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# Contents

# Independent Auditors' Report

## TO THE SHAREHOLDERS OF REPUBLIC BANK (GRENADA) LIMITED

We have audited the financial statements of Republic Bank (Grenada) Limited (the Bank), which comprise the balance sheet as at 30 September, 2009, and the related statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

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

Our 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 financial statements present fairly, in all material respects, the financial position of the Bank as at 30 September, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

Bridgetown
Barbados

22 October, 2009

# Balance Sheet

as at 30 September, 2009

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

| | Notes | 2009 | 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | | **9,819** | 11,662 |
| Statutory deposit with Central Bank | | **37,219** | 38,016 |
| Due from banks | | **45,223** | 84,547 |
| Treasury bills | | **22,884** | 38,747 |
| Investment interest receivable | | **2,673** | 3,342 |
| Advances | 4 | **447,097** | 412,555 |
| Investment securities | 5 | **122,619** | 126,854 |
| Premises and equipment | 6 | **40,756** | 41,163 |
| Net pension asset | 7 (c) | **1,633** | 1,355 |
| Deferred tax assets | 8 (a) | **1,453** | 1,142 |
| Taxation recoverable | | **71** | 71 |
| Other assets | 9 | **1,543** | 2,837 |
| **TOTAL ASSETS** | | 732,990 | 762,291 |

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

| | Notes | 2009 | 2008 |
|---|---|---|---|
| **LIABILITIES & EQUITY** | | | |
| **LIABILITIES** | | | |
| Due to banks | | **10,832** | 15,687 |
| Customers' current, savings and deposit accounts | 10 | **618,701** | 635,593 |
| Provision for post-retirement medical benefits | | **2,500** | 2,210 |
| Deferred tax liabilities | 8 (b) | **1,527** | 1,392 |
| Accrued interest payable | | **2,759** | 2,530 |
| Other liabilities | 11 | **7,315** | 17,577 |
| **TOTAL LIABILITIES** | | **643,634** | **674,989** |
| **EQUITY** | | | |
| Stated capital | 12 | **15,000** | 15,000 |
| Statutory reserves | | **15,000** | 15,000 |
| Other reserves | | **3,122** | 2,997 |
| Retained earnings | | **56,234** | 54,305 |
| **TOTAL EQUITY** | | **89,356** | **87,302** |
| **TOTAL LIABILITIES & EQUITY** | | 732,990 | **762,291** |

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

These financial statements were approved by the Board of Directors on 22 October, 2009 and signed on its behalf by:

RONALD F. DEC HARFORD
*Chairman*

KEITH A. JOHNSON
*Managing Director*

# Statement of Income

for the year ended 30 September, 2009

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

| | Notes | 2009 | 2008 |
|---|---|---|---|
| **Interest income** | 13 (a) | **49,689** | 48,852 |
| Interest expense | 13 (b) | **(16,919)** | (16,853) |
| Net interest income | | **32,770** | 31,999 |
| Other income | 13 (c) | **9,402** | 14,246 |
| Net interest and other income | | **42,172** | 46,245 |
| Loan impairment recovery/(expense) | 4 (b) | **98** | (428) |
| Operating expenses | 13 (e) | **(33,819)** | (29,561) |
| **Profit before taxation** | | **8,451** | 16,256 |
| Taxation - Current | | - | (345) |
| - Deferred | | **228** | (101) |
| **Total taxation expense** | 14 | **228** | (446) |
| **Net profit after taxation** | | **8,679** | 15,810 |
| **Earnings per share ($)** | | | |
| Basic | | **$5.79** | $10.54 |
| **Number of shares ('000)** | | | |
| Basic | | **1,500** | 1,500 |

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

# Statement of Changes in Equity

for the year ended 30 September, 2009

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

| | Stated capital | Statutory reserves | Other reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Balance at 30 September, 2007** | **15,000** | **15,000** | **3,426** | **45,095** | **78,521** |
| Revaluation of available-for-sale investments | - | - | (429) | - | (429) |
| Profit for the year | - | - | - | 15,810 | 15,810 |
| Dividends | - | - | - | (6,600) | (6,600) |
| **Balance at 30 September, 2008** | **15,000** | **15,000** | **2,997** | **54,305** | **87,302** |
| Revaluation of available-for-sale investments | - | - | 125 | - | 125 |
| Profit for the year | - | - | - | 8,679 | 8,679 |
| Dividends | - | - | - | (6,750) | (6,750) |
| **Balance at 30 September, 2009** | **15,000** | **15,000** | **3,122** | **56,234** | **89,356** |

# Statement of Cash Flows

for the year ended 30 September, 2009

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

| | 2009 | 2008 |
|---|---|---|
| **Operating activities** | | |
| Profit before taxation | **8,451** | 16,256 |
| **Adjustments for:** | | |
| Depreciation | **4,123** | 2,577 |
| Loan impairment expense/(recovery) | **1,100** | (3,298) |
| Loss/(Gain) on sale of premises and equipment | **157** | (2,998) |
| Increase in employee benefits | **12** | 68 |
| Increase in advances | **(34,674)** | (48,935) |
| (Decrease)/increase in customers' deposits and other fund raising instruments | **(21,747)** | 52,080 |
| Decrease/(increase) in statutory deposit with Central Bank | **797** | (3,108) |
| Decrease/(increase) in other assets and investment interest receivable | **1,963** | (1,035) |
| (Decrease)/increase in other liabilities and accrued interest payable | **(10,033)** | 11,181 |
| **Cash (used in)/provided by operating activities** | **(49,851)** | 22,788 |
| **Investing activities** | | |
| Purchase of investment securities | **(22,918)** | (41,747) |
| Redemption of investment securities | **39,194** | 16,564 |
| Additions to premises and equipment | **3,943** | (15,688) |
| Proceeds from sale of premises and equipment | **70** | 4,771 |
| **Cash provided by/(used in) investing activities** | **20,289** | (36,100) |

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

| | 2009 | 2008 |
|---|---|---|
| **Financing activities** | | |
| (Decrease)/increase in balances due to other banks | **(4,855)** | 8,127 |
| Dividends paid to shareholder | **(6,750)** | (6,600) |
| **Cash (used in)/provided by financing activities** | **(11,605)** | 1,527 |
| **Net decrease in cash and cash equivalents** | **(41,167)** | (11,785) |
| **Cash and cash equivalents at beginning of year** | **96,209** | 107,994 |
| **Cash and cash equivalents at end of year** | **55,042** | 96,209 |
| **Cash and cash equivalents at end of year are represented by:** | | |
| Cash on hand | **9,819** | 11,662 |
| Due from banks | **45,223** | 84,547 |
| | **55,042** | **96,209** |

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

# Notes to the Financial Statements

for the year ended 30 September, 2009

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 1. CORPORATE INFORMATION

Republic Bank (Grenada) Limited (the Bank) is incorporated in Grenada and provides banking services through seven branches in Grenada and Carriacou and one agency office in Petite Martinique. The Bank was continued under the provision of the Companies Ordinance Section 365, 1995 on March 23, 1998 and its registered office is located at Republic House, Grand Anse, St. George, Grenada. It is a subsidiary of Republic Bank Limited of Trinidad and Tobago.

The Bank's parent company is Republic Bank Limited a company incorporated in Trinidad and Tobago. The CL Financial Group holds through its various subsidiaries 52.39% of the shares of Republic Bank Limited. On 31 January, 2009, Central Bank of Trinidad & Tobago issued a Notification pursuant to sections 44D and 44E of the Central Bank Act, Chap. 79:02 that the Central Bank of Trinidad & Tobago assumed control of the affairs of CLICO Investment Bank (CIB). Further, on 13 February, 2009, the Central Bank of Trinidad & Tobago issued a Notification pursuant to sections 44D and 44E of the Central Bank Act, Chap. 79:02 that the Central Bank of Trinidad & Tobago assumed control of the affairs of Colonial Life Insurance Company (Trinidad) Limited (CLICO). CLICO Investment Bank and Colonial Life Insurance Company (Trinidad) Limited ("the Companies") at that time owned 53.82% of the shares of Republic Bank Limited. In accordance with the provisions of both Notifications, the Central Bank of Trinidad & Tobago has the power to deal with the shares and assets of the Companies, including the Republic Bank Limited shares. As at 30 September, 2009, there has been very limited transfer of ownership of the Republic Bank Limited shares and CLICO and CIB's shareholding now stands at 51.85%. In the interim therefore, and for the purpose of these financial statements, the related party note has been prepared in a manner consistent with previous publications.

The Bank operates under the Grenada Banking Act and other laws of Grenada. The Bank is not organised into distinguishable business segments and operates soley in Grenada providing a wide range of Banking, Financial and related services.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### a) Basis of preparation

The financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS), and are stated in Eastern Caribbean Dollars. These financial statements have been prepared on a historical cost basis, except for the measurement at fair value of investment securities classified as available-for-sale. The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions. Actual results could differ from those estimates. Significant accounting judgements and estimates in applying the Bank's accounting policies have been described in Note 3.

