

MICROFIN



Caribbean Microfinance(St.Lucia)Ltd



ANNUAL REPORT 2008

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Chairman's Letter to Shareholders

Caribbean Microfinance St Lucia Ltd started in 2004 and has survived through a host of difficulties that led to major losses over the years. During 2008, we saw major improvements. That give us good reason to have high expectations that Microfin will provide a great service. Success depends on our clients. We serve them and they keep us in business so we can serve them better and expand the number of entrepreneurs.

Today, the company is characterised by good management, effective directors, reliable financial reporting and a commitment to local management and staff. It is one of the most innovative, technically advanced and financially sustainable MFI in the English-speaking Caribbean. However, with 8 staff and assets, it has not yet achieved a viable economic size. With prudent growth, it will get there in 2009. In due course, it will be one of the largest Microfinance Institutions (MFI) in the Eastern Caribbean. The company is part of the Microfin Caribbean Group that also owns Caribbean Microfinance Grenada Ltd, which carries on microfinance in Grenada. Microfin needs to be in the other countries of the Eastern Caribbean.

On behalf of the Board, it is my pleasure to thank Mr Prakash Dhanrajh and Ms Venetia Salton and her staff for their work in 2008, without which, Microfin St Lucia would not exist today. They have a great deal of work to do in 2009 to make sure the loan portfolio is sound and that they generate new business. The company must generate surpluses to build up its capital.

Serving on Boards is difficult for directors who take the responsibility seriously. It takes up time, it requires both patience and firmness. Today, it is a continuous learning experience that demands respect, openness and dialogue from all around the table. Regular attendance and attention is a necessity. It is a pleasure to serve on this Board and I thank my colleagues for their valuable service.

G.M. Pemberton
Chairman



Board Of Directors Caribbean Microfin Grenada Ltd



Gerard Pemberton
Chairman



Prakash Dhanrajh



Gillian Golah



Morris Mathlin



Julian Henry



Allan Bierzynski



John Miller

Management of Caribbean Microfinance(St.Lucia) Ltd



Prakash Dhanrajh



Venetia Salton



Mission and response to the emerging New Global Economic Order

The current global economic crisis will lead to a new Global Economic Order that will not accommodate special preferences for the Caribbean or *intra*-country special interests - competitiveness is not a choice – it is a necessity.

The purpose of Microfin is “***to provide loan financing and business services to local communities of micro and small entrepreneurs who pursue profitable business initiatives on a permanent basis and sustain themselves as responsible citizens.***”

We believe the time is right for people who are genuine entrepreneurs to step into the circle of commerce. A New Global Economic Order means reliance on the *real* economy - value for value - the production and delivery of goods and services and prompt and fair payment in return. Micro and small entrepreneurs understand this kind of business language. They know how to identify real needs in the community and we know how to identify real entrepreneurs. They know how to run their business. We know how to make loans. They live here and so do we and this is a long term partnership.

**Caribbean Microfinance
(St. Lucia) Limited**

Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

May 1, 2009

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St. Lucia, West Indies
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Independent Auditors' Report

**To the Shareholders of
Caribbean Microfinance (St. Lucia) Limited**

Report on the Financial Statements

We have audited the accompanying financial statements of **Caribbean Microfinance (St. Lucia) Limited** (the Company) which comprise the balance sheet as of December 31, 2008 and the 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and 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.

Independent Auditors' Report
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Auditors' Responsibility...continued

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 respect, the financial position of the **Caribbean Microfinance (St. Lucia) Limited** as of December 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 2 in the financial statements with respect to the issue of going concern.



