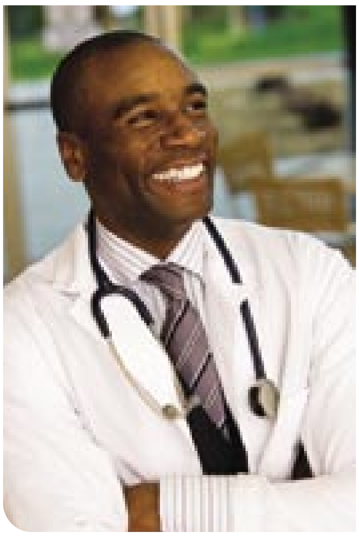
SIGNIA
FINANCIAL GROUP INC.

# 2008
# ANNUAL REPORT








# Our Core Values

***Integrity***
We exhibit integrity by always interacting with others ethically and honourably.

***Trust***
We promise to exemplify trustworthiness in all our dealings.

***Respect***
We promise always to exhibit respect by empathizing and fully considering the diverse needs of others.

***Commitment***
We are fully committed to achieving success for our customers, our community, our staff and ourselves.

1st Floor Carlisle House, Hincks St., Bridgetown, Barbados.
Tel: (246) 434-2360 | Fax: (246) 434-0057
Email: info@signiafinancial.com | Web: www.signiafinancial.com

A Banking and Investment Company from Cave Shepherd, GraceKennedy and United Insurance

# *Signia's Management Team*

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# *Signia's Banking & Trading Team*

# *Chairman's Report*

Signia achieved its fifth anniversary in June 2008. Although the economic climate was not as robust as in prior years, the company continued to perform well. Net Interest Income increased by 27% to $5,197,150 as a result of an 18% increase in Loans and Advances to customers, which ended the year at $84,582,384, an increase of $12,835,002.

During fiscal year 2008 the company's foreign exchange trading department acquired an increasing share of the market and is poised to contribute strongly to the company's overall results in future years.

Unfortunately, profit before tax declined by 23% or $648,583 to $2,130,833 which we consider good in the present economic climate. A significant reason for this decline was as a result of precautionary measures being taken by the Board to recognize the possible effects of an unfavourable VAT assessment, received just prior to the finalization of the audited financial statements ($498,830) and an increase in portfolio provision of $174,548.

The quality of the company's loan portfolio continues to be very good, which positions the company favourably in the current economic environment. Loan delinquency is at a minimum, as staff continue to maintain good relations with customers.

The Board continues to provide guidance, supervision and commitment to sound corporate governance to ensure the company is managed for the benefit of its stakeholders. To assist with the oversight of the company's operation, the Directors are represented on the Audit Committee, the Asset and Liability Committee and the Credit Committee.

In July 2008, we welcomed Desiree Cherebin, former Director of Bank Supervision at the Central Bank of Barbados, to the Board as an Independent Director.

Subsequent to the year end, we were delighted to welcome Mrs Frances Parravicino to the team as Senior Vice President – Corporate & Commercial. Frances has been a major player in the financial services arena and we are confident that her expertise will provide the company the required momentum to continue expansion.

Finally, on behalf of the Board I would like to pay tribute to our customers for their support and loyalty during the past five years and the staff for their contribution and their dedication to Signia. We really feel that we now have a great team.

Geoffrey Cave

Geoffrey Cave
Chairman

# *Signia's Administrative Team*

**Shana Sobers**
Administrative Assistant

**Caroline Bowen**
Receptionist

**Salena Rice**
Recoveries Assistant

**Karen Johnson**
Personal Assistant

**Andrea Harewood**
Recoveries Assistant

**Donelle Daniel**
Administrative Assistant

**Ada Holder**
Office Attendant

**Cherian Reifer**
Reconciliations Officer

**Juliette Flemming**
Credit Control Admin Assistant

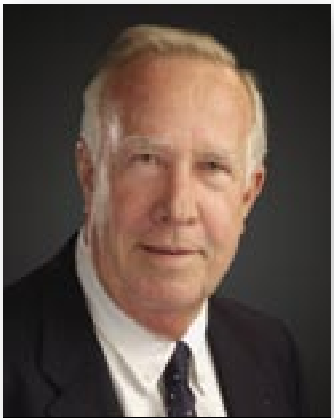
**Deborah Clarke**
Recoveries Officer

**Sarita Gill**
Accounts Administrator

**Carol Prescod**
Accountant

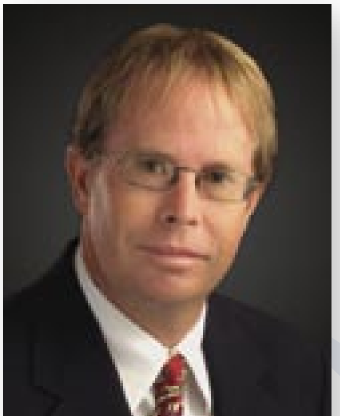
**Quetta Rawlins**
Credit Control Officer

# *Signia's Board of Directors*


Geoffrey Cave: Chairman


M. Anthony Shaw: Director & CEO


Douglas Orane: Director - GraceKennedy


Roger Cave: Director - Cave Shepherd


Joe Taffe: Director - GraceKennedy


Dave Blackman: Director - United Insurance


John Williams: Director - Cave Shepherd


Wayne Wray: Director - GraceKennedy


Desirée Cherebin: Director - Independent

# *Chief Executive Officer's Report*

For fiscal 2008 the company achieved profit before tax of $2,130,833 a decrease from the prior year's results of $2,779,416.

Net interest income increased by 27% to $5,197,150 in 2008, primarily due to the growth in loans and advances to customers which grew by 18% to $84,582,384.

During fiscal 2008 activity in the retail lending market grew, but at a slower pace than in prior years. The general decline in the economy affected the sale of new and used vehicles, which accounted for a large portion of the growth in the retail lending portfolio. During fiscal 2008 commercial lending's contribution to overall loan growth was a reduced percentage than the prior year.

Included in Net Trading income is the contribution from Foreign Exchange trading. This activity has traditionally been dominated by the Commercial Banks. Through offering of improved rates and responsive service, Signia has entered this market and benefited from this marketing initiative. Going forward foreign exchange trading will continue to be an area of strategic focus.

Our results were negatively impacted by a provision of $498,830 for an unfavourable VAT assessment which was received subsequent to the year end. This provision is reflected in operating expenses which increased by 42% to $4,146,532.

Another contributor to the increase in operating expenses was higher staff costs. As a growing company, the decision was made to add additional positions to the management team. This will assist in strengthening the internal operational management, in addition to providing a greater business development impetuous.

As a result of the VAT provision and higher operating expenses, profit after tax declined by 22% to $1,638,861.

With the guidance of our Credit Committee, the company has maintained a strong risk management profile. To-date delinquency has been well managed within targeted levels. As the market environment becomes more difficult, this will continue to be a critical area of focus.

***Focus for Fiscal 2009***

The global economic decline has brought challenges to the local market place. Signia has a diversified business model with different business lines, which will reduce the overall impact of the economic downturn on the company. This economic environment will require Signia to focus on expense controls while promoting a targeted corporate lending marketing strategy, to complement the ongoing personal lending initiatives.

The company will continue to manage all of the key areas in a manner which will contribute to the growth in earnings and our balance sheet, in the face of the possible challenges.

In closing I wish to once again thank the team at Signia for creating a very dynamic organization with a strong focus on our many stakeholders.

M. Anthony Shaw
Chief Executive Officer

# *Independent Auditors' Report*

**To the Shareholders of Signia Financial Group Inc.**

We have audited the accompanying financial statements of Signia Financial Group Inc., which comprise the balance sheet as of September 30, 2008, and the statement of income, statement of changes in equity and statement of 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.