### b) Changes in accounting policies

*i) New accounting policies adopted*

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 30 September, 2008 except for the adoption of new standards and interpretations noted below:

*IFRIC 12 - Service Concession Arrangements (effective 1 January, 2008)*
This interpretation provides guidance on the accounting by operators of public to private service concession arrangements. The adoption of this interpretation had no effect on the financial position or performance of the Bank.

*IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January, 2008)*
This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19: Employee Benefits.The adoption of this interpretation had no effect on the financial position or performance of the Bank.

*Amendment to IAS 39 and IFRS 7 - Reclasssification of Financial Assets (effective 1 July, 2008)*
These amendments allow entities to reclassify certain financial assets out of held-for-trading if they are no longer held for the purpose of being sold or repurchased in the near term.Financial assets eligible for classification as loans and receivables may be transferred from "held-for-trading" to "loans and receivables" if the entity has the intention and ability to hold them for the foreseeable future. Financials assets that are not eligible for classification as loans and receivables may be transferred from "held-for-trading" to "available-for-sale" or "held-to-maturity" only in rare circumstances. The adoption of this standard had no effect on the financial position or performance of the Bank.

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### b) Changes in accounting policies *(continued)*

*ii) Standards in issue not yet effective*

The Bank has not early adopted the following new and revised IFRSs and IFRIC Interpretations that have been issued but are not yet effective. These standards/interpretations either do not apply to the activities of the Bank or have no material impact on its financial statements:

| | |
|---|---|
| IFRS 8 | Operating Segments (effective 1 January, 2009) |
| IAS 23R | Borrowing Costs (effective 1 January, 2009) |
| IAS 1R | Presentation of Financial Statements (effective 1 January, 2009) |
| IFRS 2 Amendment | Vesting Conditions and Cancellations (effective 1 January, 2009) |
| IAS 32 and IAS 1 Amendment | Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January, 2009) |
| IFRIC 15 | Agreements for the Construction of Real Estate (effective 1 January, 2009) |
| IFRS 7 Amendment | Improving Disclosures about Financial Instruments (effective 1 January, 2009) |
| IFRS 1R | Structural Amendment (effective 1 July, 2009) |
| IFRIC 17 | Distributions of Non-Cash Assets to Owners (effective 1 July, 2009) |
| IFRIC 18 | Transfers of Assets from Customers (effective 1 July, 2009) |

In May 2008, the International Accounting Standards Board issued "Improvements to IFRSs", which is part of its annual improvements project, and a vehicle for making non-urgent but necessary amendments to various IFRSs. These amendments primarily become effective for annual periods beginning on or after 1 January, 2009 and are not expected to significantly impact the Bank. The following shows the IFRSs and topics addressed by these amendments:

| **IFRS** | **Subject of Amendment** |
|---|---|
| **Part I** | **Amendments that result in accounting changes for presentation, recognition and measurement purposes** |
| IAS 16 | Recoverable amount. |
| IAS 19 | Curtailments and negative past service cost. Plan administration costs. Replacement of term "fall due". Guidance on contingent liabilities. |
| IAS 20 | Government loans with a below-market interest rate. |
| IAS 23 | Components of borrowing costs. |
| IAS 29 | Description of measurement basis in financial statements. |
| IAS 36 | Disclosure of estimates used to determine recoverable amount. |
| IAS 38 | Advertising and promotional activities. Unit of production method of amortization. |
| IAS 41 | Discount rate for fair value calculations. |
| **Part II** | **Amendments that are terminology or editorial changes only** |
| IFRS 7 | Presentation of finance costs. |
| IAS 8 | Status of implementation guidance. |
| IAS 10 | Dividends declared after the end of the reporting period. |
| IAS 18 | Costs of originating a loan. |
| IAS 20 | Consistency of terminology with other IFRSs. |
| IAS 29 | Consistency of terminology with other IFRSs. |
| IAS 34 | Earnings per share disclosures in interim financial statements. |
| IAS 40 | Consistency of terminology with IAS 8. Investment property held under lease. |
| IAS 41 | Examples of agricultural produce and products. Point-of-sale costs. |




## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### b) Changes in accounting policies *(continued)*


*ii) Standards in issue not yet effective (continued)*

### c) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents consist of highly liquid investments, cash at hand and at bank and treasury bills with original maturities of three months or less.

### d) Statutory deposit with Central Bank

Pursuant to the Banking Act of Grenada (No.19 of 2005), Republic Bank (Grenada) Limited is required to maintain specified assets as a reserve requirement to its deposit liabilities.

### e) Financial instruments

The Bank's financial assets and financial liabilities are recognized in the balance sheet when it becomes party to the contractual obligation of the instrument. A financial asset is derecognized when the rights to receive the cash flows from the asset have expired or where the Bank has transferred all the risks and rewards of ownership of the asset. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. All 'regular way' purchases and sales are recognized at settlement date.

2. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**e) Financial instruments** *(continued)*

**i) Advances**

Advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'Financial investment - available-for-sale' or 'Financial assets designated at fair value through profit or loss'. After initial measurement, advances are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in 'Interest income' in the income statement. The losses arising from impairment are recognized in the statement of income in 'loan impairment expense'.

**ii) Investment securities**

*- Available-for-sale*

Available-for-sale investments are securities intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale securities are initially recognized at fair value plus transaction costs and are continuously remeasured at fair value based on quoted market prices where available or discounted cash flow models. Fair values for unquoted equity instruments or unlisted securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity net of applicable deferred tax. When the securities are disposed of, the related accumulated fair value adjustments are included in other income.

When securities become impaired, the related accumulated fair value adjustments previously recognized in equity are included in the statement of income as an impairment expense on investment securities.

**f) Impairment of financial assets**

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.



2. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**f) Impairment of financial assets** *(continued)*

**i) Advances**

All non-performing and individually significant advances are individually reviewed and specific provisions made for the impaired portion based on the realizable value of the loan collateral and discounted by the original effective interest rate of the loan. The provision made is the difference between the loan balance and the discounted value of the collateral. Individually insignificant loans with similar characteristics are assessed for impairment on a group basis.

Regulatory and other loan loss requirements that exceed these amounts are dealt with in the general contingency reserve as an appropriation of retained earnings.

When all efforts have been exhausted to recover a non-performing loan, that loan is deemed uncollectible and written off against the related provision for loan losses.

**ii) Investment securities**

The Bank individually assesses each investment security for objective evidence of impairment. If an impaired instrument has been renegotiated, interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of "interest income". If the fair value of the instrument increases in a subsequent year, the impairment loss is reversed through the statement of income.

If there is objective evidence that the cost of an available-for-sale equity security may not be recovered, the security is considered to be impaired. Objective evidence that the cost may not be recovered includes qualitative impairment criteria as well as a significant or prolonged decline in the fair value below cost. The Bank's policy considers a significant decline to be one in which the fair value is below the weighted-average cost by more that 30% and a prolonged decline to be one in which fair value is below the weighted-average cost for greater than one year. This policy is applied at the individual security level.

If an available-for-sale equity security is impaired based upon the Bank's qualitative or quantitative impairment criteria, any further declines in the fair value at subsequent reporting dates are recognized as impairments. Therefore, at each reporting period, for an equity security that is determined to be impaired based upon the Bank's impairment criteria, an impairment is recognized for the difference between the fair value and the original cost basis, less any previously recognized impairments.

**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**g) Premises and equipment**

Premises and equipment are stated at cost less accumulated depreciation. Leasehold buildings and leased equipment are depreciated over the period of the lease.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of income.

Depreciation other than on leasehold buildings and leased equipment is computed on the straight line method at rates expected to apportion the cost of the assets over their estimated useful lives.

The depreciation rates used are as follows: -

| | |
|---|---|
| Freehold premises | 2% |
| Equipment, furniture and fittings | 15 - 33.33% |

**h) Employee benefits**

**i) Pension obligations**

The Bank operates a defined benefit plan, the assets of which are generally held in separate trustee-administered funds. The pension plan is generally funded by payments from the Bank, taking account of the recommendations of independent qualified actuaries who carry out the full valuation of the Plan every three years.

Annually, the Bank's independent actuaries conduct a valuation exercise to measure the effect of the employee benefit pension plan.



**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**h) Employee benefits** *(continued)*

**i) Pension obligations** *(continued)*

For the defined benefit plan, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of income so as to spread regular costs over the service lives of employees in accordance with the advice of qualified actuaries. Actuarial gains and losses are recognized as income or expense when the cumulative unrecognized actuarial gains or losses exceed 10% of the defined benefit obligation and the fair value of plan assets. These gains or losses are recognized by amortizing them over the average remaining working lifetime of employees.

