MICROFIN

Caribbean Microfinance (Trinidad and Tobago)Ltd

ANNUAL REPORT 2008

Table Of Contents

Board of Directors
Mission and Response to the Emerging New Global Economic Order.
Financial

Board Of Directors

Caribbean Microfinance(Trinidad and Tobago)Limited

- Prakash Dhanrajh
- Ruthven Jaggassar
- Andrew McEachrane
- Gina Paul-Schwartz
- Victor Pilgrim
- David Raggay

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 Trinidad and Tobago Limited

Financial Statements

31 December 2008

(Expressed in Trinidad and Tobago Dollars)

Caribbean Microfinance Trinidad and Tobago Limited

Contents

	Page
Independent Auditor's Report	1
Balance sheet	2
Income statement	3
Statement of changes in equity	4
Cash flow statement	5
Notes to the Balance Sheet and Income Statement	6 - 22

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
PO Box 550
11-13 Victoria Avenue
Port of Spain
Trinidad, West Indies
Telephone (868) 623-1361, 623-2428
Telefax: (868) 623-6025, 623-1512

Independent Auditor's Report

To the shareholders of
Caribbean Microfinance Trinidad and Tobago Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Caribbean Microfinance Trinidad and Tobago Limited, which comprise the balance sheet as of 31 December 2008 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.

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of Caribbean Microfinance Trinidad and Tobago Limited as of 31 December 2008, and 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
1 June 2009

Caribbean Microfinance Trinidad and Tobago Limited

Balance Sheet
As at 31 December 2008
Expressed in Trinidad and Tobago dollars

	Notes	2008 $	2007 $
Assets			
Cash and cash equivalents	4	485,636	6,970,898
Loans	5	17,232,213	13,263,293
Pre-investment study	6	441,895	328,459
Due from related parties	7	9,785,037	10,736,325
Prepayments and other assets	8	1,620,714	2,243,512
Furniture and equipment	9	620,130	578,030
Total Assets		30,185,625	34,120,517
Liabilities			
Due to parent company		2,035,578	5,276,983
Other liabilities	10	605,575	620,824
Borrowings	11	24,025,707	24,854,619
Total Liabilities		26,666,860	30,752,426
Shareholders' Equity			
Share capital	12	16,031,500	16,031,500
Deficit		(12,512,735)	(12,663,409)
Total Shareholders' Equity		3,518,765	3,368,091
Total Equity And Liabilities		30,185,625	34,120,517

The attached notes set out on pages 6 to 22 form an integral part of these financial statements.

On 1 June, 2009, The Board of Directors of Caribbean Microfinance Trinidad and Tobago Limited approved these financial statements for issue.

Director ______________ Director Gina Pau[illegible]

Caribbean Microfinance Trinidad and Tobago Limited

Income Statement
For the year ended 31 December 2008
Expressed in Trinidad and Tobago dollars

	Notes	2008 $	2007 $
Interest income		4,419,749	3,928,670
Interest cost and related finance charges		(1,424,554)	(1,264,153)
Net Interest Income		2,995,195	2,664,517
Fee and commission income		883,469	691,303
Other income		1,109,182	800,169
Operating Income		4,987,846	4,155,989
Operating expenses	13	(4,018,184)	(3,377,952)
Depreciation and amortisation	6 & 9	(177,494)	(150,927)
Provision for loan loss	5.4	(641,494)	(180,493)
Profit For The Year		150,674	446,617

The attached notes set out on pages 6 to 22 form an integral part of these financial statements.

Caribbean Microfinance Trinidad and Tobago Limited

Statement Of Changes In Equity
For the year ended 31 December 2008
Expressed in Trinidad and Tobago dollars

	Note	2008 $	2007 $
Share Capital			
At beginning of year	12	16,031,500	16,031,500
At end of year		16,031,500	16,031,500
Deficit			
At beginning of year		(12,663,409)	(13,110,026)
Net profit for the year		150,674	446,617
At end of year		(12,512,735)	(12,663,409)
Shareholders' Equity, End Of Year		3,518,765	3,368,091

The attached notes set out on pages 6 to 22 form an integral part of these financial statements.