Chartered Accountants

Caribbean Microfinance (St. Lucia) Limited

Balance Sheet

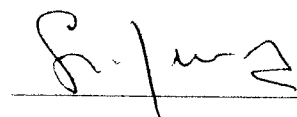
As of December 31, 2008

(expressed in Eastern Caribbean dollars)

	2008 \$	2007 \$
Assets		
Cash and cash equivalents (Note 5)	630,060	558,941
Loans and advances to customers (Note 6)	4,193,543	1,037,223
Furniture and equipment (Note 8)	90,946	30,946
Other assets (Note 9)	376,535	430,541
Total assets	5,291,084	2,057,651
Liabilities		
Due to related parties (Note 10)	1,787,195	1,491,810
Other liabilities (Note 11)	100,117	139,678
Borrowings (Note 12)	2,714,216	244,990
Total liabilities	4,601,528	1,876,478
Equity		
Share capital (Note 14)	2,626,506	1,965,000
Deficit	(1,936,950)	(1,783,827)
Total equity	689,556	181,173
Total liabilities and equity	5,291,084	2,057,651

Approved by the Board of Directors May 1, 2009

 Director

 Director

Caribbean Microfinance (St. Lucia) Limited

Statement of Income

For the year ended December 31, 2008

(expressed in Eastern Caribbean dollars)

	2008 \$	2007 \$
Interest income	604,774	259,954
Interest cost and related finance charges	<u>(193,990)</u>	<u>(79,182)</u>
Net interest income (Note 15)	410,784	180,772
Fees and commission income	236,792	34,603
Other income	<u>146,786</u>	<u>320,767</u>
Operating income	794,362	536,142
Operating expenses (Note 16)	(762,321)	(528,646)
Provision for loan losses (Note 7)	<u>(185,164)</u>	<u>(131,766)</u>
Net loss for the year	<u>(153,123)</u>	<u>(124,270)</u>

Caribbean Microfinance (St. Lucia) Limited

Statement of Changes in Equity

For the year ended December 31, 2008

(expressed in Eastern Caribbean dollars)

	Ordinary shares \$	Preference shares \$	Shares on application \$	Deficit \$	Total equity \$
Balance at January 1, 2007	1,000,000	–	965,000	(1,659,557)	305,443
Issuance of shares (Note 14)	965,000	–	(965,000)	–	–
Net loss for the year	–	–	–	(124,270)	(124,270)
Balance at December 31, 2007	1,965,000	–	–	(1,783,827)	181,173
Balance at January 1, 2008	1,965,000	–	–	(1,783,827)	181,173
Issuance of shares (Note 14)	186,506	475,000	–	–	661,506
Net loss for the year	–	–	–	(153,123)	(153,123)
Balance at December 31, 2008	2,151,506	475,000	–	(1,936,950)	689,556

Caribbean Microfinance (St. Lucia) Limited

Statement of Cash Flows

For the year ended December 31, 2008

(expressed in Eastern Caribbean dollars)

	2008 \$	2007 \$
Cash flows from operating activities		
Net loss for the year	(153,123)	(124,270)
Adjustments for:		
Provision for loan losses (Note 7)	185,164	131,766
Depreciation (Notes 8 and 16)	9,225	5,753
Recovery from written-off accounts	-	(308,575)
Gain on disposal of fixed asset	-	(11,236)
Cash flows before changes in operating assets and liabilities	41,266	(306,562)
Increase/(decrease) in loans and advances to customers	(3,341,484)	100,697
Decrease/(increase) in other assets	54,006	(144,976)
Increase in due to related parties	295,385	1,356,618
(Decrease)/increase in other liabilities	(39,561)	31,337
Net cash (used in)/generated from operations	(2,990,388)	1,037,114
Cash flows from investing activities		
Proceeds from sale of furniture and equipment	-	23,251
Purchase of furniture and equipment (Note 8)	(69,225)	(8,661)
Net cash (used in)/generated from investing activities	(69,225)	14,590
Cash flows from financing activities		
Cash from issuance of shares	661,506	-
Increase/(decrease) in borrowings	2,469,226	(1,660,010)
Net cash generated from/(used in) financing activities	3,130,732	(1,660,010)
Net increase/(decrease) in cash and cash equivalents	71,119	(608,306)
Cash and cash equivalents at beginning of year	558,941	1,167,247
Cash and cash equivalents at end of year (Note 5)	630,060	558,941

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

1 General information

Caribbean Microfinance (St. Lucia) Limited (the Company) was incorporated in Saint Lucia on May 23, 2002 as a private limited Company. In addition to compliance with the Companies Act of 1991, the Company is also subject to the provisions of the Banking Act, 1991. The Company's principal activity is that of a lender to micro and small enterprises in Saint Lucia.

