision made during the year	683,937	2,574,179
Loans written off against provision	-	(7,212,991)
Write back of loan provision	(1,841,150)	-
Balance at end of year	\$ 683,937	\$ 1,841,150

#### 7 Unlisted Investments

After 1 January 2005, Development Finance Limited made no unlisted investments. 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.

Early repayment of bonds amounted to \$5,699,780 and sale of shares amounted to \$1,000,000.

The Yield on Ten Year Corporate Bonds (Investment Grade) was 8.5% (7.75 % in 2006). The discount rates used to value the portfolio were as follows:

Year	Bonds	Convertible Bonds	Ordinary Shares	Preference Shares
2007	8.50%	11.01%	11.01%	9.91%
2006	8.66%	11.01%	11.01%	9.91%

##### Fair Value 31 December

	2007	2006
Fair Value of Unlisted Investment portfolio	\$ 17,901,307	\$ 26,548,436

##### 7.1 Valuation of the Unlisted Investments

	2007	2006
Opening Fair Value	\$ 26,548,436	\$ 37,984,706
Principal repayments	(8,749,656)	(14,227,038)
Adjusted Opening Fair Value	17,798,780	23,757,668
Valuation Gains	102,527	2,790,768
Closing Fair Value	\$ 17,901,307	\$ 26,548,436

##### 7.2.1 Sectoral Analysis

	2007	2006
Manufacturing	\$ 7,602,087	\$ 13,073,450
Tourism	6,763,617	7,345,947
Industrial and commercial services	3,535,603	6,129,039
	\$ 17,901,307	\$ 26,548,436

#### 7.3 Maximum credit exposure

The maximum exposure to credit risk (mezzanine debt plus commitments) at 31 December 2007 without taking account of any collateral held or other credit enhancements was as follows

	2007	2006
Development Finance Limited	\$ 14,625,381	\$ 21,182,128

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

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 90% (90% in 2006).

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 2007 (none in 2006).

#### 7.4 Market Risk – Sensitivity Analysis

Estimation of the Fair Value of the Un-listed Investments portfolios can have a significant impact on the Net Profit of the Company. The Valuation relies on two key inputs that are readily observable in the local market. These are the yield on high grade Corporate Bonds listed in Trinidad and Tobago.

Range of values of key inputs	Low	High	Actual
Corporate Bonds	8.25	8.75	8.5

The mean of the distribution generated by these values was not significantly different from the actual value of the portfolio reported in the accounts.

#### 8 Amounts due from Related Parties

	2007	2006
Amounts due from Related Parties amounted to	\$ 78,425,107	\$ 48,839,004

##### 8.1 The transfer of shares from Development Finance Limited to DFL

Caribbean Holdings Limited in 2006 resulted in a receivable from DFL Caribbean Holdings of \$ 20,788,140.

##### 8.2

Caribbean Development Capital Limited (8.2a)	\$ 9,253,366	\$ 2,790,653
Caribbean Microfinance		
Trinidad and Tobago Limited (8.2b)	8,062,163	5,865,454
DFLSA Incorporated (8.2c)	19,018,402	11,492,144
CDN-MS Limited (8.2d)	1,659,026	675,912
Microfin Caribbean Holdings Limited	104,807	-
DFL Caribbean Holdings Limited (8.2e)	1,552,703	-
	\$ 39,650,467	\$ 20,824,163

These amounts are unsecured and repayable as agreed as disclosed below:

- 8.2a These were advances made to Caribbean Development Capital to be repaid on liquidation of fixed deposits held with commercial banks. These amounts will be repaid by 31 January
- 8.2b Caribbean Microfinance Limited was previously a subsidiary of Development Finance Limited which had advanced funds to this company for operating capital. These amounts will be repaid by 18 January.
- 8.2c DFLSA Incorporated was previously a subsidiary of Development Finance Limited which had advanced funds to this company for operating capital. These amounts will be repaid by 25 January.
- 8.2d Funds advanced to CDN-MS Limited will be repaid by 15 February based on expected cash flows.
- 8.2e Funds advanced to DFL Caribbean Holdings Limited will be repaid by the Holding Company within 6 months.