Caribbean Microfinance Trinidad and Tobago Limited

Cash Flow Statement
For the year ended 31 December 2008
Expressed in Trinidad and Tobago dollars

	Notes	2008 $	2007 $
Cash Flows From Operating Activities			
Profit for the year		150,674	446,617
Adjustments for:			
Depreciation and amortisation	6 & 9	177,494	150,927
Loss on disposal of fixed asset	9	740	--
Movement in fair value	11	(66,617)	(594,691)
Unrealised foreign exchange loss/(gains)		61,403	(12,550)
Increase in loan loss provision	5	641,494	180,493
Operating profit before working capital changes		965,188	170,796
Increase in loans		(4,610,414)	(1,734,389)
(Increase)/decrease in feasibility study	6	(145,000)	109,480
Decrease/(increase) in amount due from related party		889,886	(478,366)
Decrease/(increase) in other assets		622,796	(1,779,552)
(Decrease)/increase in amount due to parent company		(3,241,404)	1,965,561
(Decrease)/increase in other liabilities		(15,249)	204,104
Decrease in amount due to related party		--	(248,175)
Net Cash Used In Operations		(5,534,197)	(1,790,541)
Cash Flows From Investing Activities			
Purchase of furniture and equipment	9	(188,770)	(438,167)
Net cash used investing activities		(188,770)	(438,167)
Cash Flows From Financing Activity			
(Decrease)/Increase in Borrowings		(762,295)	9,326,079
Net cash from financing activities		(762,295)	9,326,079
(Decrease)/Increase In Cash And Cash Equivalents		(6,485,262)	7,097,371
Cash And Cash Equivalents At Beginning Of Year		6,970,898	(126,473)
Cash And Cash Equivalents At End Of Year	4	485,636	6,970,898

The attached notes set out on pages 6 to 22 form an integral part of these financial statements.

1 General Information

Caribbean Microfinance Trinidad and Tobago Limited is a limited liability company incorporated in the Republic of Trinidad and Tobago and its registered office is located at 10, Cipriani Boulevard, Port of Spain. The immediate parent of the Company is Microfin Caribbean Holdings Limited and its ultimate parent is DFL Caribbean Holdings Limited.

The principal activities of Caribbean Microfinance Trinidad and Tobago Limited are that of lenders to micro and small enterprises in Trinidad and Tobago and providers of technical and management services and capital to other microfinance companies in the Caribbean.

2 Summary Of Significant Accounting Policies

2.1 Basis of Preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention.

2.2 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's Managing Director and its Chief Financial Officer, to exercise judgement 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.

2.3 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.

The adoption of IFRIC 11, 12, 13 and 14 had no impact on the Company's policies or results.

2 **Summary Of Significant Accounting Policies** (Continued)

2.3 **Adoption of standards** (Continued)

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

The following amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2008 or later periods but are not relevant for the Company's operations:

- *IAS 23 (Amendment), Borrowing costs* (effective from January 1, 2009);
- *IFRIC 11, IFRS 2 - Group and treasury share transactions.* (effective for annual periods beginning on or after March 1, 2007);
- *IFRIC 12, Service concession arrangements* (effective from January 1, 2008);
- *IFRIC 13, Customer loyalty programs* (effective for annual periods beginning on or after July 1, 2008); and
- *IFRIC 14, IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction* (effective from January 1, 2008).

2.4 **Comparative information**

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

2.5 **Segment reporting**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The Company has one operating segment comprised of loans to micro and small enterprises.

2.6 **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 Company will determine whether there is objective evidence of an impairment loss. Any micro credit loan (defined currently as a loan

2 **Summary Of Significant Accounting Policies** (Continued)

2.6 **Classification of impaired loans** (Continued)

With an original amount of less than $ 30,000 that is more than five (5) days in arrears is assessed for impairment. 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
- Un-resolved 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

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 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.

2.7 **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" and remain in this category regardless of performance after the re-structuring. Concessionary terms refer to extended capital repayments 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.

2.8 **Specific provision for loan losses**

The Company's provisioning policy as at 31st December, 2007 was 'Any micro credit loan that is more than five (5) days in arrears is assessed for impairment. When a micro credit 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 ninety (90) days in arrears, expected loan loss is deemed to be 80% of the outstanding balance based on the history of loan loss in this classification. For each loan in this portfolio, a provision of 80% to 100% is made for the outstanding loan amount. All loans more than six months (180 days) in arrears are provided for fully and written off against the provision independent of the continuation of collections efforts.'