The Company's registered office is located at 107 Chaussee Road, Castries, Saint Lucia.

On July 1, 2006, the Company became a wholly owned subsidiary of Microfinance Caribbean Holdings Limited (MCHL). The Company was owned previously by shareholders who also owned MCHL. This is a common control transaction as the previous owners continue to be the current owners through MCHL. The Company's ultimate parent company is DFL Caribbean Holdings Limited, a limited liability company incorporated in the Republic of Trinidad and Tobago.

2 Summary of significant accounting policies

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

Basis of preparation

The accompanying financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management, represented by the Company's Managing Director and its Chief Financial Officer, to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Interpretations effective in 2008 but not relevant

The following interpretations to published standards is mandatory for accounting periods beginning on or after January 1, 2008 but is not relevant to the Company's operations:

- *IFRIC 11, IFRS 2 - Group and treasury share transactions;*
- *IFRIC 12, Service concession arrangements;*
- *IFRIC 13, Customer loyalty programmes; and*
- *IFRIC 14, IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction.*

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Standards and amendments to existing standards that are not yet effective and relevant to the Company

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2009 or later periods, but the Company has not early adopted them:

- *IFRS 8, Operating Segments* (effective from January 1, 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirement of the US Standard *SFAS 131, Disclosures about segments of an enterprise and related information*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.
- *IAS 1 (Revised), Presentation of financial statements* (effective from January 1, 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Company will apply IAS 1 (Revised) from January 1, 2009.
- *IAS 36 (Amendment), Impairment of assets* (effective from January 1, 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Company will apply the IAS 28 (Amendment) and provide the required disclosure where applicable for impairment tests from January 1, 2009.
- There are a number of minor amendments to *IFRS 7, Financial instruments: Disclosures*, *IAS 8, Accounting policies, changes in accounting estimates and errors*, *IAS 10, Events after the reporting period*, *IAS 18, Revenue* and *IAS 34, Interim financial reporting*. These amendments are unlikely to have an impact on the Company's accounts and have therefore not been analysed in detail.

Interpretations and amendments to existing standards that are not yet effective and not relevant for the Company's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2009 or later periods but are not relevant for the Company's operations:

- *IAS 16 (Amendment), Property, plant and equipment* (and consequential amendment to *IAS 7, Statement of cash flows*);
- *IAS 19 (Amendment), Employee benefits*;
- *IAS 20 (Amendment), Accounting for government grants and disclosure of government assistance*;
- *IAS 23 (Amendment), Borrowing costs*;

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Interpretations and amendments to existing standards that are not yet effective and not relevant for the Company's operations...continued

- *IAS 27 (Amendment), Consolidated and separate financial statements;*
- *IAS 28 (Amendment), Investments in associates (and consequential amendments to IAS 32, Financial Instruments: Presentation and IFRS 7, Financial instruments: Disclosures);*
- *IAS 29 (Amendment), Financial reporting in hyperinflationary economies;*
- *IAS 31 (Amendment), Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7);*
- *IAS 32 (Amendment), Financial instruments: Presentation, and IAS 1 (Amendment), Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation;*
- *IAS 37 Provisions, contingent liabilities and contingent asset;*
- *IAS 38 (Amendment), Intangible assets;*
- *IAS 39 (Amendment), Financial instruments: Recognition and measurement;*
- *IAS 40 (Amendment), Investment property (and consequential amendments to IAS 16);*
- *IAS 41 (Amendment), Agriculture;*
- *IFRS 1 (Amendment), First time adoption of IFRS and IAS 27 Consolidated and separate financial statements;*
- *IFRS 2 (Amendment), Share-based payment;*
- *IFRS 3 (Revised), Business combinations;*
- *IFRS 5 (Amendment), Non-current assets held for sale and discontinued operations (and consequential amendment to IFRS 1, First-time adoption);*
- *IFRIC 15, Agreements for construction of real estates;*
- *IFRIC 16, Hedges of a net investment in a foreign operation; and*
- The minor amendments to *IAS 20 Accounting for government grants and disclosure of government assistance* and *IAS 29, Financial reporting in hyperinflationary economies IAS 40, Investment property* and *IAS 41, Agriculture* (not addressed above). These amendments will not have an impact on the Company's operations as described above.