8.3 The Company has entered into an arrangement with Caribbean Microfinance Trinidad and Tobago Limited to make available at the rate of 7.25% the TT\$ equivalent of US\$2,855,000 from bonds issued for this specific purpose on the local capital market.

# Development Finance Limited

## Financial Statements 2007

### Notes to the Balance Sheet (continued)

#### 8 Amounts due from Related Parties (continued)

8.3 (continued)	2007	2006
Loan to Caribbean Microfinance Trinidad and Tobago Limited	\$ 8,226,426	\$ 7,226,701
Loan to Microfinance Caribbean Holdings Limited	\$ 9,760,074	\$ -
	<u>\$ 17,986,500</u>	<u>\$ 7,226,701</u>

#### 8.4 Key Management Compensation

Salaries and other benefits	\$ 2,206,114	\$ 2,735,396
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#### 8.5 Home Mortgage Loans

The accumulated value of Home Mortgage Loans is disclosed in Note 12

	2007	2006
Loans outstanding 1 January	\$ 2,984,707	\$ 3,199,660
Loans issued during the year	291,526	498,633
Loan repayments during the year	(383,854)	(713,586)
Loans outstanding 31 December	<u>\$ 2,892,379</u>	<u>\$ 2,984,707</u>

#### 9 Computer Software

	2007	2006
Opening Net Book Amount	\$ 230,636	\$ 299,355
Additions	66,488	-
Amortisation Charge	(62,746)	(68,719)
Closing Net Book Amount	<u>\$ 234,378</u>	<u>\$ 230,636</u>

#### 10 Property and Equipment

	Freehold Land and Building	Furniture and Equipment	Total
<b>Year ended 31 December 2007</b>			
Opening net book amount	\$ 13,115,523	\$ 2,201,290	\$ 15,316,813
Additions	-	1,795,294	1,795,294
Disposals	-	(255,894)	(255,894)
Depreciation charge	(232,403)	(618,158)	(850,561)
Closing net book amount	<u>\$ 12,883,120</u>	<u>\$ 3,122,532</u>	<u>\$ 16,005,652</u>

#### At 31 December 2007

Cost/valuation	\$ 13,600,000	\$ 7,859,083	\$ 21,459,083
Accumulated depreciation	(716,880)	(4,736,551)	(5,453,431)
Closing net book amount	<u>\$ 12,883,120</u>	<u>\$ 3,122,532</u>	<u>\$ 16,005,652</u>

#### Year ended 31 December 2006

Opening net book amount	\$ 13,606,301	\$ 1,915,689	\$ 15,521,990
Additions	-	847,586	847,586
Disposals	-	(387,106)	(387,106)
Depreciation charge	(490,778)	(174,879)	(665,657)
Closing net book amount	<u>\$ 13,115,523</u>	<u>\$ 2,201,290</u>	<u>\$ 15,316,813</u>

#### At 31 December 2006

Cost/valuation	\$ 13,600,000	\$ 6,438,491	\$ 20,038,491
Accumulated depreciation	(484,477)	(4,237,201)	(4,721,678)
Closing net book amount	<u>\$ 13,115,523</u>	<u>\$ 2,201,290</u>	<u>\$ 15,316,813</u>

#### 11 Pension Fund Surplus

The amounts recognised in the balance sheet are as follows:

	2007	2006
Present value of obligation	\$ (18,969,000)	\$ (17,570,100)
Fair value of plan assets	<u>38,350,700</u>	<u>36,149,100</u>
Asset in the balance sheet	<u>\$ 19,381,700</u>	<u>\$ 18,579,000</u>

#### 11 Pension Fund Surplus (continued)

Movement of amounts recognised in the balance sheet

	2007	2006
Asset recognised in the balance sheet December 31, 2006	\$ 18,579,000	\$ 9,444,400
Amount recognised in the income statement	1,044,700	1,178,200
Amounts recognised in the statement of changes in equity	<u>(242,000)</u>	<u>7,956,400</u>
Asset in the balance sheet	<u>\$ 19,381,700</u>	<u>\$ 18,579,000</u>

The amounts recognised in the income statement are as follows:

Current service cost	\$ 990,100	\$ 1,040,000
Interest cost	1,563,800	1,586,600
Expected return on assets	<u>(3,598,600)</u>	<u>(3,804,800)</u>
Total included in employee costs	<u>(1,044,700)</u>	<u>(1,178,200)</u>
Expected return on plan assets	\$ 3,598,600	\$ 3,804,800
Benefits paid	(325,600)	(729,900)
Actuarial loss on plan assets	<u>(1,071,400)</u>	<u>(5,339,000)</u>
Actual return on plan assets	<u>\$ (2,201,600)</u>	<u>\$ (2,264,100)</u>

#### Changes in the Fair Value of Plan Assets

Opening Fair Value of Plan Assets	\$ 36,149,100	\$ 38,413,200
Expected Return on Plan Assets	3,598,600	3,804,800
Benefits Paid	(325,600)	(729,900)
Actuarial Loss on Plan Assets	<u>(1,071,400)</u>	<u>(5,339,000)</u>
Closing Fair Value of Plan Assets	<u>\$ 38,350,700</u>	<u>\$ 36,149,100</u>

#### Changes in the Present Value of the Obligation

Opening Present Value of Obligation	\$ 17,570,100	\$ 20,479,700
Current Service Cost	990,100	1,040,000
Interest Cost	1,563,800	1,586,600
Benefits Paid	(325,600)	(729,900)
Actuarial Loss	<u>(829,400)</u>	<u>(4,806,300)</u>
Closing Fair Value of Obligation	<u>\$ 18,969,000</u>	<u>\$ 17,570,100</u>

#### The principal actuarial assumptions used were:

Discount rate	8.5%	8.5%
Future salary increases	7.5%	7.5%
Expected return on plan assets	10%	10%
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

#### 12 Other Assets

	2007	2006
Home Mortgage Loans	\$ 2,892,379	\$ 2,984,707
Motor Vehicle and Computer Loans	1,581,812	615,093
Receivables and Prepayments	<u>1,472,383</u>	<u>241,499</u>
	<u>\$ 5,946,574</u>	<u>\$ 3,841,299</u>

Fully secured home mortgage loans have been provided under a Board approved programme available to all employees. These loans have remaining maturities ranging from two to thirty years.

#### 13 Borrowings

	2007	2006
Short-term borrowings	\$ 16,260,074	\$ 6,500,000
Long term borrowings (Note 13.1)	373,512,815	381,028,471
Conditional borrowings and private equity funding (Note 13.2)	17,401,219	17,550,219
Interest accrued on long term borrowings	<u>4,229,064</u>	<u>3,669,434</u>
	<u>\$ 411,403,172</u>	<u>\$ 408,748,124</u>

# Development Finance Limited

## Financial Statements 2007

### Notes to the Balance Sheet (continued)

#### 13 Borrowings (continued)

Monitoring of loan agreements is co-ordinated centrally as part of the Finance function at senior management level and also forms part of the Compliance function. 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 Group has complied with all terms and conditions of all borrowings and all payments have been made as contracted. However, in addition to standard covenants and conditions, the Finance Contracts with international institutions include operational benchmarks related to the purposes of the loan including deadlines for the drawdown of funds. These are 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.

#### 13.1 Long-term borrowings

	Interest Rate	2007	2006
TT\$ Floating Rate Bonds			
due 2007-2030	2.0%-6.3%	\$ 257,500,000	\$ 288,440,003
US\$ Floating Rate Bonds			
due 2030	5.72%	18,104,126	18,020,474
US\$ Variable Rate Loans	5.00%-7.94%	97,908,689	74,567,994
		<u>\$ 373,512,815</u>	<u>\$ 381,028,471</u>

#### 13.2 Conditional borrowings and Private Equity Funding

The Company has 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 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, except for the loan EIB Risk 5C contracted in 1989. The Fair Value of that loan is estimated at \$2,300,000 which is 92% of the reported value. Since that loan is a risk-sharing loan and the incidence of loss could be higher than 8.0% the reported value is considered a reasonable approximation of its Fair Value.