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 financial statements present fairly, in all material respects, the financial position of Signia Financial Group Inc. as of September 30, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants
January 30, 2009
Bridgetown, Barbados

Signia Financial Group Inc. **Balance Sheet** | As of September 30, 2008 | *(Amounts in Barbados dollars)*

| | Note | 2008 $ | 2007 $ |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | **3,716,899** | 10,679,729 |
| Treasury bills | | **–** | 2,724,616 |
| Due from parent company | 4 | **466,733** | 742,462 |
| Investments | 5 | **10,720,052** | – |
| Loans and advances to customers | 6 | **84,582,384** | 71,567,711 |
| Property, plant and equipment | 7 | **599,084** | 769,301 |
| Operating lease assets | 8 | **3,387,598** | 2,661,267 |
| Other assets | 9 | **1,678,921** | 11,918,617 |
| **Total assets** | | **105,151,671** | 101,063,703 |
| **Liabilities** | | | |
| Due to customers | 10 | **88,894,332** | 75,443,289 |
| Other liabilities | 11 | **1,494,634** | 11,677,151 |
| Current tax payable | | **547,141** | 583,307 |
| Deferred tax liability | 12 | **323,391** | 306,644 |
| **Total liabilities** | | **91,259,498** | 88,010,391 |
| **Equity** | | | |
| Share capital | 13 | **9,210,857** | 9,210,857 |
| Statutory reserves | 14 | **1,085,434** | 839,605 |
| Retained earnings | | **3,595,882** | 3,002,850 |
| | | **13,892,173** | 13,053,312 |
| **Total liabilities and shareholder's equity** | | **105,151,671** | 101,063,703 |

The notes on pages 13 to 45 are an integral part of these financial statements.

Approved by the Board of Directors on January 30, 2009

Chairman

Director & CEO

Signia Financial Group Inc. **Statement of Changes in Equity** | For the year ended September 30, 2008 | *(Amounts in Barbados dollars)*

| | Share capital $ | Statutory reserves $ | Retained earnings $ | Total $ |
|---|---|---|---|---|
| **Balance at September 30, 2006** | 9,210,857 | 525,006 | 1,220,123 | 10,955,986 |
| Net profit for the year | – | – | 2,097,326 | 2,097,326 |
| Transfer to reserves | – | 314,599 | (314,599) | – |
| **Balance at September 30, 2007** | 9,210,857 | 839,605 | 3,002,850 | 13,053,312 |
| Dividends | – | – | (800,000) | (800,000) |
| Net profit for the year | – | – | 1,638,861 | 1,638,861 |
| Transfer to statutory reserves | – | 245,829 | (245,829) | – |
| **Balance at September 30, 2008** | **9,210,857** | **1,085,434** | **3,595,882** | 13,892,173 |

The notes on pages 13 to 45 are an integral part of these financial statements.

Signia Financial Group Inc. **Statement of Income** | For the year ended September 30, 2008 | *(Amounts in Barbados dollars)*

| | Note | **2008 $** | **2007 $** |
|---|---|---|---|
| Interest income | | **10,341,377** | 8,164,500 |
| Interest expense | | **(5,144,227)** | (4,062,971) |
| **Net interest income** | 15 | **5,197,150** | 4,101,529 |
| Fee and commission income | 16 | **154,040** | 55,058 |
| Fee and commission expense | 16 | **(41,738)** | (9,485) |
| **Net fee and commission income** | | **112,302** | 45,573 |
| Net lease income (expense) | 17 | **168,766** | 600,148 |
| Other operating income | | **94,101** | 82,153 |
| Net trading income | 18 | **1,294,043** | 1,548,002 |
| Impairment losses on loans and advances | 6 | **(588,997)** | (686,601) |
| Operating expenses | 19 | **(4,146,532)** | (2,911,388) |
| **Profit before corporation tax** | | **2,130,833** | 2,779,416 |
| Corporation tax expense | 12 | **(491,972)** | (682,090) |
| **Profit for the year** | | **1,638,861** | 2,097,326 |

The notes on pages 13 to 45 are an integral part of these financial statements.

Signia Financial Group Inc. **Statement of Cash Flows** | For the year ended September 30, 2008 | *(Amounts in Barbados dollars)*

| | **2008 $** | 2007 $ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before taxation | **2,130,833** | 2,779,416 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment and operating lease assets | **1,203,970** | 1,039,650 |
| Impairment loss on loans | **588,997** | 686,601 |
| Provision on vat recoverable | **498,830** | – |
| Interest income | **(10,341,377)** | (8,164,500) |
| Interest expense | **5,144,227** | 4,062,971 |
| Gain on disposal of property, plant and equipment and operating lease assets | **(168,799)** | (291,634) |
| Operating income before working capital changes | **(943,319)** | 112,544 |
| Decrease/(increase) in due from related parties | **275,729** | (717,997) |
| Increase in loans and advances to customers | **(13,197,893)** | (14,676,599) |
| Decrease/(increase) in other assets | **9,740,866** | (8,940,436) |
| Purchase of operating lease assets | **(2,606,757)** | (1,690,761) |
| Proceeds from disposal of operating lease assets | **1,093,923** | 949,440 |
| Increase in due to customers | **13,126,826** | 15,434,280 |
| Interest paid | **(4,820,325)** | (3,705,691) |
| Interest received | **9,935,670** | 8,110,948 |
| (Decrease)/increase in other liabilities | **(10,362,188)** | 11,076,853 |
| Taxation paid | **(511,391)** | – |
| **Net cash generated from operating activities** | **1,731,141** | 5,952,541 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(114,215)** | (228,064) |
| Proceeds from disposal of property, plant and equipment | **52,185** | – |
| Purchase of treasury bills | **(2,470,865)** | – |
| Maturity of treasury bills | **5,250,000** | (9,477,151) |
| Purchase of investments | **(19,334,470)** | 10,683,701 |
| Maturity of investments | **8,723,394** | – |
| **Cash (used in)/from investing activities** | **(7,893,971)** | 978,486 |
| **Cash flows from financing activities** | | |
| Payment of dividend | **(800,000)** | – |
| **Net (decrease)/increase in cash** | **(6,962,830)** | 6,931,027 |
| **Cash and cash equivalents - beginning of year** | **10,679,729** | 3,748,702 |
| **Cash and cash equivalents - end of year** | **3,716,899** | 10,679,729 |
| **Represented by:** | | |
| Cash at bank | **3,716,899** | 4,639,630 |
| Short term deposits | **–** | 6,040,099 |
| | **3,716,899** | 10,679,729 |

The notes on pages 13 to 45 are an integral part of these financial statements.

# 1 Incorporation, ownership and principal activities

Signia Financial Group Inc. (the company) was incorporated under the Laws of Barbados on September 13, 1996. Its principal activities are the provision of term finance, motor vehicle leasing and the acceptance of deposits. On January 2, 1998 the company was granted a licence under the Financial Institutions Act 1996 to carry on business as a finance company.

The company is wholly-owned by CSGK Finance Holdings Limited, which is a company incorporated under the Laws of Barbados and is a joint venture between Cave Shepherd & Co. Limited, United Insurance Company Limited, companies incorporated under the Laws of Barbados, and GraceKennedy Limited, a company incorporated in Jamaica.

The company's principal place of business is located on the First Floor, Carlisle House, Hincks Street, Bridgetown, Barbados.