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Going concern

The Company incurred a loss for the year ended December 31, 2008 of \$153,123 (2007- \$124,270) and had a deficit of \$1,936,950 as of that date (2007 - \$1,783,827). The Company's going concern status is dependent upon the parent company's assessment of viability and willingness to provide financial support if and when required. Viability will depend on increased volume and quality of the portfolio and on staff productivity. The Company has adequate funding to meet portfolio and operating requirements in 2009.

The financial statements are prepared in accordance with IFRS assuming that the Company will continue as a going concern. Accordingly, they do not purport to give effect to adjustments, if any, that may be necessary should the Company be unable to continue its operations and, therefore, be required to realise its assets and discharge its liabilities other than in the ordinary course of business.

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 has one business segment comprised of loans to micro and small enterprises.

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents comprise cash and bank balances with original maturity of less than 3 months.

Loans and loan loss provisions

Loans originated by the Company by providing money directly to the borrower at draw down are categorised as loans and advances to customers and are carried at cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognised when cash is advanced to borrowers.

Loan fees and interest income are recognised when received. Management cannot reliably estimate future cash payments and receipts from micro credit loans because of inherent uncertainties and therefore classified all loans as non accrual and recognises interest as income only when received in cash.

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.

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Loans and loan loss provisions...continued

Impairment indicates that it is probable that the Company will be unable to collect all amounts due according to the terms of the loan agreement. Unless the loan is fully secured by a 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. The Company uses 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
- Unresolved breaches in loan covenants
- Adverse economic conditions that correlate historically with defaults in the Company affecting a group of assets including deterioration in the value of collateral

However, any micro credit loan (defined currently as a loan with an original amount of less than \$13,500) that is more than five (5) days in arrears is assessed for impairment.

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 is based on objective independent evidence, and 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.

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 and are therefore treated as new loans.

Loans that have been re-structured on concessionary terms resulting in an impairment loss are classified separately as "Loans with re-negotiated terms" and remain in this category regardless of performance after the restructuring. 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 on fair value.

Any microcredit loan that is more than five (5) days in arrears is assessed for impairment. When a microcredit loan is more than thirty (30) days in arrears of either interest or principal it is reported in "Portfolio-At-Risk". If a loan is more than sixty (60) days in arrears, expected loan loss is deemed to be 80% of the outstanding balance and for loans more than ninety (90) days in arrears the provision is increased to 100%. All microcredit loans more than six months (180 days) in arrears are written off against the provision independent of the continuation of collections efforts.

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Loans and loan loss provisions...continued

Any small enterprise loan (defined currently as a loan with an original amount of more than \$13,500) that is more than five (5) days in arrears is assessed for impairment. When a small enterprise loan is more than thirty (30) days in arrears of either interest or principal, it is reported in "Portfolio-At-Risk". If such a loan is more than ninety (90) days in arrears, it is deemed to be impaired and its Fair Value is accounted for at net realisable value subject to a minimum provision for expected loan loss of 20% of the outstanding balance of the loan, based on historical analysis and prudential requirements. All such loans more than six months (180 days) in arrears are written down against the provision independent of the continuation of collection efforts.

Furniture and equipment

Furniture and equipment is stated at historical cost less accumulated depreciation. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Depreciation is calculated on the reducing balance method to write-off the cost of each asset, to their residual values over their estimated useful life as follows:

Equipment	12½% - 25%
Furniture & fittings	12½%
Motor vehicle	25%

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of income. Repairs and maintenance are charged to the statement of income during the financial year in which they are incurred.

Borrowings

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

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Income taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Income taxes...continued

The principal temporary differences arise from depreciation on property and equipment and tax losses.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Share capital

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the year in which they are declared.