2 **Summary Of Significant Accounting Policies** (Continued)

2.8 **Specific provision for loan losses** (Continued)

In 2008, the Company reviewed its provisioning policy and voluntarily changed this estimate effective July 01, 2008 in compliance with international best practises in microfinance industry. This adoption was not applied retrospectively and as result, does not require changes to prior periods presented.

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) 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 collection efforts.

Any small enterprise loan enterprises (defined currently as a loan with an original amount of more than $30,000) 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.

2.9 **Furniture and equipment**

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

Depreciation is computed on the reducing balance method over the estimated useful lives of the related assets at the following rates:

Computer software	-	25%
Furniture and equipment	-	12½% - 25%

Grant funds received from the Caribbean Development Bank Limited for the purchase of furniture and equipment was deducted from the asset's carrying amount.

2 Summary Of Significant Accounting Policies (Continued)

2.10 Pre-investment study

Expenditure on research is recognised as an expense when incurred. Costs incurred on development projects are recognised as intangible assets as such expenditure is expected to generate future economic benefits. The Pre-Investment Study represents an investment made by Caribbean Microfinance Trinidad and Tobago Limited to engage a firm of consultants to carry out IT Systems Configuration which will enable the Company to serve micro enterprises in the Southern and Eastern Caribbean.

The final cost of this initial study was $1,605,567 of which $425,955 related to training which was expensed in the first year of the study. The remaining cost of $1,179,612 was to be amortised over a period of seven years using the sum of digits method beginning in the year ended 31st December, 2000. In 2005, and in 2006, the Company reviewed the useful life of the pre-investment study, and determined that the Company expected to derive future benefits from this asset up to 2009. Consequently, with effect from 1 January 2005, the Company started amortising the carrying value of the asset as at 31st December, 2004 of $547,401 over a five (5) year period using the sum of the digits method.

In 2008, the Company reviewed the useful life of these configurations and determined that the Company continues to derive benefits from the asset because it was used at an additional development cost of $145,000 to develop new facilities and methodologies employed in 2008 and extended to other subsidiaries owned by the Parent. Consequently, with effect from 01, January 2008, the Company will amortize the carrying value of this asset as at 31st December, 2007 of $328,459 plus the additional cost of $145,000 over a 5 year period ending 2012 using the sum of the digits method.

2.11 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 asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability and is not revised subsequently except in the case of floating rates where necessary to adjust for contractual pricing based on market indices. The calculation of the effective interest rate includes all fees paid or received, transaction cost, 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's contract terms and conditions, except for loans classified as impaired or for loans classified as non-accrual. Management cannot reliably estimate future cash payments and receipts from micro credit and small enterprise loans because of inherent un-certainties and therefore classified all loans as non accrual and recognised interest as income only when received in cash.

2 **Summary Of Significant Accounting Policies** (Continued)

2.11 **Revenue recognition** (Continued)

Fee and commission

Fee and commission income and expense 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.

2.12 **Foreign Currency Translation**

The financial statements are presented in Trinidad and Tobago dollars, which is the Company's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

2.13 **Taxation**

Caribbean Microfinance Trinidad and Tobago Limited is exempt from taxation under the Corporation Tax Act, Chapter 75.02 as amended.

3 **Disclosure Notes To The Financial Statements**

3.1 **Financial Risk Management**

Operational Risk intensifies the Credit Risk inherent in microfinance activities making Capital a critical component of financial risk management strategy. The Company maintains a capital adequacy ratio above standard regulatory requirements. 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 Group'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. Minimise 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 in branches

3 **Disclosure Notes To The Financial Statements** (Continued)

3.1 **Financial risk management** (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 Group'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 international industry benchmarks to monitor Portfolio Yield, Cost efficiency and Productivity. The yield on the average portfolio was 22% (24% in 2007) which is comparable with the benchmark of 24%. Operating expenses which increased in 2008 by 18%, (9% in 2007) amounted to 23% of the year-end portfolio (26% in 2007). The benchmark set by the Group 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 such circumstances re-negotiates the terms of loans or in extreme cases, provides concessions if supported by regional or international agencies. Government, economic, fiscal, monetary or political policies or factors 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 or action in 2008.