# 2 Summary of significant accounting policies

These financial statements are prepared in accordance with International Financial Reporting Standards. Significant accounting policies are as follows:

## a) Basis of preparation

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

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

# 2 Summary of significant accounting policies *…continued*

## a) Basis of preparation *…continued*

***Standards, Interpretations and amendments effective 1 January 2007***

The application of the amendments and interpretations listed below did not result in substantial changes to the companies accounting policies:

IFRS 7 - Financial Instruments: Disclosures and the complementary amendment to IAS 1 - Capital disclosures. Both standards introduce new disclosures relating to financial instruments and do not have any impact on the classification and valuation of the company's financial instruments or the disclosure relating to taxation. Both standards require the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosure about credit risk, liquidity risk and market risk.

IFRIC 7 - Applying the Restatement Approach under IAS 29 (effective March 1, 2006)

IFRIC 8 - Scope of IFRS 2 (effective May 1, 2006)

IFRIC 9 - Reassessment of embedded derivative (effective June 1, 2006)

IFRIC 10 - Interim Financial Reporting and Impairment (effective November 1, 2006)

IFRIC 11, IFRS 2 - Group Treasury Share Transactions (effective March 1, 2007)

***Standards, Interpretations and amendments to published standards that are not yet effective***

IFRS 8 - Operating Segments (effective January 1 2009)

IAS 23 (Amendment) - Borrowing costs (effective January 1 2009)

IAS 1 (Amendment) - Presentation of Financial Statement: Comprehensive Income (effective from January 1, 2009);

IFRIC 12 - Service Concession Arrangements (effective January 1 2009)

IFRIC 13 - Customer Loyalty Programmes (effective July 1 2008)

IFRIC 14, IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction (effective January 1 2008).

The application of these new standards and interpretations will not have a material impact on the entity's financial statements in the period of application.

# 2 Summary of significant accounting policies *…continued*

## b) Foreign currency translation

### *i) Functional and presentation currency*

Items included in the company's financial statements are measured using the currency of the economic environment in which the company operates. The statements are presented in Barbados Dollars which is the Company's functional and presentation currency.

### *ii) Transactions and balances*

Foreign currency transactions are converted 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.

## c) Financial assets

The company classifies its financial assets as follows:

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivable.

Purchases and sales of financial assets are recognised on trade-date - the date on which the company commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownerships.

Loans and receivables are carried at amortised cost using the effective interest method.

# 2 Summary of significant accounting policies *…continued*

## d) Impairment of financial asset

The company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired, individually or collectively.

The company assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually and collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

## e) Deferred tax

Deferred 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 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 is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment, operating lease assets and tax losses carried forward.

Income tax payable on profits, based on the applicable tax law is recognised as an expense in the period in which the profits arise. The tax effects of tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

# 2 Summary of significant accounting policies *...continued*

## f) Property, plant and equipment

All property, plant 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 are recognised as a separate asset, as appropriate. All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

Depreciation is provided on the straight-line method at the following annual rates considered appropriate to write off the cost of the assets over their estimated useful lives.

| | | |
|---|---|---|
| Leasehold improvements | - | 20% or over the life of the lease |
| Computer | - | 14% - 25% |
| Furniture and equipment | - | 10% - 50% |
| Motor vehicles | - | 20% |
| Leased vehicles and equipment | - | Over the term of the lease agreement. |

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be the recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

## g) Leases

### *i) The Company is the lessor*

The leases entered into by the company are primarily finance leases. When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present values of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

### *ii) The Company is the lessee*

The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as income in the period in which termination has taken place.

# 2 Summary of significant accounting policies *...continued*

## h) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including, amounts due from other banks.

## i) Share capital

*i) Share issue costs*

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax from the proceeds.

*ii) Dividends*

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the company's directors.

## j) Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees are recognised over the life of the loan. Commission and fees arising from third party transactions such as the collection of payments for service providers are recognised on completion of the transactions.

## k) Interest income and expense

Interest income and expense are recognised in the income statement for interest bearing financial using the effective interest method. Accrual of loans and advances income ceases when instalments are over ninety days in arrears. Interest accrued but not collected as at the date of classification is reversed and charged against current income. Income from leasing of motor vehicles and from term deposits and investments is recognised on the accruals basis.

Once a financial asset has been written down as a result of impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring its impairment loss.

## l) Employee retirement benefits

The company's employees are members of the Fortress Caribbean Pension Fund which is a defined contribution plan. The plan is administered by Duty Free Caribbean and investments are held by an independent Custodial Trustee. Contributions to the plan are based on pensionable salary adjusted to reflect National Insurance contributions and are recognised as employee benefit expense when they are due.

# 3 Critical accounting estimates, and judgements in applying accounting policies

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

## a) Impairment losses on loans and advances

The company reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the company makes judgements as to whether there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/- 5%, the net income for the year would have increased (decreased) by $16,777 in 2008 and $6,894 in 2007.

## b) Corporation taxes

The company is subject to corporation taxes in the jurisdiction in which it operates. Estimates are required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for these transactions based on estimates of whether additional taxes will be due.

## c) Provision

The company is subject to vat tax and recognises a liability for vat audit issues based on estimates of whether additional taxes may be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of vat receivable or payable in the period in which such determination is made. Where the actual final outcome differs from management's estimates by 10%, the company will need to decrease the vat receivable by $63,000.

# 4 Due from parent company

Amounts due from parent company bear no interest and have no stated terms of repayment.

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 5 Investments

Investments classified as loans and receivables:

| | 2008 | 2007 |
|---|---|---|
| Term deposits | **10,720,052** | – |

Term deposits carry interest rates of 5.1% to 6.25%. All term deposits are current as at September 30, 2008.

# 6 Loans and advances to customers

| | Corporate 2008 $ | Individual 2008 $ | Total 2008 $ |
|---|---|---|---|
| Gross loans and advances | 24,132,579 | 61,228,914 | 85,361,493 |
| Less: impairment | – | (779,109) | (779,109) |
| **Balance, end of year** | **24,132,579** | **60,449,805** | 84,582,384 |

| | Corporate 2007 $ | Individual 2007 $ | Total 2007 $ |
|---|---|---|---|
| Gross loans and advances | 21,280,517 | 50,796,469 | 72,076,986 |
| Less: impairment | – | (509,275) | (509,275) |
| **Balance, end of year** | 21,280,517 | 50,287,194 | 71,567,711 |

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 6 Loans and advances to customers *...continued*

## Analysis of Loans by industry sector

| | **2008** **$** | 2007 $ |
|---|---|---|
| Consumer | **57,227,768** | 48,641,058 |
| Transport | **641,652** | 621,735 |
| Distribution | **447,478** | 331,877 |
| Manufacturing | **404,718** | 411,469 |
| Land development | **1,517,691** | 1,520,205 |
| Other | **25,122,186** | 20,550,642 |
| | **85,361,493** | 72,076,986 |
| Current | **30,402,624** | 18,363,149 |
| Non-Current | **54,958,869** | 53,713,837 |
| | **85,361,493** | 72,076,986 |

Loans and advances to customers are secured by the vehicles and title deeds financed under the individual contracts.

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 6 Loans and advances to customers *…continued*

### Allowance for impairment

Movement in impairment: 2008

| | **2008** | 2007 |
|---|---|---|
| Balance, beginning of year | **509,275** | 190,234 |
| Provision for loan impairment | **588,997** | 686,601 |
| Loans written off during the year as uncollectible | **(323,737)** | (455,147) |
| Amounts recovered during the year | **4,574** | 87,587 |
| Balance, end of year | **779,109** | 509,275 |

At September 30, 2008, non-accrual loans amounted to $557,023 (2007 - $1,077,590). No corporate loans were written off or provided for during 2007 and 2008.