The above accounting requirement in no way affects the pension plan which continue to be governed by the approved Trust Deed and Rules and remain under the full control of the appointed Trustees.

The full results of the valuation exercise are disclosed in note 7 to these financial statements.

**ii) Other post-retirement obligations**

The Bank provides post-retirement medical benefits to its retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. Independent qualified actuaries carry out a valuation of these obligations.

**iii) Profit sharing scheme**

The Bank operates an employee profit sharing scheme, and the profit share to be distributed to employees each year is based on the terms outlined in the Union Agreement. Employees receive their profit share in cash. The Bank accounts for the profit share as an expense through the statement of income.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### i) Taxation

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

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

### j) Statutory reserves

The Banking Act of Grenada (No. 19 of 2005), requires that a minimum of 20% of the net profit after deduction of taxes in each year be transferred to a statutory reserve fund until the balance on this reserve is equal to the paid-up capital. These reserves are not available for distribution as dividends or for any other form of appropriation.

### k) Earnings per share

Basic earnings per share has been computed by dividing the net profit by the number of shares in issue during the year.

### l) Interest income and expense

Interest income and expense are recognized in the statement of income for all interest-bearing instruments on an accrual basis using the effective interest yield method. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments.


## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*


### m) Fee and commission income

Unless included in the effective interest calculation, fees and commissions are recognized on an accruals basis as the service is provided. Fees and commissions not integral to effective interest arising from negotiating, or participating in the negotiation of a transaction from a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts.

### n) Customers' liability under acceptances, guarantees, indemnities and letters of credit

These represent the Bank's potential liability, for which there are equal and offsetting claims against its customers in the event of a call on these commitments. These amounts are not recorded on the Bank's Balance Sheet but are detailed in Note 21(b) of these financial statements.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING THE BANK'S ACCOUNTING POLICIES

Management has made the following judgements in its application of the Bank's accounting policies which have the most significant effect on the amounts reported in the financial statements:

*Impairment of financial assets*

Management makes judgements at each balance sheet date to determine whether financial assets are impaired. Financial assets are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

Inherent provisions on advances are calculated on an estimate of impairment incurred but not reported, existing in assets as at the balance sheet date. Estimated impairment incurred is determined by applying against performing loan balances, the average loan default rates and adjusting this balance for current economic factors that affect loan performance. An anticipated recovery rate (determined from historical average) is then applied to determine the value that is recoverable. This calculation is computed by product type.

*Valuation of investments*

The Bank has applied IAS 39 in its classification of investment securities which requires measurement of securities at fair value. For unquoted equity instruments and unlisted securities, fair values are estimated using price/earnings or price/cash flow ratios which have been refined to accommodate the specific circumstances of the issuer.

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING THE BANK'S ACCOUNTING POLICIES *(continued)*

*Employee benefits*

In conducting valuation exercises to measure the effect of the employee benefit plan, the Banks' independent actuaries use judgement and assumptions in determining discount rates, salary increases, NIS ceiling increases, pension increases and the rate of return on the assets of the Plan. These are detailed in Note 7 – Employee benefits.

*Deferred taxes*

In calculating the provision for deferred taxation, management uses judgement to determine the probability that future taxable profits will be available to facilitate utilization of temporary tax differences which may arise.

*Premises and equipment*

Management exercises judgement in determining whether costs incurred can accrue sufficient future economic benefits to the Bank to enable the value to be treated as a capital expense. Further judgement is used upon annual review of the residual values and useful lives of all capital items to determine any necessary adjustments to carrying value.

## 4. ADVANCES

### a) Advances

| | 2009<br>Retail lending | Commercial & Corporate lending | Mortgages | Total |
|---|---|---|---|---|
| Performing advances | **91,936** | **116,398** | **231,017** | **439,351** |
| Non-performing advances | **1,556** | **4,412** | **7,054** | **13,022** |
| | **93,492** | **120,810** | **238,071** | **452,373** |
| Unearned interest | **(1,584)** | **(173)** | **-** | **(1,757)** |
| Accrued Interest | **237** | **305** | **603** | **1,145** |
| | **92,145** | **120,942** | **238,674** | **451,761** |
| Allowance for impairment losses - Note 4 (b) | **(1,055)** | **(2,352)** | **(1,257)** | **(4,664)** |
| **Net Advances** | **91,090** | **118,590** | **237,417** | **447,097** |

| | 2008<br>Retail lending | Commercial & Corporate lending | Mortgages | Total |
|---|---|---|---|---|
| Performing advances | 90,190 | 122,446 | 198,711 | 411,347 |
| Non-performing advances | 872 | 3,263 | 6,154 | 10,289 |
| | 91,062 | 125,709 | 204,865 | 421,636 |
| Unearned interest | (4,613) | (468) | - | (5,081) |
| Accrued Interest | 257 | 355 | 579 | 1,191 |
| | 86,706 | 125,596 | 205,444 | 417,746 |
| Allowance for impairment losses - Note 4 (b) | (1,288) | (2,696) | (1,207) | (5,191) |
| **Net Advances** | 85,418 | 122,900 | 204,237 | 412,555 |

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 4. ADVANCES *(continued)*

### b) Allowance for impairment losses

#### (i) Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

*Individually assessed allowances*

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more immediate attention.

*Collectively assessed allowances*

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

## 4. ADVANCES *(continued)*

### b) Allowance for impairment losses *(continued)*

#### (ii) Reconciliation of the allowance for impairment losses for loans and advances by class

| | 2009 | | | |
|---|---|---|---|---|
| | Retail lending | Commercial & Corporate lending | Mortgages | Total |
| Balance brought forward | 1,288 | 2,696 | 1,207 | 5,191 |
| Charge-offs and write-offs | (292) | (95) | (42) | (429) |
| Loan impairment expense | 548 | 418 | 529 | 1,495 |
| Loan impairment recoveries | (489) | (667) | (437) | (1,593) |
| **Balance carried forward** | 1,055 | 2,352 | 1,257 | 4,664 |
| Individual impairment | 861 | 1,851 | 1,257 | 3,969 |
| Collective impairment | 194 | 501 | - | 695 |
| | 1,055 | 2,352 | 1,257 | 4,664 |
| Gross amount of loans individually determined to be impaired, before deducting any allowance | 1,556 | 4,412 | 7,054 | 13,022 |

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 4. ADVANCES *(continued)*

### b) Allowance for impairment losses *(continued)*

#### (ii) Reconciliation of the allowance for impairment losses for loans and advances by class

| | 2008 | | | |
|---|---|---|---|---|
| | Retail lending | Commercial & Corporate lending | Mortgages | Total |
| Balance brought forward | 1,152 | 2,602 | 1,109 | 4,863 |
| Charge-offs and write-offs | (49) | (6) | (45) | (100) |
| Loan impairment expense | 750 | 690 | 734 | 2,174 |
| Loan impairment recoveries | (565) | (590) | (591) | (1,746) |
| **Balance carried forward** | 1,288 | 2,696 | 1,207 | 5,191 |
| Individual impairment | 886 | 2,316 | 1,207 | 4,409 |
| Collective impairment | 402 | 380 | - | 782 |
| | 1,288 | 2,696 | 1,207 | 5,191 |
| Gross amount of loans individually determined to be impaired, before deducting any allowance | 900 | 4,297 | 5,091 | 10,288 |

c) The undiscounted fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 30 September, 2009 amounts to $25 million (2008: $15 million). The collateral consists of cash, securities and properties.