3 **Disclosure Notes To The Financial Statements** (Continued)

3.2 Credit risk

The principal risk in microfinance is credit risk 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
- Continuous market research to evaluate changes in under-lying conditions
- Effective responses prompted by an Enterprise Risk Management system

These mitigating factors are managed at the parent company level and are reported to the Board. 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.

3.3 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.

3.3a 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 our borrowing cost because of fixed interest rates.

The Company has a foreign currency exposure to receivables denominated in Eastern Caribbean dollars. In compliance with IAS 21, the following receivables were revalued at the prevailing rate as at 31st December, 2008 which resulted in an unrealised foreign exchange loss of $61,403.

3 **Disclosure Notes To The Financial Statements** (Continued)

3.3 **Market risk** (Continued)

3.3b **Movements in interest rates**

Interest rate risk 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 a combination of fixed and floating rates and its lending rates are fixed. However, this may be altered because of funding strategy or market circumstances.

3.4 **Liquidity risk and capital resources**

Caribbean Microfinance Trinidad & Tobago Limited has adequate funding in place for growing portfolio requirements in 2008 arranged by its parent company through short and medium term funding from money and capital markets in the Caribbean. The maturity analysis of the Balance Sheet is as follows as at 31st December, 2008.

Assets	**Within One Year** $	**1 to 5 years** $	**Over 5 years** $	**Total** $
Cash	485,636	--	--	485,636
Loans	4,857,763	12,374,450	--	17,232,213
Due from related parties	9,785,037	--	--	9,785,037
	15,128,436	12,374,450	--	27,502,886

Liabilities	**Within One Year** $	**1 to 5 years** $	**Over 5 years** $	**Total** $
Due to parent company	2,035,578	--	--	2,035,578
Other liabilities	605,575	--	--	605,575
Borrowings	372,387	--	23,653,320	24,025,707
	3,013,540	--	23,653,320	26,666,860

3 Disclosure Notes To The Financial Statements (continued)

3.5 Capital risk management

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

a) The Company or its parent company normally maintains cash and securities equivalent to 1.5 times debt service obligations due within one year.

b) Each subsidiary in the Microfin Group must maintain a level of capital that is adequate in terms of its financial risk exposures and that is in excess of required regulatory Capital Adequacy Ratios. The Group is required to maintain a Capital Adequacy Ratio (CAR) in excess of 15% in each subsidiary.

At 31 December, 2008, based on the following distribution of weights applied to classes of assets, the Company's overall CAR was 14% (15 % in 2007). 86% of parent company debt was utilised in the following calculation.

	Total Assets	**Risk weighting**	**Risk-Adjusted**
	$	**%**	**$**
Cash & cash equivalents	485,636	0%	--
Due from related party	9,785,037	100%	9,853,410
Loans	17,232,213	150%	25,848,320
Prepayments and other assets	2,682,739	100%	2,682,739
	30,185,625		38,384,469
Capital & Reserves	3,518,765		
Due to parent company	2,035,578		
	5,554,343		

3.6 Financial instruments

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

Assets

(a) Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow comprises cash on hand and amounts due from banks with an original maturity of three months or less. As these assets are short term in nature, the values are taken as indicative of realisable value.

3 Disclosure NotesTo The Financial Statements (Continued)

3.6 Financial Instruments (Continued)

(b) Loans

Loans are valued net of provisions for losses. These assets result from transactions conducted under typical business conditions in accordance with standard policies and criteria. The rates of interest in the portfolio are 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.

(a) Liabilities

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.

4 Cash And Cash Equivalents

	2008 $	2007 $
Cash in bank	485,636	1,239,766
Fixed deposit	--	5,712,375
Interest receivable on fixed deposit	--	18,757
	485,636	6,970,898

5 Loans

Commercial microfinance loans – note 5.2	17,706,330	13,268,054
EEVF loan	91,572	91,572
Provision for loan loss – note 5.4	(565,689)	(96,333)
	17,232,213	13,263,293

The weighted average effective interest rate of loans at 31st December, 2008 was 22% (2007 – 24%).

5.1 Concentrations in the Loan Portfolio

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. The remaining portfolio is mainly concentrated in service type activities.