Loans and advances to customers include finance lease receivables as follows:

Gross investment in finance leases receivable:

| | **2008 $** | **2007 $** |
|---|---|---|
| No later than 1 year | 3,713,368 | 3,015,739 |
| Later than 1 year and no later than 5 years | 9,316,767 | 9,397,914 |
| Later than 5 years | – | 7,976 |
| | 13,030,135 | 12,421,629 |
| Unearned future finance income on finance leases | (2,794,597) | (2,771,711) |
| Net investment in finance leases | **10,235,538** | 9,649,918 |

The net investment in finance leases may be analysed as follows:

| | | |
|---|---|---|
| No later than 1 year | **2,429,468** | 2,097,592 |
| Later than 1 year and no later than 5 years | **7,806,070** | 7,552,326 |
| | **10,235,538** | 9,649,918 |

Signia Financial Group Inc. | **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 7 Property, plant and equipment

| | Leasehold improvements $ | Computers $ | Furniture & equipment $ | Motor vehicles $ | Total $ |
|---|---|---|---|---|---|
| **At 1 October 2006** | | | | | |
| Cost | 213,510 | 464,814 | 291,725 | 140,986 | 1,111,035 |
| Accumulated depreciation | (26,009) | (232,801) | (64,607) | (40,571) | (363,988) |
| Net book value | 187,501 | 232,013 | 227,118 | 100,415 | 747,047 |
| **Year ended September 2007** | | | | | |
| Opening net book amount | 187,501 | 232,013 | 227,118 | 100,415 | 747,047 |
| Additions | 7,304 | 22,097 | 47,830 | 150,833 | 228,064 |
| Disposals | 1,083 | – | – | – | 1,083 |
| Depreciation charge | (43,583) | (83,487) | (42,416) | (37,407) | (206,893) |
| **End of year** | **152,305** | **170,623** | **232,532** | **213,841** | **769,301** |
| **At 30 September 2007** | | | | | |
| Cost | 220,814 | 456,130 | 339,555 | 291,820 | 1,308,319 |
| Accumulated depreciation | (68,509) | (285,507) | (107,023) | (77,979) | (539,018) |
| **Net book value** | **152,305** | **170,623** | **232,532** | **213,841** | **769,301** |
| **Year ended September 2008** | | | | | |
| Opening net book amount | 152,305 | 170,623 | 232,532 | 213,841 | 769,301 |
| Additions | – | 7,707 | 48,167 | 58,341 | 114,215 |
| Disposals | – | (2,071) | (13,045) | (35,864) | (50,980) |
| Depreciation charge | (44,163) | (76,439) | (47,679) | (65,171) | (233,452) |
| End of year | **108,142** | **99,820** | **219,975** | **171,147** | **599,084** |
| **At 30 September 2008** | | | | | |
| Cost | 220,814 | 375,110 | 318,320 | 300,117 | 1,214,361 |
| Accumulated depreciation | (112,672) | (275,290) | (98,345) | (128,970) | (615,277) |
| **Net book value** | **108,142** | **99,820** | **219,975** | **171,147** | **599,084** |

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 8 Operating lease assets

Leased vehicles and equipment

| | 2008 $ | 2007 $ |
|---|---|---|
| **Cost** | | |
| Beginning of year | **3,970,367** | 4,281,538 |
| Additions | **2,606,757** | 1,690,761 |
| Disposals | **(1,773,738)** | (2,001,932) |
| End of year | **4,803,386** | 3,970,367 |
| **Accumulated depreciation** | | |
| Beginning of year | **1,309,100** | 1,821,498 |
| Charge for the year | **970,519** | 832,811 |
| Disposals | **(863,831)** | (1,345,209) |
| End of year | **1,415,788** | 1,309,100 |
| **Net book values** | | |
| **End of year** | **3,387,598** | 2,661,267 |
| Beginning of year | **2,661,267** | 2,780,528 |

# 9 Other Assets

| | 2008 $ | 2007 $ |
|---|---|---|
| Loan receivable | **35,381** | 35,381 |
| VAT recoverable | **1,105,316** | 1,407,139 |
| Prepaid expenses | **135,728** | 184,726 |
| Due from customers | **394,496** | 718,760 |
| Repossessed stock | **–** | 77,013 |
| Due from Brokers | **–** | 9,490,598 |
| Other receivables | **8,000** | 5,000 |
| | **1,678,921** | **11,918,517** |

Loan receivable represents the balance on the transfer of the company's loan receivable portfolio to a related company, BUN Inc, in 2003. All amounts are current as at September 30, 2008 and 2007.

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

## 10 Due to customers

| | 2008 $ | 2007 $ |
|---|---|---|
| **Financial institutions** | | |
| Payable at Fixed Dates | **19,566,071** | 21,621,274 |
| **Individuals** | | |
| Payable on Demand | **3,300,724** | 1,240,010 |
| Payable at Fixed Dates | **41,234,452** | 32,534,657 |
| **Business and government** | | |
| Payable at Fixed Dates | **12,150,395** | 1,728,440 |
| **Other** | | |
| Payable on Demand | **5,000,753** | 2,000,000 |
| Payable at Fixed Dates | **7,641,937** | 16,318,908 |
| Deposits due to customers | **88,894,332** | 75,443,289 |
| Payable on Demand | **8,301,478** | 3,240,010 |
| Payable at Fixed Dates | **80,592,854** | 72,203,279 |
| | **88,894,332** | **75,443,289** |

| | | |
|---|---|---|
| Current (payable within one year) | **79,789,714** | 50,994,401 |
| Non Current (payable after one year) | **9,104,618** | 24,448,888 |
| | **88,894,332** | 75,443,289 |

The rates of interest on fixed deposits vary in accordance with the length and value of the deposit from 4.6% to 7.75% (2007 - 4.0% to 7.75%).

## 11 Other liabilities

| | 2008 $ | 2007 $ |
|---|---|---|
| Due to brokers and customers | **164,727** | 9,490,598 |
| Other payables | **1,329,007** | 1,568,028 |
| Bank overdraft | **–** | 618,525 |
| | **1,494,634** | **11,677,151** |

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 12 Taxation

| | **2008 $** | **2007 $** |
|---|---|---|
| Current tax | **475,225** | 533,736 |
| Deferred tax charge | **16,747** | 148,354 |
| | **491,972** | 682,090 |

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

| | **2008 $** | **2007 $** |
|---|---|---|
| Profit before taxation | **2,130,833** | 2,779,416 |
| Corporation tax at a tax rate of 25% (2007 - 25%) | **532,708** | 694,854 |
| Expenses not deductible for tax | **31,180** | 16,025 |
| Prior year over provision | **(71,916)** | (28,789) |
| Taxation charge for the year | **491,972** | 682,090 |

The movement on the deferred tax account is as follows:

| | **2008 $** | **2007 $** |
|---|---|---|
| Balance - beginning of year | **306,644** | 158,290 |
| Charge for the year | **16,747** | 148,354 |
| Balance - end of year | **323,391** | 306,644 |

The deferred tax liability consists of the following components:

| | **2008 $** | **2007 $** |
|---|---|---|
| Accelerated tax depreciation | **1,293,566** | 1,226,576 |
| Deferred tax liability at corporation tax rate of 25% (2007 - 25%) | **323,391** | 306,644 |

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 13 Share capital

Authorised

The company is authorised to issue an unlimited number of common shares of no par value.