## 5. INVESTMENT SECURITIES

### a) Available-for-sale

| | 2009 | 2008 |
|---|---|---|
| Government securities | 72,625 | 75,549 |
| State owned company securities | 29,556 | 29,644 |
| Corporate bonds/debentures | 9,231 | 11,864 |
| Equities and mutual funds | 11,207 | 9,797 |
| **Total investment securities** | **122,619** | 126,854 |

## 6. PREMISES AND EQUIPMENT

| 2009 | Capital works in progress | Freehold premises | Leasehold premises | Equipment, furniture & fittings | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At beginning of year | 27 | 27,623 | 7,649 | 28,458 | 63,757 |
| Additions at cost | 838 | 32 | - | 3,907 | 4,777 |
| Exchange and other adjustments | - | (220) | - | (569) | (789) |
| Disposal/transfer of assets | - | - | - | (638) | (638) |
| | 865 | 27,435 | 7,649 | 31,158 | 67,107 |
| **Accumulated depreciation** | | | | | |
| At beginning of year | - | 753 | 3,883 | 17,958 | 22,594 |
| Charge for the year | | 385 | 204 | 3,534 | 4,123 |
| Disposal of assets | - | - | - | (366) | (366) |
| At end of year | - | 1,138 | 4,087 | 21,126 | 26,351 |
| **Net book value** | 865 | 26,297 | 3,562 | 10,032 | 40,756 |

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 6. PREMISES AND EQUIPMENT *(continued)*

| 2008 | Capital works in progress | Freehold premises | Leasehold premises | Equipment, furniture & fittings | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At beginning of year | 11,669 | 9,435 | 7,649 | 21,704 | 50,457 |
| Additions at cost | 12,128 | 19,962 | - | 7,369 | 39,459 |
| Exchange and other adjustments | - | (190) | - | - | (190) |
| Disposal/transfer of assets | (23,770) | (1,584) | - | (615) | (25,969) |
| | **27** | **27,623** | **7,649** | **28,458** | **63,757** |
| **Accumulated depreciation** | | | | | |
| At beginning of year | - | 699 | 3,743 | 16,401 | 20,843 |
| Exchange and other adjustments | - | (36) | 70 | (224) | (190) |
| Charge for the year | - | 206 | 70 | 2,301 | 2,577 |
| Disposal of assets | - | (116) | - | (520) | (636) |
| | - | **753** | **3,883** | **17,958** | **22,594** |
| **Net book value** | **27** | **26,870** | **3,766** | **10,500** | **41,163** |

| **Capital commitments** | 2009 | 2008 |
|---|---|---|
| Contracts for outstanding capital expenditure not provided for in the financial statements | **3,942** | 1,139 |
| Other capital expenditure authorized by the Directors but not yet contracted for | **159** | 288 |

## 7. EMPLOYEE BENEFITS

### a) Changes in the present value of the defined benefit obligation are as follows:

| | Defined benefit pension plan | | Post-retirement life insurance and medical benefits | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Opening defined benefit obligation | **16,901** | 15,433 | **2,122** | 1,923 |
| Current service cost | **873** | 791 | **149** | 141 |
| Interest cost | **1,166** | 1,077 | **148** | 134 |
| Members' contributions | **158** | 125 | - | - |
| Additional voluntary contributions | **10** | - | - | - |
| Actuarial gains/(losses) on obligations | **707** | (373) | **(53)** | (71) |
| Benefits paid | **(488)** | (103) | - | - |
| Expense allowance | **(55)** | (49) | - | - |
| Premiums paid by the Bank | - | - | **(7)** | (5) |
| Closing defined benefit obligation | **19,272** | **16,901** | **2,359** | **2,122** |

### b) Changes in the fair value of plan assets are as follows:

| | **2009** | 2008 |
|---|---|---|
| Opening fair value of plan assets | **18,517** | 16,041 |
| Expected return | **1,317** | 1,153 |
| Actuarial (losses)/gains | **(200)** | 433 |
| Contributions by employer | **1,010** | 917 |
| Members' contributions | **158** | 125 |
| Benefits paid | **(488)** | (103) |
| Expense allowance | **(55)** | (49) |
| Closing fair value of plan assets | **20,259** | 18,517 |

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 7. EMPLOYEE BENEFITS *(continued)*

### c) The amounts recognized in the balance sheet are as follows:

| | Defined benefit pension plan | | Post-retirement life insurance and medical benefits | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Defined benefit obligation | **(19,272)** | (16,901) | **(2,359)** | (2,122) |
| Fair value of plan assets | **20,259** | 18,517 | **–** | – |
| | **987** | 1,616 | **(2,359)** | (2,122) |
| Unrecognized portion | **646** | (261) | **(141)** | (88) |
| Net asset/(liability) recognized in the balance sheet | **1,633** | **1,355** | **(2,500)** | **(2,210)** |

### d) The amounts recognized in the statement of income are as follows:

| | Defined benefit pension plan | | Post-retirement life insurance and medical benefits | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Current service cost | **873** | 791 | **149** | 141 |
| Interest on defined benefit obligation | **1,166** | 1,077 | **148** | 134 |
| Expected return on plan assets | **(1,317)** | (1,153) | **-** | - |
| Past service cost | **10** | - | **-** | - |
| Total included in staff costs | **732** | 715 | **297** | 275 |

## 7. EMPLOYEE BENEFITS *(continued)*

### e) Actual return on plan assets

| | Defined benefit pension plans | |
|---|---|---|
| | **2009** | 2008 |
| Expected return on plan assets | **1,317** | 1,153 |
| Actuarial gain on plan assets | **(200)** | 433 |
| Actual return on plan assets | **1,117** | 1,586 |

### f) Experience history

| | Defined benefit pension plan | | Post-retirement life insurance and medical benefits | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Defined benefit obligation | **19,272** | 16,901 | **2,359** | 2,122 |
| Plan assets | **(20,259)** | (18,517) | **-** | - |
| (Deficit)/surplus | **(987)** | (1,616) | **2,359** | 2,122 |
| Experience adjustments on plan liabilities | **707** | (373) | **(53)** | 88 |
| Experience adjustments on plan assets | **(200)** | 433 | **-** | - |

### g) The Bank expects to contribute $1.134 million to the plans in the 2010 financial year.

### h) The principal actuarial assumptions used were as follows:

| | **2009** % | 2008 % |
|---|---|---|
| Discount rate | **7.00** | 7.00 |
| Rate of salary increase | **6.00** | 6.00 |
| Pension increases | **0.00** | 0.00 |
| Medical cost trend rates | **n/a** | n/a |
| Expected return on plan assets | **7.00** | 7.00 |
| NIS ceiling rates | **4.00** | 4.00 |

The expected rate of return on assets is set by reference to estimated long-term returns on assets held by the plan at that date. Allowance is made for some excess performance from the plan's equity portfolio.

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 7. EMPLOYEE BENEFITS *(continued)*

### i) Plan asset allocation as at September 30

| | Defined benefit pension plan | |
|---|---|---|
| | **2009** | 2008 |
| Equity securities | **4.2%** | 3.9% |
| Debt securities | **55.6%** | 53.0% |
| Money market instruments/cash | **40.2%** | 43.1% |
| Total | **100.0%** | 100.0% |

### j) Effect of one percentage point change in medical expense increase assumption

| | Aggregate service and interest costs | Year end defined benefit obligation |
|---|---|---|
| Effect on | | |
| Medical expense increase by 1% pa | **66** | 44 |
| Medical expense decrease by 1% pa | **(48)** | (327) |

## 8. DEFERRED TAX ASSETS AND LIABILITIES

Components of deferred tax assets and liabilities

### a) Deferred tax assets

| | **2009** | 2008 |
|---|---|---|
| Pension liability | **750** | 663 |
| Premises and Equipment | - | 6 |
| Unearned loan origination fees | **703** | 473 |
| | **1,453** | 1,142 |

## 8. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

### b) Deferred tax liabilities

| | **2009** | 2008 |
|---|---|---|
| Pension asset | **490** | 407 |
| Unrealized reserve | **1,037** | 985 |
| | **1,527** | 1,392 |

## 9. OTHER ASSETS

| | **2009** | 2008 |
|---|---|---|
| Accounts receivable and prepayments | **1,543** | 1,975 |
| Others | - | 862 |
| | **1,543** | 2,837 |

## 10. CUSTOMERS' CURRENT, SAVINGS AND DEPOSIT ACCOUNTS

Concentration of customers' current, savings and deposit accounts

| | **2009** | 2008 |
|---|---|---|
| State | **16,993** | 25,536 |
| Corporate and commercial | **67,169** | 64,421 |
| Personal | **523,434** | 527,242 |
| Other financial institutions | **11,105** | 18,394 |
| | **618,701** | 635,593 |

# Notes to the Financial Statements

for the year ended 30 September, 2009

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 11. OTHER LIABILITIES

| | 2009 | 2008 |
|---|---|---|
| Accounts payable and accruals | **2220** | 10,575 |
| Provision for profit sharing and salary increases | **550** | 1,357 |
| Other | **4,545** | 5,645 |
| | **7,315** | 17,577 |

## 12. STATED CAPITAL

| | 2009 | 2008 | 2009 | 2008 |
|---|---|---|---|---|
| | Number of ordinary shares ('000) | | $'000 | $'000 |
| **Authorized** | | | | |
| 2,500 shares of no par value | **2,500** | 2,500 | **15,000** | 15,000 |
| **Issued and fully paid** | | | | |
| At beginning of year | **1,500** | 1,500 | **15,000** | 15,000 |
| At end of year | **1,500** | 1,500 | **15,000** | 15,000 |

## 13. OPERATING PROFIT

| | 2009 | 2008 |
|---|---|---|
| **a) Interest income** | | |
| Advances | **38,204** | 35,626 |
| Investment securities | **10,146** | 10,033 |
| Liquid assets | **1,339** | 3,193 |
| | **49,689** | 48,852 |
| **b) Interest expense** | | |
| Customer's current, savings and deposit accounts | **16,900** | 16,818 |
| Other interest bearing liabilities | **19** | 35 |
| | **16,919** | 16,853 |