5 **Loans** (Continued)

5.2 Classes in the Loan Portfolio

	2008 $	2007 $
Small Enterprise Loans over $30,000	8,769,478	593,110
Microcredit Loans below $30,000	8,936,852	12,674,944
	17,706,330	13,268,054

5.3 Aging of loan portfolio

Loans in arrears over 30 days, classified as "Portfolio-At-Risk", amounted to $1,840,804 or 10% of loan portfolio (11.75% in 2007). Loans over 60 days are considered impaired. The aged analysis of loans, compared with the Company's internal benchmarks, is shown in the table below.

Aging	Portfolio	Actual 2008 %	Benchmark %	Benchmark $	Variance $
Current	10,188,929	57.56%	75.00%	13,284,375	(3,095,446)
1 to 5 days	2,000,731	11.30%	5.00%	885,625	1,115,106
6- 30 days	3,675,866	20.75%	12.50%	2,214,063	1,461,803
	15,865,526	89.61%	92.50%	16,384,063	(518,537)
31-60 days	1,073,405	6.06%	3.50%	619,938	453,467
61-90 days	375,222	2.12%	2.50%	442,813	(67,591)
91-180 days	392,177	2.21%	1.50%	265,688	126,489
Portfolio-at-Risk	1,840,804	10.39%	7.50%	1,328,439	512,365
Portfolio 31/12/08	17,706,330	100.00%	100.00%	17,712,502	(6,172)

5 **Loans** (Continued)

5.4 **Movement in loan loss allowance**

	2008 $	2007 $
Opening balance of loan loss allowance	96,333	318,326
Provision made in the year	641,494	180,493
Loans written off against the provision	(172,138)	(402,486)
Closing balance of loan loss allowance	565,689	96,333

The loan loss provision amounted to 35% of Portfolio-at-Risk. The Company had 1,279 outstanding loan accounts at the end of 2008 and 1080 at the end of 2007. Out of the 1,279 loans at year end, 217 loans are in the Portfolio at Risk category.

6 **Pre Investment Study**

Opening balance	328,459	437,939
Development costs	145,000	--
Amortisation	(31,564)	(109,480)
Closing balance	441,895	328,459
Cost	1,324,612	1,179,612
Accumulated amortisation	(882,717)	(851,153)
Closing net book value	441,895	328,459

7 **Due from Related Parties**

Caribbean Microfinance (St. Lucia) Limited	4,449,443	4,206,671
Caribbean Microfinance (Grenada) Limited	5,434,245	5,866,467
Other related parties	(98,651)	663,187
Closing balance	9,785,037	10,736,325

The entire amount is due within 1 year as per liquidity and are interest bearing at the rate of 6.65%.

8 Prepayments And Other Assets

	2008 $	2007 $
Grant funds receivable	--	18,880
Loans to employees	179,000	94,609
Emerging Enterprise Venture Fund (EEVF)	899,530	119,510
Other Receivables	181,033	1,782,375
Other prepayments	8,701	6,909
Amounts receivable within the next year	1,268,264	2,022,283
Amounts due in two to four years		
Loans to employees	352,450	221,229
	1,620,714	2,243,512

Fully secured loans have been provided to eligible employees to purchase motor vehicles. The weighted average effective interest rate at 31st December, 2008 was 6% (2007 - 6%). Receivables from the EEVF represent grant funds receivable and sale of loan portfolio.

9 Furniture And Equipment

	Computer Software $	Furniture and Equipment $	Total $
Year ended 31 December 2008			
Opening net book amount	409,640	168,390	578,030
Additions	72,696	116,074	188,770
Disposals	--	(740)	(740)
Depreciation charge	(111,715)	(34,215)	(145,930)
Closing net book amount	370,621	249,509	620,130
Year ended 31 December 2007			
Opening net book amount	--	181,310	181,310
Additions	418,356	19,811	438,167
Depreciation charge	(8,716)	(32,731)	(41,447)
Closing net book amount	409,640	168,390	578,030

9 **Furniture And Equipment** (Continued)

	Computer Software $	Furniture and Equipment $	Total $
At 31 December 2008			
Cost/valuation	491,052	591,631	1,082,683
Accumulated depreciation	(120,431)	(342,122)	(462,553)
Closing net book amount	370,621	249,509	620,130
At 31 December, 2007			
Cost/valuation	418,356	477,943	896,299
Accumulated depreciation	(8,716)	(309,553)	(318,269)
Closing net book amount	409,640	168,390	578,030

In 2007, the Company received a grant of $217,830 from the Caribbean Development Bank Limited to support the purchase of information technology software. This amount was deducted from the purchase price of software resulting in a net cost of $418,356.