Issued

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| 9,210,857 common shares issued (2007 - 9,210,857) | **9,210,857** | 9,210,857 |

# 14 Reserves

Statutory reserve fund

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| Balance, beginning of year | **839,605** | 525,006 |
| Transfer from retained earnings | **245,829** | 314,599 |
| Balance, end of year | **1,085,434** | 839,605 |

Section 33 of the Financial Institutions Act, 1996 requires that a minimum of 15% of annual net income be appropriated to a reserve fund until the balance of such fund equals the company's share capital.

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

## 15 Net interest income

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| **Interest income** | | |
| Cash and other short term funds | **390,213** | 116,570 |
| Investment securities | **54,522** | 139,886 |
| Finance lease income | **1,006,189** | 875,194 |
| Credit related fees and commissions | **241,152** | 135,632 |
| Loans and advances | **8,649,301** | 6,897,218 |
| | **10,341,377** | 8,164,500 |
| **Interest expense** | | |
| Customers | **5,144,227** | 4,062,971 |
| **Net interest income** | **5,197,150** | 4,101,529 |

At September 30, 2008, interest income accrued on impaired financial assets amounted to $29,077 (2007 - $36,650).

## 16 Net fee and commission income

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| **Fees and commission income** | | |
| Management fees | **5,208** | 45,300 |
| Other | **148,832** | 9,758 |
| | **154,040** | 55,058 |
| **Fees and commission expense** | | |
| Dealer commissions | **41,738** | 9,485 |
| | **41,738** | 9,485 |

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

## 17 Net lease income (expense)

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| Operating lease income | **1,139,285** | 1,432,959 |
| Depreciation expense | **(970,519)** | (832,811) |
| | **168,766** | 600,148 |

## 18 Net trading income

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| Foreign exchange transaction gains and losses | **864,658** | 541,315 |
| Brokerage fees | **429,385** | 1,006,687 |
| | **1,294,043** | 1,548,002 |

## 19 Operating expenses

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| Staff costs and management fees (Note 20) | **1,765,205** | 1,312,051 |
| Administrative expenses | **1,649,045** | 1,392,444 |
| Provision on VAT Recoverable | **498,830** | – |
| Depreciation of property, plant and equipment | **233,452** | 206,893 |
| | **4,146,532** | 2,911,388 |

## 20 Staff costs and management fees

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| Salaries and wages | **1,417,097** | 1,058,109 |
| Management fees | **200,000** | 145,000 |
| National insurance contributions | **23,688** | 64,521 |
| Pension costs: | | |
| - defined contribution plan | **30,502** | 16,588 |
| Other | **93,918** | 27,833 |
| | **1,765,205** | 1,312,051 |

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 21 Related party transactions

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits, administrative and bill payments services. The volumes of related party transactions outstanding balances at year end and relating expenses and income for the year are as follows:

| | Directors and key Management personnel | |
|---|---|---|
| | **2008** **$** | **2007** **$** |
| **Loans** | | |
| Loans outstanding at 1 October | **157,047** | 75,940 |
| Loans issued during the year | **26,907** | 136,791 |
| Loan repayments during the year | **(115,358)** | (55,684) |
| Loans outstanding at 30 September | **68,596** | 157,047 |
| Interest income earned | **6,783** | 12,452 |

No provisions have been recognised in respect of loans given to related parties (2007: $Nil).

Interest is payable at 6.00% and 9.25% per annum (2007: 6.00% and 11.25%). These loans are secured with fixed terms of repayments.

| | **2008** **$** | **2007** **$** |
|---|---|---|
| GraceKennedy Limited | **423,728** | 709,979 |
| CSGK Finance Holdings Limited | **43,005** | 32,483 |
| | **466,733** | 742,462 |

Amounts due from parent company bear no interest and have no stated terms of repayment.

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 21 Related party transactions *...continued*

| | Directors and key Management personnel | | Associated companies | |
|---|---|---|---|---|
| | **2008 $** | **2007 $** | **2008 $** | **2007 $** |
| Deposits | | | | |
| Deposits at 1 October | **433,530** | 175,700 | **3,095,474** | 4,000,000 |
| Deposits received during the year | **41,484** | 261,480 | **-** | 1,095,474 |
| Deposits repaid during the year | **(1,350)** | (3,650) | **(2,095,474)** | (2,000,000) |
| Deposits at 30 September | **473,664** | 433,530 | **1,000,000** | 3,095,474 |
| Interest expense on deposits | **31,300** | 14,673 | **112,079** | 291,779 |

| | **2008 $** | **2007 $** |
|---|---|---|
| Management fees paid to parent company | **200,000** | 145,000 |

| | **2008 $** | **2007 $** |
|---|---|---|
| **Key management compensation** | | |
| Salaries and benefits | **703,654** | 528,715 |

*Directors' remuneration*

In 2008, the total remuneration to the directors was $3,000 (2007 - $12,000).

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 22 Contingent liabilities and commitments

*a) Legal proceedings*

There were no legal proceedings outstanding against the company at September 30, 2008.

*b) Commitments*

The minimum operating lease income is as follows:

| | 2008 $ | 2007 $ |
|---|---|---|
| Within one year | **890,818** | 987,899 |
| Later than one year and no later than five years | **1,105,505** | 967,013 |
| | **1,996,323** | 1,954,912 |

At September 30, 2008, the Company had loan commitments as follows:

| | 2008 $ | 2007 $ |
|---|---|---|
| Loan commitments | **1,533,691** | 3,190,884 |
| | **1,533,691** | 3,190,884 |

# 23 Financial instruments, financial risk and capital management

By its nature, the company's activities expose it to a variety of financial risks such as credit risk, market risk (predominantly cash flow interest rate risk) and liquidity risk. The company accepts deposits from customers at fixed interest rates over varying terms of maturity and seeks to earn the appropriate interest margin through lending to commercial and retail borrowers at fixed rates over varying terms of maturity and by investing funds in high quality assets. This note presents information about the company's exposure to each of the above financial risks, the company's objectives, policies and procedures for measuring and managing these risks, as well as the company's management of its capital.

The Board of Directors has overall responsibility for the establishment and oversight of the company's risk management framework. The Board has established the Credit Committee and the Asset and Liabilities Committee ("ALCO") both of which contains non-executive members and regularly report to the Board of Directors on their activities. In addition, the Board has established an Audit Committee to assist the directors in overseeing the reliability of the company's financial statements, compliance with legal and regulatory requirements, external auditor independence, as well as business practices and ethical standards. The Audit Committee also oversees compliance with the company's risk management policies and procedures, as well as reviews the adequacy of the risk management framework in relation to the potential risks which the company faces.

## a) *Credit risk:*

Credit risk arises from the possibility that counterparties may default on their obligations to the company resulting in a financial loss to the company. Credit risk is considered to be the most significant of the financial risks which the company faces and as a result, the company's financial risk management focuses heavily on managing its exposure to credit risk. Credit risk arises primarily from the company's lending activities that result in loans and advances to customers, including finance leases, as well as investment activities that bring fixed income securities into the company's investment portfolio.

The Board of Directors has delegated the responsibility for and oversight of credit risk management and control to the Credit Committee. In addition, the Credit Committee has responsibility for:

- reviewing internal credit polices and establishing approval limits;
- establishing portfolio composition limits;
- monitoring and assessing the loan portfolio to ensure that the company's lending policies and practices are adhered to;
- reviewing and vetting the company's lending policies and procedures for submission to the Board of Directors;
- approving or declining loan applications submitted to the Committee;
- reviewing and analyzing delinquency statistics; and
- providing general guidance on lending practices.