Preference shares which are convertible to ordinary shares and are not redeemable on a specific date or at the option of the shareholder are classified as equity. The resulting dividends are recognised in the period they fall due.

Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, loans and receivables, due to related parties and borrowings.

Comparative information

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

3 Financial risk management

Strategy in using financial instruments

By its nature, the Company's activities are principally related to the use of financial instruments. The Company grant loans to customers at fixed interest rates and for various years.

Operational risk

Operational risk intensifies the credit risk inherent in the Company's activities making capital a critical component of financial risk management strategy. The Company does not have significant concentration risk or market risk related with interest rates, foreign exchange rates, market prices or liquidity.

Operational risk refers mainly to loss caused by weaknesses and deficiencies in management effectiveness, compliance, information systems and internal controls that affect the functioning of the Company's business processes, personnel, technology and infrastructure. Such loss can quickly arise from failure to:

- 1 Expand portfolio volume while ensuring high repayment rates
- 2 Minimize portfolio loss through properly classifying loans and taking prompt action
- 3 Keep operating costs below benchmark levels compared with revenue
- 4 Eliminate the possibilities of fraud

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Operational risk...continued

The management of operational risk involves taking measures and instituting controls to ensure positive responses to these challenges thus avoiding financial losses and damage to the Company's reputation. The Company employs an overall systems management approach that seeks to maintain a culture of integrity, diligence and alertness while avoiding control procedures that restrict initiative and creativity.

The primary responsibility for the development of openness and honesty and the implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by professional services provided by the parent company related to:

- Internal audit
- Compliance monitoring and reporting
- Internal self-assessments and operational reviews
- Reporting and analysis of operational losses
- Training and management development

The Company uses industry benchmarks to monitor portfolio yield, cost efficiency and productivity. When compared to the benchmark of 24%, the yield on the average portfolio was 13% (2007 - 26%).

Operating expenses decreased in 2008 by 44% and amounted to 18% of the year-end portfolio (2007 - 50%). The benchmark set by the Company and agreed with its major lender is 20% which is in line with similar microfinance institutions of comparable size.

While internal factors weigh heavily on financial risk in microfinance there are external factors that can create a heightened level of financial risk. Microfinance markets in the Caribbean are small, fragmented and diverse. Micro-enterprises are highly vulnerable to adversities that occur intermittently, to un-expected disruptions in household incomes and to natural disasters such as hurricanes and flooding. The Company cannot control these risks and in such circumstances, renegotiates the terms of loans or in extreme cases, provides concessions if supported by regional or international agencies.

Government, economic, fiscal, monetary or political policies, can materially affect, directly or indirectly, the microfinance industry resulting in prolonged cessation of new lending and an unusual incidence of loan loss. There was no such adverse impact in 2008.

Credit risk

Credit risk is the principal risk in the Company, which is derived from the operating effectiveness of the lender, the credit culture of the society (which is largely influenced by socio-economic and political factors), the impact of inflation on micro enterprises, sudden changes in family and personal circumstances and the direct and indirect impact of natural disasters. The actions that can mitigate microfinance risk involve:

- Continuous improvement in lending operations to reduce costs
- Continuous market research to evaluate changes in under-lying conditions
- Effective responsiveness prompted by an Enterprise Risk Management system

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Credit risk...continued

These mitigating factors are managed at the parent company level and are reported to the Board of Directors. At the operational level, credit risk is managed by using conventional “best practice” measures based on world-wide experience as analysed and reported in authoritative literature on microfinance. This involves:

- Qualitative and quantitative analysis of loan applications
- A system of approval authorities
- Active monitoring and reporting of the loan portfolio
- Internal audit reviews of the loan portfolio
- Any micro credit loan that is more than five (5) days in arrears is assessed for impairment and loan loss provisions are set aside to cover any potential loss in respect of non performing-debts

The Company restricts individual micro credit loan exposures to \$13,500 and arranges risk sharing mechanisms and guarantees for loan exposures including small enterprise loans that are in excess of this limit.

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. The Company does not have any significant market risk.