10 **Other Liabilities**

	2008 $	2007 $
Provision for Auditor's Fees	121,705	101,830
Accrued Expenses	51,970	33,808
Other Liabilities	431,900	485,186
	605,575	620,824

All amounts payable are due within the next twelve months

11 **Borrowings**

	2008 $	2007 $
European Investment Bank	13,455,600	13,455,600
Accrued interest	1,971,294	1,365,132
Subtotal (Note 11.1)	15,426,894	14,820,732
Development Finance Limited	8,226,426	8,226,426
Accrued interest	319,117	1,767,510
Subtotal (Note 11.2)	8,545,543	9,993,936
Emerging Enterprises Venture Fund Caribbean Trust (EEVF) (Note 11.3)	53,270	39,951
Total Long Term Borrowings	24,025,707	24,854,619

Monitoring of loan agreements at senior management level 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 Finance Contracts with international institutions. The Company has complied with all terms and conditions of all borrowings and all payments have been made as contracted. 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.

11.1 **Long-term borrowings**

The European Investment Bank has provided Caribbean Microfinance Trinidad and Tobago Limited with a loan (EIB Loan 9) amounting to $ 13,455,600 to be used exclusively to finance micro and small enterprises directly or through approved intermediaries in the Southern and Eastern Caribbean. This loan, drawn-down in Euros, is expressed in $TT because the liability is the $TT value received by the Company. The loan has a fixed interest rate of 5% per annum and a participating rate based on an index related to the net profit of the company.

The loan is repayable in five annual instalments beginning 30 April, 2012. Interest is payable on 30th April of each year except for the final payment which is payable on 15th March 2016. Payment of interest is deferred until the attainment of a ratio of Retained Profit to Basic Fixed Interest of at least 0.35:1. This criterion was not attained in 2008 and is unlikely to be attained over the next four years given the level of retained losses. Payment of interest on the loan is therefore deferred and shown at Fair Value by discounting the amount ($2,037,911) to its Present Value using a discount rate of 7.5% (average cost of borrowings) over five years. This resulted in a valuation gain of $66,617 for the year 2008.

11 **Borrowings** (Continued)

11.2 The Company has entered into an arrangement with Development Finance Limited which made available funding of US$2,855,000 from bonds issued by Development Finance Limited for this specific purpose on the local capital market. The Company has drawn-down the full amount of the available funding.

11.3 The EEVF Caribbean Trust provided Caribbean Microfinance Trinidad and Tobago Limited with funding for making loans to small enterprises. The terms and conditions of this funding are conditional on the cash flows received from this portfolio of loans net of fees paid to the Company and are non interest bearing.

12 **Share Capital**	**2008**	**2007**
	$	**$**
Authorised: Issued and fully paid		
An unlimited number of ordinary shares of no par value		
16,031,500 ordinary shares of no par value	16,031,500	16,031,500

13 **General Overheads and Corporate Expenses**

Personnel costs	2,873,984	2,049,464
ICT & outsourced services	384,624	378,938
Marketing services	95,710	36,970
ABC Services & expenses	187,297	435,087
Property and infrastructure services	368,957	377,493
Management and Corporate services	107,612	100,000
	4,018,184	3,377,952

MICROFIN CARIBBEAN HOLDINGS LTD
P.O Box 187,10 Cipriani Boulevard,
Port Of Spain,Trinidad & Tobago, W.I
Phone:(868)623-4665,(868)625-0007
Fax(868)624-3563
Email:microfin@microfin.org
Website:www.microfin.org

MEMBERS OF MICROFIN CARIBBEAN HOLDINGS LTD

MICROFIN TRINIDAD LTD
1st Floor RBTT Plaza ,Main Road,Chaguanas. Tel 665-0301
#54 Independence Avenue,San Fernando . Tel 652-6842
Eastern Main Road,Tunapuna Plaza,Tunapuna Tel 662-0252

MICROFIN ST LUCIA LTD
#38 Micound Street, Castries
St Lucia .Phone 1-758-453-1780 ,1-758-452-7623.

MICROFIN GRENADA LTD
2ND Floor Bruce Street Mall, Bruce Street, St. George's
Grenada. Phone 1-473-435-4355