## 13. OPERATING PROFIT *(continued)*

| | 2009 | 2008 |
|---|---|---|
| **c) Other income** | | |
| Other fee and commission income | **4,493** | 4,709 |
| Net exchange trading income | **4,327** | 5,683 |
| Dividends | **19** | 18 |
| Gain from sale of premises and equipment | **10** | 2,998 |
| Gains from disposal of available-for-sale investments | **-** | 550 |
| Other operating income | **553** | 288 |
| | **9,402** | 14,246 |

**d) Operating expenses**

| | 2009 | 2008 |
|---|---|---|
| Staff costs | **16,131** | 14,829 |
| Staff profit sharing | **703** | 657 |
| General administrative expenses | **11,008** | 10,462 |
| Property related expenses | **626** | 505 |
| Depreciation expense | **4,123** | 2,577 |
| Advertising and public relations expenses | **869** | 1,523 |
| Impairment expense | **266** | (1,090) |
| Directors' fees | **93** | 98 |
| | **33,819** | 29,561 |

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 14. TAXATION EXPENSE

**Reconciliation**

Income taxes in the statement of income vary from amounts that would be computed by applying the statutory tax rate for the following reasons:

| | 2009 | 2008 |
|---|---|---|
| Accounting profit | **8,451** | 16,256 |
| Tax at applicable statutory tax rates | **2,535** | 4,877 |
| *Tax effect of items that are adjustable in determining taxable profit:* | | |
| Tax exempt income | **(3,134)** | (4,539) |
| Items not allowable for tax purposes | **1,310** | 890 |
| Wear & tear allowance | **(849)** | - |
| Other allowable deductions | **(139)** | (782) |
| Other permanent differences | **49** | - |
| | **(228)** | 446 |

## 15. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. A number of banking transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and conditions, at market rates.

**Outstanding balances**

| | 2009 | 2008 |
|---|---|---|
| **Loans, investments and other assets** | | |
| Parent Company | **9,069** | 14,970 |
| Directors and key management personnel | **1,915** | 1,929 |
| Other related parties | **25,823** | 33,498 |
| | **36,807** | 50,397 |
| Provision for amounts due from related parties | - | - |

## 15. RELATED PARTIES *(continued)*

**Outstanding balances** *(continued)*

| | 2009 | 2008 |
|---|---|---|
| **Deposits and other liabilities** | | |
| CL Financial Group | **2,438** | 8,227 |
| Parent Company | **206** | 13,190 |
| Directors and key management personnel | **389** | 1,231 |
| Other related parties | **8,794** | 541 |
| | **11,827** | 23,189 |
| **Interest and other income** | | |
| CL Financial Group | **2** | 8 |
| Parent Company | **57** | 985 |
| Directors and key management personnel | **39** | 117 |
| Other related parties | **1,358** | 1,788 |
| | **1,456** | 2,898 |
| **Interest and other expense** | | |
| CL Financial Group | - | 1 |
| Directors and key management personnel | **5** | 399 |
| | **5** | 400 |

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank.

**Key management compensation**

| | 2009 | 2008 |
|---|---|---|
| Short-term benefits | **610** | 545 |
| Post employment benefits | **17** | 29 |
| | **627** | 574 |

## 16. RISK MANAGEMENT

### 16.1 Introduction

The Bank's prudent banking practices are founded on solid risk management. In an effort to keep apace with its dynamic environment, the Bank has established a comprehensive framework for managing risks, which is continually evolving as the Bank's business activities change in response to market, credit, product and other developments.

The basic principles of risk management followed by the Bank include:

- Managing risk within parameters approved by the Board of Directors and Executives;
- Assessing risk initially and then consistently monitoring those risks through their life cycle;
- Abiding by all applicable laws, regulations and governance standards;
- Applying high and consistent ethical standards to our relationships with all customers, employees and other stakeholders; and
- Undertaking activities in accordance with fundamental control standards. These controls include the disciplines of planning, monitoring, segregation, authorization and approval, recording, safeguarding, reconciliation and valuation.

The Board of Directors has ultimate responsibility for the management of risk within the Bank. Acting with authority delegated by the Board, the Audit, Asset and Liability Committee and Other Risk Committees, review specific risk areas. Republic Bank Limited (the Parent Company) assists the Bank in the management of Credit Risk through their Group Risk Department.

The Group Internal Audit function audits Risk Management processes throughout the Bank by examining both the adequacy of the procedures and the Bank's compliance with these procedures. Internal Audit discusses the results of all assessments with Management and reports its findings and recommendations to the Audit Committee of the Bank.

The Bank's activities are primarily related to the use of financial instruments. The Bank accepts funds from customers and seeks to earn above average interest margins by investing in high quality assets such as government and corporate securities as well as equity investments and seeks to increase these margins by lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The main risks arising from the Bank's financial instruments are credit risk, interest rate and market risk, liquidity risk, foreign currency risk and operational risk. The Bank reviews and agrees policies for managing each of these risks as follows:

## 16. RISK MANAGEMENT *(continued)*

### 16.2 Credit risk

Credit risk is the potential that a borrower or counterparty will fail to meet its stated obligations in accordance with agreed terms. The objective of the Bank's credit risk management function is to maximize the Bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. The effective management of credit risk is a key element of a comprehensive approach to risk management and is considered essential to the long-term success of the Bank.

The Bank's credit risk management process operates on the basis of a hierarchy of discretionary authorities. The Board makes decisions on credit matters which are outside of delegated limits.

The Risk Management unit is accountable for the general management and administration of the Bank's credit portfolio, ensuring that lendings are made in accordance with current legislation, sound banking practice and in accordance with the applicable general policy of the Board of Directors. The Risk Management function is kept separate from and independent of the business development aspect of the operations.

The Bank uses a risk rating system which groups commercial/corporate accounts into various risk categories to facilitate the management of risk on both an individual account and portfolio basis. For retail lending, a computerized Credit Scoring system with preset risk management criteria is in place at all our branches to facilitate decision-making. Trend indicators are also used to evaluate risk as improving, static or deteriorating. The evaluation of the risk and trend inform the credit decision and determines the intensity of the monitoring process.

The Bank's credit control processes emphasize early detection of deterioration and prompt implementation of remedial action and where it is considered that recovery of the outstanding liability may be doubtful or unduly delayed, such accounts are transferred from performing to non-performing status.

Loan loss provisions are set aside to cover any potential loss in respect of debts that are not performing satisfactorily. A review of these provisions is conducted quarterly in accordance with established guidelines and recommended provisions arising out of this review are submitted to the Board for approval. Non-performing debts recommended for write-off are also reviewed annually and action taken in accordance with prescribed guidelines.

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 16. RISK MANAGEMENT *(continued)*

### 16.2 Credit risk *(continued)*

The Bank avoids exposure to undue concentrations of risk by placing limits on the amount of risk accepted from a number of borrowers engaged in similar business activities, or activities in the same geographic region or with similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Such risks are controlled and monitored on a revolving basis and are subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector, client and geography are approved by the Board of Directors.

#### 16.2.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the Bank's maximum exposure to credit risk:

| | 2009 Gross maximum exposure | 2008 Gross maximum exposure |
|---|---|---|
| Cash | | |
| Statutory deposit with Central Bank | **37,219** | 38,016 |
| Due from banks | **45,223** | 84,547 |
| Treasury bills | **22,884** | 38,747 |
| Investment interest receivable | **2,673** | 3,342 |
| Investment securities | **122,619** | 126,176 |
| Advances | **452,373** | 421,637 |
| **Total** | **682,991** | 712,465 |
| Undrawn commitments | **42,961** | 58,961 |
| Guarantees and indemnities | **5,499** | 5,113 |
| Letters of credit | **484** | 2,206 |
| **Total** | **48,944** | 66,280 |
| **Total credit risk exposure** | **731,935** | 778,745 |

## 16. RISK MANAGEMENT *(continued)*

### 16.2 Credit risk *(continued)*

#### 16.2.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements *(continued)*

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

**Collateral and other credit enhancements**

The Bank maintains credit risk exposure within acceptable parameters through the use of collatera as a risk-mitigation tool. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are cash or securities, charges over real estate properties, inventory and trade receivables and mortgages over residential properties and chattels. The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 16. RISK MANAGEMENT *(continued)*