Inflation and foreign currency risk

Inflation influenced results in 2008 causing increases in overhead costs. The adverse impact of high food prices on low income households dampened micro enterprise business activity. Inflation increased loan unit size in 2008 but did not significantly affect the Company’s borrowing cost because loan interest rates are fixed.

There is no exposure to foreign exchange risk.

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. The Company’s existing and contracted borrowings are at fixed rates and its lending rates are fixed. However, this may be altered because of funding strategy or market circumstances. The majority of the Company’s loan portfolio is extended for terms ranging between six to nine months and therefore the impact of increases in interest cost can be reduced by re-pricing loans as they mature.

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Liquidity risk

The Company has adequate funding in place for growing portfolio requirements in 2009 arranged by its parent company through short and medium term funding from money and capital markets in the Caribbean.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining year at balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 1 year equal their carrying balances as the impact of discounting is not significant.

	Within 1 year \$	1 - 5 years \$	Total \$
At December 31, 2008			
Due to related parties	1,895,446	–	1,895,446
Other liabilities	100,117	–	100,117
Borrowings	537,500	2,354,044	2,891,544
	<u>2,533,063</u>	<u>2,354,044</u>	<u>4,887,107</u>
At December 31, 2007			
Due to related parties	1,491,810	–	1,491,810
Other liabilities	68,947	–	68,947
Borrowings	–	287,081	287,081
	<u>1,560,757</u>	<u>287,081</u>	<u>1,847,838</u>

Capital risk management

The Company monitors capital in terms of (a) debt service payments and (b) minimum Capital Adequacy Ratio (CAR).

- a) The Company normally maintains cash and securities equivalent to 1.5 times debt service obligations due within one year.
- b) 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 CAR. The Company is required to maintain a CAR in excess of 15%.

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Capital risk management...continued

At December 31, 2008, based on the following distribution of weights applied to classes of assets, the Company's overall CAR was 10% (2007 - 10%).

	Assets \$	Risk weighting %	Risk adjusted \$
Cash and cash equivalents	630,060	—	—
Loans and advances to customers	4,193,543	150	6,290,315
Other assets	376,535	100	376,535
			<hr/>
			6,666,850
Capital and reserves			<hr/>
			689,556
CAR			<hr/>
			10%

Fair value of financial assets and liabilities

Financial assets and liabilities are carried at amounts that approximate fair value at the balance sheet date. The following methods and assumptions were used to estimate the fair value of financial instruments.

Cash and cash equivalents

These assets are of a short term nature and the carrying values taken are indicative of realisable value.

Loans and advances to customers

Loans and advances to customers 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 at market rates and the value 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.

Borrowings

Long-term borrowings with fixed rate characteristics are carried at values that are substantially equal to the present value of the expected cash out-flows discounted at current market yields.

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Provision for loan losses

The Company maintains a provision for loan losses at a level considered adequate to provide for potential loan losses. The level of this allowance is evaluated by management based on the result of the evaluation of the loans aging report. The carrying value of loans and advances to customers as at December 31, 2008, amounted to \$4,193,543 (2007 - \$1,037,223).

5 Cash and cash equivalents

Cash and cash equivalents comprise:

	2008 \$	2007 \$
Cash at bank and on hand	<u>630,060</u>	<u>558,941</u>

6 Loans and advances to customers

	2008 \$	2007 \$
Commercial microfinance loans	4,338,243	1,100,002
Provision for loan losses (Note 7)	<u>(144,700)</u>	<u>(62,779)</u>
	<u>4,193,543</u>	<u>1,037,223</u>

The weighted average effective interest rate of loans at December 31, 2008 was 13% (2007 - 22%).

Economic sector risk is not of significance or relevance in the loan portfolio of the Company. More than 50% of the portfolio is invested in enterprises involved in various types of retailing activities.

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

6 Loans and advances to customers...continued

Loans in arrears over 30 days, classified as "Portfolio-at-risk", amounted to \$449,671 or 10.36%. Loans over 90 days are considered impaired. The aged analysis of loans, compared with benchmarks, is shown in the table below.