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

Loan	2007	2006
EIB Risk 5C	\$ 2,568,141	\$ 2,568,141
EIB Loan 6	2,258,566	2,258,566
EIB Loan 7B	12,523,512	12,523,512
EIB Loan 8	51,000	200,000
	<u>\$ 17,401,219</u>	<u>\$ 17,550,219</u>

The repayment of loans 5C, 6, 7B, and 8, are as follows:

- I. Normal repayment 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 5C loan will be fully repaid by 2008.
- II. Subject to any voluntary or compulsory prepayment on loans 6 and 7B the balance will be repaid in single installments on 20 August 2009 and 30 June 2010 respectively.
- III. All or any part of loans 5C and 6 may be prepaid on giving one month's notice in writing.
- IV. Normal repayment of loan 8 and financing cost is based on 60% and 20% respectively of any dividends received by the Company from its investment in Microfin Caribbean Holdings Limited.

#### 14 Other Liabilities

	2007	2006
EEVF Caribbean Trust	\$ 10,955,255	\$ 9,348,817
Other creditors and accruals	1,509,313	2,994,290
	<u>\$ 12,464,568</u>	<u>\$ 12,343,107</u>

#### 15 Share Capital

Authorised Share Capital includes an unlimited number of ordinary shares of no par value, 266,000 non-redeemable, non-voting, five percent (5%) preference shares and 31,500 of redeemable seven and one half percent (7.5%) preference shares.

	2007	2006
Issued and fully paid		
300,393 ordinary shares of no par value	\$ 30,039,300	\$ 30,039,300
266,000 non-voting, 5% preference shares	26,600,000	26,600,000
31,500 7.5% preference shares	14,175,000	—
	<u>\$ 70,814,300</u>	<u>\$ 56,639,300</u>

Shares in the amount of 14,175,000 were issued out of retained earnings during the year ended December 31, 2007

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

#### 16 Reserves

	2007	2006
Statutory reserve (See Note 16.1)	\$ 14,653,170	\$ 13,790,029
Revaluation reserve	14,491,070	14,491,070
Contingency for general banking risks (Note 16.2)	<u>14,000,000</u>	<u>14,000,000</u>
	<u>\$ 43,144,240</u>	<u>\$ 42,281,099</u>

#### 16.1 Statutory reserve

The Financial Institutions Act, 1993 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.

#### 16.2 Contingency for general banking risks

The Contingency for general banking risks is calculated based on sensitivity analyses and assessments as described in the financial risk disclosures including Concentration and SME risk and an allowance for Operational Risk based on a historical average of known errors and likely errors ("near misses"). The calculation is not a precise estimate. The following table shows an aggregation of the risk estimates.

	2007
Portfolio Risk 3.24%	Portfolio of loans and investments \$ 7,000,000
Operational Risk 0.17%	Total Assets \$ 1,000,000
Other Risk 0.01%	Total Assets \$ 6,000,000
	<u>\$ 14,000,000</u>

#### 17 Retained Earnings

##### Dividends

Dividends in respect of the year ended 31 December 2007 of \$5.00 per 5% preference share, \$33.75 per 7.5% preference share and \$12.00 per ordinary share, amounting to total dividends of \$5,993,593 were approved by the Board of Directors in December 2007. These dividends are reflected in these financial statements.

#### Notes to the Income Statement

#### 18 Interest Income

	2007	2006
Loans	\$ 16,994,097	\$ 21,185,741
Corporate securities	247,945	500,000
	<u>\$ 17,242,042</u>	<u>\$ 21,685,741</u>

# Development Finance Limited

## Financial Statements 2007

### Notes to the Income Statement (continued)

#### 19 Income from Investments

	2007	2006
Long term investments	\$ 15,391,533	\$ 16,012,802
Fixed deposits	1,767,505	1,335,119
	<u>\$ 17,159,038</u>	<u>\$ 17,347,921</u>

#### 20 Interest Cost and Related Finance Charges

	2007	2006
Expense on local currency borrowings	\$ 19,257,339	\$ 16,857,521
Expense on foreign currency borrowings	\$ 6,964,217	\$ 6,773,470
	<u>\$ 26,221,556</u>	<u>\$ 23,630,991</u>

#### 21 Other Income

	2007	2006
Fee and trading income	\$ 431,357	\$ 667,583
Change in Fair Value of Unlisted Investments	102,528	2,790,768
Net foreign exchange gains	64,677	2,475,632
Bank interest	541,466	193,663
Other income	4,872,000	2,005,338
	<u>\$ 6,012,028</u>	<u>\$ 8,132,984</u>

#### 22 Net Charge for Provisions

Loans	2007	2006
Specific provisions made during the year	\$ (683,937)	\$ (2,574,179)
Provision released	1,841,150	–
Net charge for the year	<u>\$ 1,157,213</u>	<u>\$ (2,574,179)</u>

#### 23 Disposal of Investments in Subsidiaries

Note 1 refers to the transfer of shares from Development Finance Limited to DFL Caribbean Holdings Limited. The following gains and losses accrued to Development Finance Limited from these transactions.