### 16.2 Credit risk *(continued)*

#### 16.2.2 Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector as detailed in the following schedules:

**(a) Geographical sectors**

The Bank's maximum credit exposure, after taking account of credit loss provisions established but before taking into account any collateral held or other credit enhancements, can be analyzed by the following geographical regions based on the country of domicile of our counterparties:

| | 2009 | 2008 |
|---|---|---|
| Grenada | **476,978** | 492,803 |
| Eastern Caribbean | **79,268** | 98,679 |
| Trinidad and Tobago | **98,740** | 118,237 |
| Barbados | **17,360** | 16,895 |
| Cayman | **81** | 87 |
| United States | **40,930** | 38,482 |
| Other Countries | **18,578** | 13,562 |
| | **731,935** | 778,745 |

## 16. RISK MANAGEMENT *(continued)*

### 16.2 Credit risk *(continued)*

#### 16.2.2 Risk concentrations of the maximum exposure to credit risk *(continued)*

**(b) Industry sectors**

The following table breaks down the Bank's maximum credit exposure as categorized by the industry sectors of our counterparties:

| | 2009 | 2008 |
|---|---|---|
| Government & Government Bodies | **115,002** | 137,762 |
| Financial sector | **111,727** | 145,518 |
| Energy and mining | **2,981** | 8,703 |
| Agriculture | **4,852** | 4,555 |
| Electricity and water | **28,651** | 23,744 |
| Transport, storage and communication | **11,750** | 13,858 |
| Distribution | **47,084** | 50,533 |
| Manufacturing | **7,766** | 12,960 |
| Construction | **14,614** | 17,812 |
| Hotel and restaurant | **52,897** | 51,981 |
| Personal | **288,393** | 267,427 |
| Other services | **46,218** | 43,892 |
| | **731,935** | 778,745 |

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

**16. RISK MANAGEMENT** *(continued)*

**16.2 Credit risk** *(continued)*

**16.2.3 Credit quality per category of financial assets**

The Bank has determined that credit risk exposure arises from the following balance sheet lines:

- Treasury bills and Statutory deposit with Central Bank
- Due from banks
- Advances
- Financial investments

*Treasury bills and Statutory deposit with Central Bank*

These funds are placed with the Eastern Caribbean Central Bank and management therefore considers the risk of default to be very low. These financial assets have therefore been rated as 'Superior'.

**Balances due from banks**

The credit quality of balances due from other banks is assessed by the Bank according to the level of creditworthiness of the institution in relation to other institutions in the region. The credit quality of these balances has been analysed into the following categories:

Superior: These institutions have been accorded the highest rating, indicating that the institution's capacity to meet its financial commitment on the obligation is extremely strong.

Desirable: These institutions have been accorded the second-highest rating, indicating that the institution's capacity to meet its financial commitment on the obligation is very strong.

Acceptable: These institutions have been accorded the third highest rating, indicating that the institution's capacity to meet its financial commitment is adequate.

**16. RISK MANAGEMENT** *(continued)*

**16.2 Credit risk** *(continued)*

**16.2.3 Credit quality per category of financial assets** *(continued)*

The table below illustrates the credit quality for balances due from banks as at September 30:

| | Superior | Desirable | Acceptable | Total |
|---|---|---|---|---|
| **2009** | **4,185** | **40,900** | **138** | **45,223** |
| 2008 | 25,075 | 59,472 | - | 84,547 |

*Loans and advances - Commercial and Corporate*

The credit quality of commercial and corporate advances is internally determined from an assessment of the counterparty based on a combination of factors. These include the level and strength of experience of management, the track record and level of supervision required for existing facilities of the company, the financial and leverage position of the borrowing company, the estimated continued profitability of the company and the ability of that company to service its debts, the stability of the industry within which the company operates and the competitive advantage held by that company in the market. The overall level of risk thus assessed is assigned a credit score which indicates the overall quality of the Commercial / Corporate borrowing account. The related scores for commercial and corporate advances that are neither past due nor impaired are defined as follows:

Superior: These counterparties have strong financial position. Facilities are well secured, and business has proven track record.

Desirable: These counterparties have good financial position. Facilities are reasonably secured and underlying business is performing well.

Acceptable: These counterparties are of average risk with a fair financial position. Business may be new or industry may be subject to more volatility, and facilities typically have lower levels of security.

Sub-standard: Past due or individually impaired

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 16. RISK MANAGEMENT *(continued)*

### 16.2 Credit risk *(continued)*

### 16.2.3 Credit quality per category of financial assets *(continued)*

*Loans and advances - Commercial and Corporate (continued)*

The table below illustrates the credit quality of commercial and corporate advances as at September 30:

| | Neither past due nor impaired | | | | |
|---|---|---|---|---|---|
| | Superior | Desirable | Acceptable | Sub-standard | Total |
| **2009** | **12,342** | **3,961** | **100,227** | **4,412** | **120,942** |
| 2008 | 11,415 | 4,804 | 106,865 | 4,297 | 127,381 |

The following is an aging of facilities classed as sub-standard:

| 2009 | | | | | |
|---|---|---|---|---|---|
| Less than 30 days | 31 to 60 days | 61 to 90 days | More than 91days | Impaired | Total |
| - | - | - | - | **4,412** | **4,412** |

| 2008 | | | | | |
|---|---|---|---|---|---|
| Less than 30 days | 31 to 60 days | 61 to 90 days | More than 91days | Impaired | Total |
| - | - | - | 1,451 | 2,846 | 4,297 |

## 16. RISK MANAGEMENT *(continued)*

### 16.2 Credit risk *(continued)*

### 16.2.3 Credit quality per category of financial assets *(continued)*

*Loans and advances - Retail loans and Mortgages*

These retail loans and mortgages are individually insignificant and are secured by the related assets for which these loans were granted to fund. The following is an aging analysis of these facilities:

| | Current | Less than 30 days | 31 to 60 days | 61 to 90 days | More than 91days | Impaired | Total |
|---|---|---|---|---|---|---|---|
| **2009** | **307,555** | **1,404** | **4,098** | **1,723** | **16,783** | **8,610** | **340,173** |

| | Current | Less than 30 days | 31 to 60 days | 61 to 90 days | More than 91days | Impaired | Total |
|---|---|---|---|---|---|---|---|
| 2008 | 280,736 | 689 | 2,302 | 1,974 | 2,564 | 5,991 | 294,256 |

*Investment Securities*

The debt securities within the Bank's investment security portfolio are exposed to credit risk. The credit quality of each individual security is internally assessed based on the financial strength, reputation and market position of the issuing company and the ability of that company to service the debt. The level of credit risk thus assessed and associated with the security is assigned a risk premium. These premiums are defined as follows:

Superior : Government and Government Guaranteed securities and securities secured by a letter of comfort from the Government. These securities are considered risk free

Desirable: Corporate securities that are current and being serviced in accordance with the terms and conditions of the underlying agreements. Issuing company has good financial strength and reputation.

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 16. RISK MANAGEMENT *(continued)*

### 16.2 Credit risk *(continued)*

#### 16.2.3 Credit quality per category of financial assets *(continued)*

*Investment Securities (continued)*

Acceptable: Corporate securities that are current and being serviced in accordance with the terms and conditions of the underlying agreements. Issuing company has fair financial strength and reputation.

Sub-standard: These securities are either greater than 90 days in arrears, display indicators of impairment or have been restructured in the last financial year.

The table below illustrates the credit quality of debt security investments as at September 30:

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Superior | Desirable | Acceptable | Sub-standard | Total |
| Financial investments | | | | | |
| - Available-for-sale | **97,520** | **16,974** | **3,305** | **4,820** | **122,619** |

| | 2008 | | | | |
|---|---|---|---|---|---|
| | Superior | Desirable | Acceptable | Sub-standard | Total |
| Financial investments | | | | | |
| - Available-for-sale | 107,264 | 14,088 | 5,502 | - | 126,854 |

#### 16.2.4 Carrying amount of financial assets renegotiated that would otherwise have been impaired.

As at 30 September, 2009, loans that have been renegotiated to prevent impairment are immaterial.

## 16. RISK MANAGEMENT *(continued)*

### 16.3 Liquidity risk

Liquidity risk is defined as the risk that the Bank either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can access these only at excessive cost.

Liquidity management is therefore primarily designed to ensure that funding requirements can be met, including the replacement of existing funds as they mature or are withdrawn, or to satisfy the demands of customers for additional borrowings. Liquidity management focuses on ensuring that the Bank has sufficient funds to meet all of its obligations.

The primary sources of funds are customer deposits. A substantial portion of the Bank is funded with "core deposits". The Bank maintains a core base of funds, which can be drawn on to meet ongoing liquidity needs. The Bank also has access to funding from Republic Bank Limited, the Parent Company for funding if required. Funding may also be accessed from the Inter-Bank Market, which can provide additional liquidity as conditions demand. The Bank continually balances the need for short term assets, which have lower yields, with the need for higher asset returns.