	Loans and advances to customers \$	Percentage to total loans %	Benchmark %	Benchmark \$	Total \$
Current	2,339,444	53.93	75.00	3,253,682	(914,238)
1 - 5 days	1,191,228	27.46	5.00	216,912	974,316
6 - 30 days	357,900	8.25	12.50	542,280	(184,380)
	3,888,572	89.64	92.50	4,012,874	(124,302)
31 - 60 days	300,578	6.93	3.50	151,839	148,739
61 - 90 days	31,430	0.72	2.50	108,456	(77,026)
91 - 180 days	117,663	2.71	1.50	65,074	52,589
Portfolio-at-risk	449,671	10.36	7.50	325,369	124,302
	4,338,243	100.00	100.00	4,338,243	-

7 Provision for loan losses

	2008 \$	2007 \$
At beginning of year	62,779	217,248
Provision made during the year	185,164	131,766
Write-offs	(103,243)	(286,235)
At end of year	144,700	62,779

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

8 Furniture and equipment

	Equipment \$	Furniture & fittings \$	Motor vehicle \$	Total \$
At December 31, 2006				
Cost	24,202	19,517	52,325	96,044
Accumulated depreciation	(10,294)	(6,479)	(39,218)	(55,991)
Net book amount	13,908	13,038	13,107	40,053
Year ended December 31, 2007				
Opening net book amount	13,908	13,038	13,107	40,053
Additions	–	8,661	–	8,661
Disposals	–	–	(12,015)	(12,015)
Depreciation	(2,309)	(2,352)	(1,092)	(5,753)
Closing net book amount	11,599	19,347	–	30,946
At December 31, 2007				
Cost	24,202	28,178	–	52,380
Accumulated depreciation	(12,603)	(8,831)	–	(21,434)
Net book amount	11,599	19,347	–	30,946
Year ended December 31, 2008				
Opening net book amount	11,599	19,347	–	30,946
Additions	20,678	48,547	–	69,225
Depreciation	(3,996)	(5,229)	–	(9,225)
Closing net book amount	28,281	62,665	–	90,946
At December 31, 2008				
Cost	44,879	76,726	–	121,605
Accumulated depreciation	(16,598)	(14,061)	–	(30,659)
Net book amount	28,281	62,665	–	90,946

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

9 Other assets

	2008	2007
	\$	\$
Loans to employees	226,435	111,458
Receivable from the EEVF Caribbean Trust	138,341	–
Prepayments	8,959	17,026
Other receivables	2,800	88,203
Grant funds receivable	–	213,854
	<u>376,535</u>	<u>430,541</u>

Fully secured loans have been provided to certain employees for the purpose of purchasing motor vehicle at a reduced rate. The weighted average effective interest rate at December 31, 2008 was 6% (2007 - 6%).

10 Related party balances

	2008	2007
	\$	\$
Due to related parties		
Caribbean Microfinance Trinidad and Tobago Limited	1,627,830	1,476,577
Development Finance Limited	99,050	15,233
Caribbean Microfinance Grenada Limited	37,668	–
CDN Management Limited	22,647	–
	<u>1,787,195</u>	<u>1,491,810</u>

Caribbean Microfinance Trinidad and Tobago Limited agreed to provide interest free advances to pay certain on-going expenses of the Company up to December 31, 2007. From January 1, 2008, interest was paid on these advances at the rate of 6.65%.

All other related party balances are non-interest bearing, unsecured and are due within the upcoming year.

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

11 Other liabilities

	2008	2007
	\$	\$
Funds held in trust	64,163	68,947
Accrued expenses and other liabilities	35,954	70,731
	<u>100,117</u>	<u>139,678</u>

Funds are held in trust on behalf of the European Development Fund.

12 Borrowings

	2008	2007
	\$	\$
Loan from Parent	1,969,226	—
Loan from Caribbean Microfinance Grenada Limited	500,000	—
Loans from Caribbean Microfinance Trinidad and Tobago Limited	244,990	244,990
	<u>2,714,216</u>	<u>244,990</u>

The weighted average effective interest rate at the balance sheet date was 6.71% (2007 - 8.25%). The loans are unsecured.