	2007	2006
Microfin Caribbean Holdings Limited	–	\$ (1,713,627)
Caribbean Development Capital Limited	–	1,561,071
DFLSA Incorporated	–	(521,069)
CDN-MS Limited	–	129,129
	<u>–</u>	<u>\$ (544,496)</u>

#### 24 General Overheads and Corporate Expenses

Included in general overheads and corporate expenses are the following:

	2007	2006
Depreciation and amortisation	\$ 913,307	\$ 734,376
Directors' remuneration	248,723	236,850
Auditors' fees	219,119	181,492
Employee costs	2,757,643	3,309,723
Corporate marketing and communications	656,390	667,747
General corporate expenses	716,211	758,205
Professional fees and expenses	305,482	980,714
Infrastructure services	3,131,792	2,879,301
	<u>\$ 8,948,667</u>	<u>\$ 9,748,408</u>

#### 25 Earnings Per Share

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

#### 25 Earnings Per Share (continued)

	2007	2006
Net profit attributable to ordinary shareholders	\$ 5,413,281	\$ 10,311,499
Weighted average number of ordinary shares in issue	300,393	300,393
Basic earnings per share (expressed in \$ per share)	<u>\$ 18.02</u>	<u>\$ 34.33</u>
Net profit	\$ 8,631,406	\$ 12,466,499
Transfer to EEVF Caribbean Trust	(825,000)	(825,000)
Preference dividend	(2,393,125)	(1,330,000)
Net profit attributable to ordinary shareholders	<u>\$ 5,413,281</u>	<u>\$ 10,311,499</u>

#### Transfer to the EEVF Caribbean Trust

The directors agreed to set aside 10% of the annual net profit available for distribution up to a maximum of \$825,000 per year to the EEVF Caribbean Trust which was established by deed on 3 July 1996 for the purpose of making loans and investments in small enterprises with assets of less than US\$400,000 and for funding initiatives related to micro credit and entrepreneurship development. The assets and liabilities of the EEVF Caribbean Trust are not included in the balance sheet since these assets and income are not available for use by or distribution to DFL. After the Trust expires in 2030 the Trustees have agreed that the Trust will be extended for a further period of thirty years with DFL as the Trustee or the Fund will be transferred to another institution which in the opinion of DFL Caribbean Holdings Limited is capable of carrying out the mandate expressed in the Trust Deed.

#### Notes to the Cash Flow Statement

#### 26 Adjustments for Non-Cash Items in Operating Activities

	2007	2006
Depreciation and amortisation	\$ 913,307	\$ 734,376
(Gain)/Loss on disposal of property and equipment	(3,816)	9,293
Provision for loans and unlisted investments losses	(1,157,213)	2,574,179
Pension fund income	(1,044,700)	(1,178,200)
Change in Fair Values of financial assets and liabilities	(251,528)	(2,246,198)
Net foreign exchange (gain)	(64,677)	(2,475,632)
Change in intercompany balances	1,679,895	–
Interest credited to the EEVF Caribbean Trust	223,648	62,798
	294,916	(2,519,384)
Net interest credited to bond redemption funds	<u>(16,330,010)</u>	<u>(6,060,998)</u>
	<u>\$ (16,035,094)</u>	<u>\$ (8,580,382)</u>

In the Cash Flow Statement, proceeds from sale of Property and Equipment comprise:

	2007	2006
Net Book Amount (Note 10)	\$ 255,894	\$ 387,106
Gain/(Loss) on disposal of property and equipment	3,816	(9,293)
Proceeds from sale of property and equipment	<u>\$ 259,710</u>	<u>\$ 377,813</u>