#### 16.3.1 Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 30 September, 2009 based on contractual undiscounted repayment obligations, over the remaining life of those liabilities. These balances include interest to be paid over the remaining life of the liabilities and will therefore be greater than the carrying amounts on the balance sheet.

| Financial liabilities on balance sheet | On demand | Up to one year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| *As at 30 September, 2009* | | | | | |
| Customers' current, savings and deposit accounts | **513,959** | **89,478** | **15,264** | **-** | **618,701** |
| Due to banks | **10,832** | **-** | **-** | **-** | **10,832** |
| Other liabilities | **-** | **3,288** | **-** | **4,027** | **7,315** |
| **Total undiscounted financial liabilities 2009** | **524,791** | **92,766** | **15,264** | **4,027** | **636,848** |

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 16. RISK MANAGEMENT *(continued)*

### 16.3 Liquidity risk *(continued)*

### 16.3.1 Analysis of financial liabilities by remaining contractual maturities *(continued)*

| Financial liabilities on balance sheet | On demand | Up to one year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| *As at 30 September, 2008* | | | | | |
| Customers' current, savings and deposit accounts | 538,439 | 11,782 | 85,372 | - | 635,593 |
| Due to banks | 15,687 | - | - | - | 15,687 |
| Other liabilities | - | 17,577 | - | - | 17,577 |
| Total undiscounted financial liabilities 2008 | 554,126 | 29,359 | 85,372 | - | 668,857 |

| Financial liabilities off balance sheet | On demand | Up to one year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **2009** | | | | | |
| | | | | - | |
| Guarantees and indemnities | **201** | **2,148** | **2,360** | **790** | **5,499** |
| Letters of credit | - | **484** | - | - | **484** |
| Total | **201** | **2,632** | **2,360** | **790** | **5,983** |
| 2008 | | | | | |
| Guarantees and indemnities | | 727 | 3,216 | 1,170 | 5,113 |
| Letters of credit | | 2,206 | - | - | 2,206 |
| Total | - | 2,933 | 3,216 | 1,170 | 7,319 |

## 16. RISK MANAGEMENT *(continued)*

### 16.3 Liquidity risk *(continued)*

### 16.3.1 Analysis of financial liabilities by remaining contractual maturities *(continued)*

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

### 16.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

### 16.4.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Bank has an Asset/Liability Committee which reviews on a monthly basis the non-credit and non-operational risk. Asset and Liability management is a vital part of the risk management process of the Bank. The mandate of the Committee is to approve strategies for the management of the non-credit risks of the Bank, including interest rate, foreign exchange, liquidity and market risks.

The primary tools currently in use are gap analysis, interest rate sensitivity analysis and exposure limits for financial instruments. The limits are defined in terms of amount, term, issuer, depositor and country. The Bank is committed to refining and defining these tools to be in line with international best practice.

An interest rate sensitivity analysis was performed to determine the impact on net profit and equity of a reasonable possible change in the interest rates prevailing as at 30 September, with all other variables held constant. The impact on net profit is the effect of changes in interest rates on the floating interest rates of financial assets and liabilities. The impact on net unrealized gains is the effect of changes in interest rates on the fair value of available-for-sale financial assets. This impact is illustrated on the following table.

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

**16. RISK MANAGEMENT** *(continued)*

**16.4 Market risk** *(continued)*

**16.4.1 Interest rate risk** *(continued)*

| | Increase/ decrease in basis points | Impact on net profit | | | |
|---|---|---|---|---|---|
| | | **2009** | | 2008 | |
| | | Increase in basis points | Decrease in basis points | Increase in basis points | Decrease in basis points |
| EC$ Instruments | +/- 25 | - | - | - | - |
| TT$ Instruments | +/- 50 | - | - | - | - |
| US$ Instruments | +/- 50 | **6** | **(6)** | 35 | - |
| BDS$ Instruments | +/- 50 | - | - | - | - |

| | Increase/ decrease in basis points | Impact on net unrealized gains | | | |
|---|---|---|---|---|---|
| | | **2009** | | 2008 | |
| | | Increase in basis points | Decrease in basis points | Increase in basis points | Decrease in basis points |
| EC$ Instruments | +/- 50 | **(496)** | **258** | 259 | - |
| TT$ Instruments | +/- 50 | **(731)** | **862** | 521 | - |
| US$ Instruments | +/- 25 | **(402)** | **421** | 718 | - |
| BDS$ Instruments | +/- 50 | **(81)** | **82** | 108 | - |

**16. RISK MANAGEMENT** *(continued)*

**16.4 Market risk** *(continued)*

**16.4.2 Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank's exposure to the effects of fluctuations in foreign currency exchange rates arises mainly from its investments. The Bank's policy is to match the initial net foreign currency investment with funding in the same currency. The Bank also monitors its foreign currency position for both overnight and intra-day transactions.

Changes in foreign exchange rates affect the Bank's earnings and equity through differences on the re-translation of the net assets. Gains or losses on related foreign currency funding are recognized in the income statement.

The functional currency of the Bank is Eastern Caribbean dollars.

The tables below indicate the currencies to which the Bank had significant exposure at 30 September on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis also calculates the effect of a reasonably possible movement of each currency rate against the Eastern Caribbean dollar, with all other variables held constant.

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

**16. RISK MANAGEMENT** *(continued)*

**16.4 Market risk** *(continued)*

**16.4.2 Currency risk** *(continued)*

| 2009 | ECD | USD | TTD | Other | Total |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | |
| Cash | 9,032 | 510 | - | 277 | 9,819 |
| Statutory deposit with | | | | | |
| Central Bank | 37,219 | - | - | - | 37,219 |
| Due from banks | 34,678 | 10,195 | 219 | 131 | 45,223 |
| Treasury bills | 5,890 | - | 16,994 | - | 22,884 |
| Advances | 427,958 | 19,139 | - | - | 447,097 |
| Investment securities | 26,834 | 46,130 | 42,161 | 7,494 | 122,619 |
| Interest receivable | 694 | 1,020 | 959 | - | 2,673 |
| **TOTAL FINANCIAL ASSETS** | 542,305 | 76,994 | 60,333 | 7,902 | 687,534 |
| **FINANCIAL LIABILITIES** | | | | | |
| Due to banks | 3,226 | 7,606 | - | - | 10,832 |
| Customers' current, savings | | | | | |
| and deposit accounts | 563,729 | 51,343 | - | 3,629 | 618,701 |
| Interest payable | 2,697 | 62 | - | - | 2,759 |
| **TOTAL FINANCIAL LIABILITIES** | 569,652 | 59,011 | - | 3,629 | 632,292 |
| **NET CURRENCY RISK EXPOSURE** | | (17,983) | (60,333) | (4,273) | (82,589) |
| Reasonably possible change | | | | | |
| in currency rate (%) | | 1% | 1% | 1% | 1% |
| Effect on profit before tax | | (180) | (603) | (43) | (826) |

**16. RISK MANAGEMENT** *(continued)*

**16.4 Market risk** *(continued)*

**16.4.2 Currency risk** *(continued)*

| 2008 | ECD | USD | TTD | Other | Total |
|---|---|---|---|---|---|
| FINANCIAL ASSETS | | | | | |
| Cash | 10,560 | 745 | - | 357 | 11,662 |
| Statutory deposit with | | | | | |
| Central Bank | 38,016 | - | - | - | 38,016 |
| Due from banks | 28,960 | 53,284 | 46 | 2,258 | 84,548 |
| Treasury bills | 38,747 | - | - | - | 38,747 |
| Advances | 393,218 | 71,873 | - | - | 465,091 |
| Investment securities | 24,843 | 19,337 | 22,773 | 7,042 | 73,995 |
| Interest receivable | 648 | 1,575 | 1,119 | - | 3,342 |
| TOTAL FINANCIAL ASSETS | 534,992 | 146,814 | 23,938 | 9,657 | 715,401 |
| FINANCIAL LIABILITIES | | | | | |
| Due to banks | 5,293 | 10,393 | - | - | 15,686 |
| Customers' current, savings | | | | | |
| and deposit accounts | 587,458 | 45,665 | - | 2,471 | 635,594 |
| Interest payable | 2,458 | 73 | - | - | 2,531 |
| TOTAL FINANCIAL LIABILITIES | 595,209 | 56,131 | - | 2,471 | 653,811 |
| NET CURRENCY RISK EXPOSURE | | 90,683 | 23,938 | 7,186 | 121,807 |
| Reasonably possible change | | | | | |
| in currency rate (%) | | 1.0% | 1.0% | 1.0% | 1% |
| Effect on profit before tax | | 907 | 239 | 72 | 1,218 |

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 16. RISK MANAGEMENT *(continued)*

### 16.5 Operational Risk

The growing sophistication of the banking industry has made the Bank's operational risk profile more complex. Operational risk is inherent to all business activities and is the potential for financial or reputational loss arising from inadequate or failed internal controls, operational processes or the systems that support them. It includes errors, omissions, disasters and deliberate acts such as fraud.