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 23 Financial instruments, financial risk and capital management
*…continued*

## a) *Credit risk: …continued*

The company has formulated commercial and retail lending credit policies and guidelines. These policies and guidelines measure, manage, limit and control credit risk and the potential for concentration therein. These polices also cover collateral requirements, credit evaluations and ongoing credit assessments, risk grading and reporting, documentary and legal procedures, as well as compliance with regulatory requirements.

Authorized lending limits are established by the Credit Committee and approved by the Board of Directors. The Chief Executive Officer assigns lending limits to selected credit officers within which they can approve loans that conform to the company's credit policies and guidelines. Management closely monitors the composition of the loan portfolio by industry sector and potential concentration of credit risk therein on a monthly basis - see Note 6 for analysis of loans by industry sector as of September 30, 2008 and 2007. All loans and advances are made to customers located within Barbados and as a result, there is no need to monitor the loan portfolio by geographic sector.

Exposure to credit risk from loans and advances to customers, including net investment in finance leases, is further managed through the regular analysis of the ability of potential and existing borrowers to meet their contractual obligations. The company's maximum exposure to credit risk is indicated by the carrying amount of its financial assets. The following table illustrates the worst case scenario of credit risk exposure to the company at September 30, 2008 and 2007, without taking into account any collateral held or other credit enhancements which may be in place. This table also includes the impact of loan commitments which are not recognized on the balance sheet but which are instead disclosed within Note 22.

| | **2008 $** | **2007 $** |
|---|---|---|
| **Credit risk exposure relative to financial assets reported on the balance sheet are as follows:** | | |
| Cash and cash equivalents | **3,716,899** | 10,679,729 |
| Treasury bills | **–** | 2,724,616 |
| Due from parent company | **466,733** | 742,462 |
| Investments | **10,720,052** | – |
| Loans and advances to customers | **84,582,384** | 71,567,711 |
| Other assets | **1,851,269** | 11,918,617 |
| | **101,337,337** | 97,812,806 |
| **Credit risk exposure relative to off-balance sheet items are as follows:** | | |
| Loan commitments | **1,533,691** | 3,190,884 |
| | **102,871,028** | 101,003,690 |

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 23 Financial instruments, financial risk and capital management *…continued*

## a) *Credit risk: …continued*

The company's main source of credit risk arises from its loans and advances which are inclusive of net investment in finance leases and when combined with loan commitments, represent 82% (2007 - 71%) of the company's maximum exposure to credit risk. As mentioned before, the analysis above does not take into account any security or collateral which is normally required by the company on all loans in an attempt to mitigate credit risk. The company has specific policies in place detailing the requirement for acceptable collateral. Loans and advances to customers are typically secured by bills of sale on the underlying vehicles and mortgages over the underlying properties, as well as other forms of security such as stocks, bonds, mutual funds and the cash surrender values on borrower's life insurance policies. In order to further minimize credit risk, the company may seek additional collateral from a borrower as soon as there is objective evidence of impairment or other similar indicators. The company has not issued any financial guarantees.

Cash and cash equivalents as well as short term deposits are all placed with other reputable financial institutions which have been pre-approved by the ALCO committee and which are considered to be financially secure. The level of credit risk arising from the remaining financial assets is not considered to be significant.

Loans and advances to customers are summarized as follows:

**September 30, 2008**

| | Loans and advances | | Finance Leases | | |
|---|---|---|---|---|---|
| | Corporate | Individual | Corporate | Individual | Total |
| Neither past due nor impaired | 12,925,601 | 60,352,172 | 8,383,722 | 827,475 | **82,488,970** |
| Past due but not impaired | 120,732 | 715,798 | 1,024,341 | – | **1,860,861** |
| Impaired | 36,445 | 403,876 | – | – | **440,321** |
| | 13,082,778 | 61,471,846 | 9,408,063 | 827,475 | **84,790,162** |
| Less: allowances for impairment | – | (779,109) | – | – | **(779,109)** |
| Total loans and advances to customers | 13,082,778 | 60,692,737 | 9,408,063 | 827,475 | **84,011,053** |
| Other loans and advances | | | | | **571,331** |
| **Total loans and advances to customers** | | | | | **84,582,384** |

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 23 Financial instruments, financial risk and capital management *...continued*

## a) *Credit risk: ...continued*

**September 30, 2007**

| | Loans and Advances | | Finance Leases | | |
|---|---|---|---|---|---|
| | Corporate | Individual | Corporate | Individual | Total |
| Neither past due nor impaired | 11,229,953 | 49,994,138 | 6,149,975 | 558,423 | 67,932,489 |
| Past due but not impaired | 2,192 | 152,581 | 2,406,775 | 534,745 | 3,096,293 |
| Impaired | 13,216 | 202,873 | – | – | 281,411 |
| | 11,245,361 | 50,349,592 | 8,556,750 | 1,093,168 | 71,244,871 |
| Less: allowances for impairment | (9,357) | (499,918) | – | – | (509,275) |
| Total loans and advances to customers | 11,236,004 | 49,849,674 | 8,556,750 | 1,093,168 | 70,735,596 |
| Other loans and advances | | | | | 832,115 |
| **Total loans and advances to customers** | | | | | **71,567,711** |

All other classes of financial assets are considered to be neither past due nor impaired.

The company currently utilizes the rating scheme required by the Central Bank of Barbados internally. Under this scheme, customers are segmented into the five rating categories, as summarized in the table below, which reflect the full range of default probabilities. The company assesses the probability of default of individual customers based on the aging of the portfolio of loans and advances which is then mapped to the Central Bank of Barbados' rating categories. This exercise is supplemented by the judgement of experienced credit officers within the company. The table below shows the company's internal rating and the associated impairment provision on loans and advances at September 30, 2008.

| Company's rating | Description | Provision |
|---|---|---|
| 1 | Pass | 36% |
| 2 | Special mention | 11% |
| 3 | Substandard | 14% |
| 4 | Doubtful | 39% |
| 5 | Loss | 0 |

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 23 Financial instruments, financial risk and capital management *…continued*

## a) *Credit risk: …continued*

Over time, exposures to default can migrate between classes as the probability of default increases for selected customers. The provisioning guidelines of the Central Bank of Barbados, while used internally for credit rating, can be contrasted with the impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date rather than expected impairment losses.

The category of Pass typically includes loans which are current and loans where the financial condition of the borrower is generally sound. The Special Mention category includes loans which although up to date, may present credit challenges in the future either as a result of a potential deterioration in the borrower's ability to service the loan or through the impairment of the collateral associated with the loan. Loans are assigned to the Substandard category where well defined credit weaknesses exist such as insufficient cash flow to service the loan and where the company may have to renegotiate the terms of the loan or obtain the collateral. The Doubtful category consists of loans where the collection of the full contractual amounts due is questionable or improbable. In this category, the possibility of incurring a financial loss exists but other factors may be present which could improve the current situation. Finally, the category of Loss is used where the loan is deemed uncollectible and it is not considered practical or desirable to pursue further recovery efforts.