The maturity of the above borrowings follows:

	2008	2007
	\$	\$
Within 1 year	500,000	—
Between 1 year and 5 years	2,214,216	244,990
	<u>2,714,216</u>	<u>244,990</u>

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

13 Taxation

	2008 \$	2007 \$
Net loss for the year	<u>(153,122)</u>	(124,270)
Tax calculated at applicable tax rate of 30%	(45,937)	(37,281)
Effect of expired unutilised tax losses	84,189	–
Movement in deferred tax asset not recognised	<u>(38,252)</u>	37,281
	<u>–</u>	<u>–</u>

Deferred tax

The Company has a potential deferred tax asset which is detailed below:

	2008 \$	2007 \$
Accelerated capital allowances	(7,036)	(722)
Unutilised tax losses	<u>447,949</u>	479,887
	<u>440,913</u>	479,165

The potential deferred tax asset has not been recognised due to the uncertainty of its realisation.

Tax losses

The Company has unutilised tax losses of \$1,493,164 (2007 - \$1,599,623). These losses may be carried forward and deducted against future taxable income within six years following the year in which the losses were incurred. The losses deducted are restricted to 50% of taxable income in any one year and expire as follows:

	2008 \$
2009	
2010	187,092
2011	498,043
2012	204,771
2013	307,880
2014	121,211
	<u>174,167</u>
	<u>1,493,164</u>

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

14 Share capital

	2008 \$	2007 \$
Authorised: An unlimited number of ordinary and preference shares of no par value		
Ordinary shares - issued and fully paid:		
At beginning of year - 1,965,000 (2007 - 1,000,000)	1,965,000	1,000,000
Additions - 1,165,664 (2007 - 965,000)	<u>186,506</u>	<u>965,000</u>
At end of year - 3,130,664 (2007 - 1,965,000)	<u>2,151,506</u>	<u>1,965,000</u>
Preference shares - issued and fully paid:		
Additions during the year - 4,750,000 (2007 - nil)	<u>475,000</u>	-
Shares on application:		
At beginning of year - nil (2007 - 965,000)	-	965,000
Issued and fully paid during the year	<u>-</u>	<u>(965,000)</u>
At end of year	<u>-</u>	<u>-</u>
	<u>2,626,506</u>	<u>1,965,000</u>

On March 19, 2008, the Company issued 4,750,000 preference shares at \$.10 per share to MCHL. These preference shares have the following features:

- Redeemable after ten (10) years or at any earlier time at the discretion of the issuer
- Convertible into 4,750,000 ordinary shares at the price of EC\$0.10 for each ordinary share
- Dividends will be paid cumulatively at 10% per annum

On December 24, 2008, the Company further issued 1,165,664 ordinary shares at \$.16 per share to MCHL.

Caribbean Microfinance (St. Lucia) Limited

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

15 Net interest income

	2008	2007
	\$	\$
Interest income	604,774	259,954
Interest cost and related finance charges	<u>(193,990)</u>	<u>(79,182)</u>
	<u>410,784</u>	<u>180,772</u>

16 Operating expenses

	2008	2007
	\$	\$
Management costs	291,901	277,775
Less grant income	—	<u>(68,122)</u>
Net personnel costs	<u>291,901</u>	<u>209,653</u>
Other operating expenses		
Rent and rates	73,011	40,581
Head office charges	58,647	—
Travel	56,595	27,834
Legal and professional fees	55,584	61,632
Repairs and maintenance	38,314	53,909
Telecommunications	33,115	36,473
Printing, stationery and supplies	24,995	19,379
Utilities	21,014	15,029
Directors fees	20,880	6,000
Insurance	17,802	19,995
Advertising	10,021	2,870
Depreciation	9,225	5,753
Bank interest and charges	6,622	501
Miscellaneous expenses	<u>44,595</u>	<u>29,037</u>
Total other operating expenses	<u>470,420</u>	<u>318,993</u>
Total operating expenses	<u>762,321</u>	<u>528,646</u>



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