The Bank recognizes that such risk can never be entirely eliminated and manages the risk through a combination of systems and procedures to monitor and document transactions. The Bank's Parent Company's operational risk department oversees this and where appropriate, risk is transferred by the placement of adequate insurance coverage.

The Bank has developed contingency arrangements and established facilities to support operations in the event of disasters. Independent checks on operational risk issues are also undertaken by the internal audit function.

## 17. CAPITAL MANAGEMENT

The Bank's policy is to diversify its sources of capital, to allocate capital efficiently and to maintain a prudent relationship between capital resources and the risk of its underlying business. Equity increased by 2.0 million to 89.4 million during the year under review.

Capital adequacy is monitored by the Bank employing techniques based on the guidelines developed by the Basle Committee on Banking Regulations and Supervisory Practice (the Basle Committee), as implemented by the Eastern Caribbean Central Bank for supervisory purposes. The Basle risk-based capital guidelines require a minimum ratio of core capital (Tier 1) to risk-weighted assets of 4%, with a minimum total qualifying capital (Tier 2) ratio of 8%. Core capital (Tier 1) comprises mainly shareholders' equity.

| **Capital adequacy ratio** | 2009 | 2008 |
|---|---|---|
| Tier 1 capital | **17.6%** | 17.5% |
| Tier 2 capital | **18.6%** | 18.1% |

At 30 September 2009 the Bank exceeded the minimum levels required for adequately capitalized institutions.

## 18. FAIR VALUE

In accordance with International Financial Reporting Standard No. 7 "Financial Instruments: Disclosures", the Bank calculates the estimated fair value of all financial instruments at the balance sheet date and separately discloses this information where these fair values are different from net book values.

The Bank's available-for-sale investments are not actively traded in organized financial markets, and fair value is determined using discounted cash flow analysis, which requires considerable judgement in interpreting market data and developing estimates. Accordingly estimates contained herein are not necessarily indicative of the amounts that the Bank could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values. The fair value information for available-for-sale investments is based on information available to management as at the dates presented. Management is not aware of any factors that would significantly affect the estimated fair value amounts.

Financial instruments where carrying value is equal to fair value:- Due to their short-term maturity, the carrying value of certain financial instruments is assumed to approximate their fair values. These include cash and cash equivalents, investment interest receivable, customers' deposit accounts, other fund raising instruments, other assets and other liabilities. The Bank is required to maintain with the Eastern Caribbean Central Bank, statutory reserve balances in relation to deposit liabilities and the carrying value of these reserves is assumed to equal fair value.

Advances are net of specific and other provisions for impairment. The fair values of advances is based on a current yield curve appropriate for the remaining term to maturity.

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

### 18. FAIR VALUE *(continued)*

The following table summarizes the carrying values and the fair values of the Bank's financial assets and liabilities:

| | 2009 Carrying value | Fair value | Unrecognized gain/(loss) |
|---|---|---|---|
| **Financial assets** | | | |
| Cash, due from banks, treasury bills | **115,145** | **115,145** | - |
| Investment securities | **122,619** | **122,619** | - |
| Advances | **447,097** | **443,996** | **(3,101)** |
| Investment interest receivable | **2,673** | **2,673** | - |
| **Financial liabilities** | | | |
| Customers' current, savings and deposit accounts | **618,701** | **627,609** | **8,908** |
| Accrued interest payable | **2,759** | **2,759** | - |
| Other financial liabilities | **10,832** | **1,828** | **(9,004)** |
| **Total unrecognized change in unrealized fair value** | | | **(3,197)** |

| | 2008 Carrying value | Fair value | Unrecognized gain/(loss) |
|---|---|---|---|
| **Financial assets** | | | |
| Cash, due from banks, treasury bills | 172,972 | 172,972 | - |
| Investment securities | 127,109 | 127,109 | - |
| Advances | 412,555 | 414,128 | 1,573 |
| Investment interest receivable | 3,342 | 3,342 | - |
| **Financial liabilities** | | | |
| Customers' current, savings and deposit accounts | 635,593 | 635,521 | (72) |
| Accrued interest payable | 2,530 | 2,530 | - |
| **Total unrecognized change in unrealized fair value** | | | 1,501 |

### 18. FAIR VALUE *(continued)*

**Financial instruments recorded at fair value**

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, and those where the valuation techniques involve the use of non-market observable inputs. The bank had no valuation techniques where all the model inputs are observable by the market.

| | Quoted | 2009 Non-market observable valuation techniques | Total |
|---|---|---|---|
| **Financial assets** | | | |
| Financial investments -available-for-sale | **27,643** | **94,976** | **122,619** |
| | **27,643** | **94,976** | **122,619** |
| **Financial liabilities** | | | |
| Customers' current, savings and deposit accounts | - | **618,701** | **618,701** |
| | - | **618,701** | **618,701** |

| | Quoted | 2008 Non-market observable valuation techniques | Total |
|---|---|---|---|
| **Financial assets** | | | |
| Financial investments -available-for-sale | 29,794 | 97,060 | 126,854 |
| | 29,794 | 97,060 | 126,854 |
| **Financial liabilities** | | | |
| Customers' current, savings and deposit accounts | - | 635,593 | 635,593 |
| | - | 635,593 | 635,593 |

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 19. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below analyses the assets and liabilities of the Bank based on the remaining period at 30 September to the contractual maturity date. See Note 16.3 - "Liquidity risk" - for an analysis of the financial liabilities based on contractual undiscounted repayment obligations.

| | Up to one year | One years to five | Over five years | Total |
|---|---|---|---|---|
| **2009** | | | | |
| **ASSETS** | | | | |
| Cash, due from banks, treasury bills | 77,926 | - | - | 77,926 |
| Statutory deposit with Central Bank | 37,219 | - | - | 37,219 |
| Advances | 52,843 | 74,772 | 319,482 | 447,097 |
| Investment securities | 29,053 | 40,867 | 52,699 | 122,619 |
| Other assets | 4,088 | - | 44,041 | 48,129 |
| | 201,129 | 115,639 | 416,222 | 732,990 |
| **LIABILITIES** | | | | |
| Due to banks | 10,832 | - | - | 10,832 |
| Customers' current, savings and deposit accounts | 513,960 | 104,741 | - | 618,701 |
| Other liabilities | 7,217 | - | 6,884 | 14,101 |
| | 532,009 | 104,741 | 6,884 | 643,634 |

## 19. MATURITY ANALYSIS OF ASSETS AND LIABILITIES *(continued)*

| | Up to one year | One years to five | Over five years | Total |
|---|---|---|---|---|
| 2008 | | | | |
| **ASSETS** | | | | |
| Cash due from banks, treasury bills | 134,956 | - | - | 134,956 |
| Statutory deposit with Central Bank | 38,016 | - | - | 38,016 |
| Advances | 49,048 | 72,480 | 291,027 | 412,555 |
| Investment securities | 25,790 | 46,257 | 54,807 | 126,854 |
| Other assets | 6,283 | 107 | 43,520 | 49,910 |
| | **254,093** | **118,844** | **389,354** | **762,291** |
| **LIABILITIES** | | | | |
| Due to banks | 15,687 | - | - | 15,687 |
| Customers' current, savings and deposit accounts | 551,135 | 84,458 | - | 635,593 |
| Other liabilities | 21,168 | - | 2,541 | 23,709 |
| | **587,990** | **84,458** | **2,541** | **674,989** |

## 20. DIVIDENDS PAID AND PROPOSED

| | 2009 | 2008 |
|---|---|---|
| **Declared and paid during the year** | | |
| Equity dividends on ordinary shares: | | |
| Final dividend for 2008: $3.75 (2007: $3.65) | **5,625** | 5,475 |
| First dividend for 2009: $0.75 (2008: $0.75) | **1,125** | 1,125 |
| **Total dividends paid** | **6,750** | 6,600 |
| **Proposed for approval at Annual General meeting** | | |
| **(not recognized as a liability as at 30 September)** | | |
| Equity dividends on ordinary shares: | | |
| Final dividend for 2009: $2.00 (2008: $3.75) | **3,000** | 5,625 |

Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

## 21. CONTINGENT LIABILITIES

### a) Litigation

As at 30 September, 2009 there were certain legal proceedings outstanding against the Bank. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise or that it would be premature at this stage of the action to determine that eventuality.

### b) Customers' liability under acceptances, guarantees, indemnities and letters of credit

| | 2009 | 2008 |
|---|---|---|
| Guarantees and indemnities | **5,499** | 5,113 |
| Letters of credit | **484** | 2,206 |
| | **5,983** | 7,319 |

### c) Sectoral information

| | 2009 | 2008 |
|---|---|---|
| Corporate and commercial | **5,884** | 7,292 |
| Personal | **99** | 27 |
| | **5,983** | 7,319 |