Based on this scheme, the credit quality of the company's loans and advances to customers which are neither past due nor impaired can be categorized as follows:

| | Loans and advances | | Finance Leases | | Total |
|---|---|---|---|---|---|
| | Corporate | Individual | Corporate | Individual | 2008 |
| **Internal rating scheme** | | | | | |
| 1. Pass | 12,913,373 | 57,412,142 | 7,726,316 | 827,475 | **78,879,306** |
| 2. Special Mention | 12,228 | 1,911,483 | 657,406 | – | **2,581,117** |
| 3. Sub-standard | – | 775,122 | – | – | **775,122** |
| 4. Doubtful | – | 173,570 | – | – | **173,570** |
| 5. Loss | – | 79,855 | – | – | **79,855** |
| | **12,925,601** | **60,352,172** | **8,383,722** | **827,475** | **82,488,970** |

Signia Financial Group Inc. Notes to Financial Statements | September 30, 2008 | (Amounts in Barbados dollars)

# 23 Financial instruments, financial risk and capital management *...continued*

## a) *Credit risk: ...continued*

| | Loans and advances | | Finance Leases | | Total |
|---|---|---|---|---|---|
| | Corporate | Individual | Corporate | Individual | 2007 |
| **Internal rating scheme** | | | | | |
| 1. Pass | 10,566,646 | 45,665,113 | 6,111,918 | 558,423 | 62,902,100 |
| 2. Special Mention | 663,307 | 3,559,534 | – | – | 4,222,841 |
| 3. Sub-standard | – | 479,821 | 38,057 | – | 517,878 |
| 4. Doubtful | – | 288,857 | – | – | 288,857 |
| 5. Loss | – | 813 | – | – | 813 |
| | 11,229,953 | 49,994,138 | 6,149,975 | 558,423 | 67,932,489 |

98% (2005 - 98%) of the company's overall portfolio of loans and advances to customers, (i.e. not just the portion identified as neither past due nor impaired loans) are categorized within the two top grades of the internal rating system. Included within the table above, are loans with renegotiated terms amounting to $358,973 (2007 - $114,987). Loans with renegotiated terms are considered to be loans which have been restructured due to deterioration in the borrower's financial position and where the company may have made concessions that it would not otherwise consider under normal circumstances.

A financial asset is considered to be past due when a counterparty has failed to make a payment when contractually due. Impairment may not be considered appropriate where the level of security/collateral available is adequate and/or where the stage of collection efforts is sufficiently advanced. The table below summarizes the carrying value of loans and advances to customers which are past due but which management, based on individual assessments, does not consider impaired:

**September 30, 2008**

| | Corporate | Individuals | Total Loans |
|---|---|---|---|
| Past due 1 to 5 days | 108,366 | 352,693 | **461,059** |
| Past due 6 to 30 days | 12,366 | 246,208 | **258,574** |
| Past due over 30 days | 36,445 | 715,799 | **153,343** |
| | 120,732 | 598,901 | **719,633** |

| | Finance Leases |
|---|---|
| Past due 1 to 5 days | **97,217** |
| Past due 6 to 30 days | **28,746** |
| Past due over 45 days | **17,975** |
| | **143,938** |

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 23 Financial instruments, financial risk and capital management *...continued*

## a) *Credit risk: ...continued*

**September 30, 2007**

| | Corporate | Individuals | Total Loans |
|---|---|---|---|
| Past due 1 to 5 days | – | 47,075 | 47,075 |
| Past due 6 to 30 days | 2,192 | 82,728 | 84,920 |
| | 2,192 | 129,803 | 131,995 |

| | Finance Leases |
|---|---|
| Past due 1 to 5 days | **224,133** |
| Past due 6 to 30 days | **25,737** |
| Past due over 45 days | **3,768** |
| | **253,638** |

### *Impairment and provisioning policies:*

Where there is objective evidence of impairment, as a result of one or more events that have occurred subsequent to the initial recognition of a loan, the company establishes an allowance for impairment losses that represents its estimate of the incurred losses within its loan portfolio. Objective evidence that a loan is impaired includes observable data that comes to the attention of the company that a loss event has occurred such as significant financial difficulty of a borrower or a breach of the loan agreement by way of default or delinquency in interest and principal payments. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for groups of homogeneous loans in respect of losses that have been incurred but have not been identified on loans subject to the specific impairment assessment. The specific loss component is determined by comparing the individual carrying amount of each loan which is past due 31 days or later with its recoverable amount. The recoverable amount is in turn calculated as the present value of the future expected cash flows associated with each past due loan. In determining the collective loan loss allowance, observable historical data, experience and judgement is employed.

As at September 30, 2008, the total allowance for impairment against loans and advances to customers amounted to $779,109 (2007 - $509,275) of which $601,161 (2007 - $ 509,275) represents individually impaired loans and the remaining amount of $177,948 represents the portfolio provision. Included within Note 6 is an analysis showing the movement in this allowance during the year ended September 30, 2008.

# 23 Financial instruments, financial risk and capital management
*...continued*

## b) *Market risk:*

Market risk is the risk that changes in market prices such as interest rate, equity prices and foreign exchange rates will affect the company's income or the value of its financial instruments. The company is not exposed to price risk in that it holds no equity investments. Similarly, the company is not directly exposed to changes in foreign exchange rates given that the company does not hold significant foreign currency denominated monetary assets or liabilities. The only type of market risk to which the company is exposed is interest rate risk, which generally includes cash flow interest rate risk and fair value interest rate risk. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates, whereas fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. All of the company's financial instruments are measured at amortized cost and as a result, the company is not directly exposed to fair value interest rate risk. However, the company is exposed to fluctuations in the prevailing levels of market interest rates whereby net interest margins may increase as a result of these changes or may be reduced in the event that unexpected movements take place.

### *Interest rate sensitivity analysis*

Assuming that the interest bearing financial assets and liabilities as at September 30, 2008 were to remain until maturity or settlement without any action by the company to alter the resulting interest rate risk exposure, an immediate and sustained increase/decrease of 100 basis points in market rates across all maturities would result in an increase/decrease in the net income of the following year by $105,917 (2007 - $98,324).

Management closely monitors net interest margins, as well as other related ratios such as interest earned to average loans and interest incurred to average deposits. The ALCO Committee's responsibilities include ensuring adherence to the company's policies and procedures concerning asset and liability management, which in addition to liquidity risk, addresses interest rate risk.

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 23 Financial instruments, financial risk and capital management *…continued*

## b) *Market risk: …continued*

The table below summarises the company's exposure to interest rate risks. It includes the company's financial instruments at carrying amounts categorised by contractual maturity dates:

**September 2008**

| | Up to 3 months $ | 3-12 months $ | 1-5 years $ | Over 5 years $ | Non-interest bearing $ | Total $ |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Short term deposits | 3,716,899 | – | – | – | – | **3,716,899** |
| Treasury bills | – | – | – | – | – | **–** |
| Due from parent company | – | – | – | – | 466,733 | **466,733** |
| Investments | – | 10,720,052 | – | – | – | **10,720,052** |
| Loans and advances to customers and other financing | 1,279,495 | 6,215,460 | 44,962,930 | 32,124,499 | – | **84,582,384** |
| Other assets | – | – | – | – | 1,678,921 | **1,678,921** |
| **Total financial assets** | 4,996,394 | 16,935,512 | 44,962,930 | 32,124,499 | 2,145,654 | **101,164,989** |
| **Liabilities** | | | | | | |
| Customer deposits | 20,111,749 | 45,001,105 | 23,781,680 | – | – | **88,894,534** |
| Other liabilities | – | – | – | – | 1,494,634 | **1,494,634** |
| **Total financial liabilities** | 20,111,749 | 45,001,105 | 23,781,680 | – | 1,494,634 | **90,389,165** |

Signia Financial Group Inc. Notes to Financial Statements | September 30, 2008 | (Amounts in Barbados dollars)

# 23 Financial instruments, financial risk and capital management *...continued*

## b) *Market risk: ...continued*

**September 2007**

| | Up to 3 months $ | 3-12 months $ | 1-5 years $ | Over 5 years $ | Non interest bearing $ | Total $ |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Short term deposits | 10,679,729 | – | – | – | – | 10,679,729 |
| Treasury bills | – | 2,724,616 | – | – | – | 2,724,616 |
| Due from parent company | – | – | – | – | 742,462 | 742,462 |
| Loans and advances to customers and other financing | 97,499 | 6,986,506 | 41,780,633 | 22,703,073 | – | 71,567,711 |
| Other assets | | | | | 11,918,617 | 11,918,617 |
| **Total financial assets** | 13,501,844 | 9,711,122 | 41,780,633 | 22,703,073 | 12,661,079 | 97,633,135 |
| **Liabilities** | | | | | | |
| Customer deposits | 11,075,692 | 39,317,458 | 25,050,139 | – | – | 75,443,289 |
| Other liabilities | – | – | – | – | 11,677,151 | 11,677,151 |
| **Total financial liabilities** | 11,075,692 | 39,317,458 | 25,050,139 | – | 11,677,151 | 87,120,440 |

## c) *Liquidity risk:*

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations from its financial liabilities.

The Board of Directors has delegated the responsibility for and oversight of liquidity risk management to the ALCO. The ALCO's responsibilities include but are not limited to:

- monitoring management's adherence to policies and procedures that are established to ensure adequate liquidity at all times;
- establishing asset and liability pricing policies to protect the liquidity structure, as well as to assess the probability of various 'liquidity shocks' and interest rate scenarios;
- ensuring compliance with the company's asset and liability policies and procedures which address the management of liquidity, foreign exchange and interest rate risk;

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 23 Financial instruments, financial risk and capital management *...continued*

## c) *Liquidity risk: ...continued*

- managing the balance sheet and ensuring that business strategies are consistent with liquidity requirements; and
- establishing and monitoring relevant liquidity and prudential ratios, as well as specific balance sheet targets.

The company is exposed to daily requirements for its available cash resources arising from maturing customer deposits, the advancement of loans and other cash settled transactions. The company does not maintain sufficient cash resources to meet all of these liquidity needs, as historical industry and company-specific experience has shown that a high level of reinvestment of maturing funds can be predicted with a high level of certainty. The Company, however, has two committed lines of credit in the combined amount of $11 million upon which it can draw to meet unforeseen and unexpected liquidity needs; the line of credit of $6 million carries an interest rate of prime less 1.25%. Currently the effective rate is 8.40%. The line of credit of $5 million carries an interest rate of prime rate less 1.0 %. The effective rate is presently 9%. The table below shows the undiscounted cash flows on the basis of their earliest contractual maturities. Expected cash flows from these instruments can vary significantly from this analysis. For example, customer deposits are expected to maintain a stable or increasing balance and unrecognized loan commitments are not all expected to be drawn down immediately.

Management prepares daily cash flow forecasts to assess liquidity needs in the period ahead. These cash flow forecasts report the current level of liquid resources along with customer deposits maturing within 90 days and after 90 days and maturing investments in the period ahead. Additionally, management closely monitors net free cash flows, as well as the concentration of customer deposits.

The table below represents the company's financial liabilities by remaining contractual maturities at the balance sheet date.

| | Up to three months $ | Three to twelve months $ | One to five years $ | Over five years $ | Total $ |
|---|---|---|---|---|---|
| **As at September 30, 2008** | | | | | |
| **Liabilities** | | | | | |
| Deposits | 20,222,336 | 46,347,344 | 26,649,983 | – | 93,219,663 |
| Other liabilities | – | 1,494,634 | – | – | 1,494,634 |
| Total financial liabilities | 20,222,336 | 47,841,978 | 26,649,983 | – | 94,714,297 |
| **As at September 30, 2007** | | | | | |
| **Liabilities** | | | | | |
| Deposits | 11,386,488 | 40,840,538 | 27,970,057 | – | 80,197,083 |
| Other liabilities | – | 11,677,151 | – | – | 11,677,151 |
| Total financial liabilities | 11,386,488 | 52,517,689 | 27,097,057 | – | 91,874,234 |

Signia Financial Group Inc. **Notes to Financial Statements** | September 30, 2008 | *(Amounts in Barbados dollars)*

# 23 Financial instruments, financial risk and capital management *...continued*

## d) *Financial instruments by category and fair value:*

The company's financial assets amounting to $101,337,337 (2007 - $97,812,806) all fall within the IAS 39 category of 'loans and receivables' whereas the company's financial liabilities amounting to $90,561,314 (2007 - $87,300,111) all fall within the IAS 39 category of 'financial liabilities measured at amortized cost'. The following table sets out the carrying value of the company's loans and advances to customers and due to customers along with their estimated fair values:

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$** | **$** | **$** | **$** |
| **Financial assets** | | | | |
| Loans and advances to customers | | | | |
| Individuals | **61,536,877** | 50,796,469 | **60,450,714** | 47,613,647 |
| Corporate and other entities | **23,353,470** | 20,771,242 | **14,100,941** | 11,993,239 |
| **Financial liabilities** | | | | |
| Due to customers | | | | |
| Financial Institutions | **19,566,071** | 21,621,274 | **19,914,496** | 10,089,287 |
| Individuals | **44,535,379** | 33,774,667 | **42,967,420** | 32,991,530 |
| Business and government | **12,150,395** | 1,728,441 | **12,201,361** | 4,792,697 |
| Other | **12,642,487** | 18,318,908 | **12,817,837** | 18,697,038 |

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practical to estimate fair value are as follows:

### *i) Short-term financial assets and liabilities*

The carrying value of these assets and liabilities is a reasonable estimate of their fair value because of the short maturity of these instruments. Short-term financial assets comprise cash and cash equivalents, short term deposits, amounts due from parent company and other liabilities.

### *ii) Longer-term financial assets and liabilities*

The estimated fair value of loans and advances to customers represents the discounted amount of the estimated future cash flows expected to be received. Loans and advances are reported net of provisions for impairment.

The estimated fair value of customer deposits with no stated maturity, which includes non interest bearing deposits, is the amount repayable on demand. The estimated fair value of customer deposits represents the discounted amount of the principal and interest due to customers on fixed rate deposits using interest rates for new debt.

# 23 Financial instruments, financial risk and capital management *...continued*

## e) *Capital management:*

The company's objectives when managing its capital are to:

- comply with the capital requirements established by the Central Bank of Barbados;
- safeguard the company's ability to continue as a going concern so that it can continue to provide returns to its shareholders and benefits to other stakeholders; and
- maintain a strong capital base to support the growth and development of its business, as well as to maintain customer and market confidence.

Capital adequacy and the use of regulatory capital are reviewed and monitored monthly by the company's management so as to ensure compliance with the capital requirements imposed externally by the Central Bank of Barbados. The required information concerning capital adequacy is reported to the ALCO and filed with the Central Bank of Barbados on a quarterly basis.

The Central Bank of Barbados requires that the company:

- hold the minimum level of regulatory capital; and
- maintain a certain ratio of regulatory capital to risk-weighted assets at or above the prescribed minimum of 8%. Subsequent to September 30, 2008, the minimum ratio of regulatory capital to risk weighted assets was reduced to 7% by the Central Bank of Barbados.

The company's regulatory capital consists entirely of Tier 1 capital, which is comprised of share capital, retained earnings and other reserves created by the appropriation of retained earnings for statutory purposes. As at September 30, 2008, the company's capital adequacy ratio was 14.1% (2007 - 14.5%).

Throughout the current year the company complied with the capital requirements relevant to its licensing and there has been no material change in the company's management of capital during the year compared with the prior year.

# 24 Events after the balance sheet date

Subsequent to the balance sheet date, the Board of Directors approved a dividend of Bds$800,000 to be paid during February 2009. These dividends have not been recorded in these financial statements.