annual report 2014

THE POWER OF one

Republic Bank (Grenada) Limited

At Republic Bank, we understand that a successful financial institution is like a well-oiled machine, effectively functioning through a carefully coordinated system. Within our banking halls, day to day, the positive energy of our committed staff drives our efficient service delivery. That energy, sound policies and a forward focus all work in tandem, ensuring that we give only our best to our fellow staff, our customers and our stakeholders. They are the ones for whom we have made it our mission to provide personalised, up-to-date and competitively-priced financial services. Together, they create the force that drives our will to succeed. As we add another chapter to our 178 year-long history, we will persevere in our focus, keeping a close eye on the needs of our publics as we build successful societies, from within our walls to our communities and our region

THE POWER OF

VISION

Republic Bank,
the Caribbean Financial Institution of Choice
for our Staff, Customers and Shareholders.
We set the Standard of Excellence
in Customer Satisfaction,
Employee Engagement, Social Responsibility
and Shareholder Value,
while building successful societies.

MISSION

Our mission is to provide Personalised,
Efficient and Competitively-priced
Financial Services
and to implement Sound Policies
which will redound to the benefit
of our Customers, Staff, Shareholders
and the Communities we serve.

VALUES

Customer Focus,
Integrity,
Respect for the Individual,
Professionalism and
Results Orientation.

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Notice of Meeting

ANNUAL MEETING

NOTICE is hereby given that the thirty-first Annual Meeting of Republic Bank (Grenada) Limited will be held at the St. Andrew's Conference Room, Spice Island Beach Resort, Grand Anse, St. George, Grenada on Thursday December 11, 2014 at 10:30 a.m. for the following purposes:

1. To receive the Audited Financial Statements of the Company, for the year ended September 30, 2014 and the Reports of the Directors and Auditors thereon.
2. To elect Directors
3. To re-appoint Ernst & Young as Auditors, and to authorise the Directors to fix their remuneration.
4. Any other business.

By order of the Board

JANELLE BERNARD
Corporate Secretary

November 11, 2014

NOTES

PERSONS ENTITLED TO NOTICE

Pursuant to sections 108 and 110 of the Companies Act 1994 of the Laws of Grenada, the Directors of the Company have fixed November 11, 2014 as the Record Date for the determination of Shareholders entitled to receive notice of the Annual Meeting. Only shareholders on record at the close of business on November 11, 2014 are therefore entitled to receive notice of the Annual Meeting. A list of such shareholders will be available for examination by shareholders at the Registered Office of the Company during usual business hours.

PROXIES

Shareholders of the Company entitled to attend and vote at the Meeting are entitled to appoint one or more proxies to attend, and in a poll, vote instead of them. A proxy need not be a shareholder. Any instrument appointing a proxy must be received at the Registered Office not less than 48 hours before the Meeting. Shareholders who return completed proxy forms are not precluded, if subsequently they so wish, from attending the Meeting instead of their proxies and voting in person. In the event of a poll, their proxy vote lodged with the Registered Office will be excluded.

DIVIDEND

No dividend has been declared for 2014.

DOCUMENTS AVAILABLE FOR INSPECTION

No service contracts were granted by the Company to any Director or Proposed Director of the Company.

Corporate Information

DIRECTORS

Chairman
RONALD F. deC. HARFORD, *CMT, FCIB, FIBAF, FCABFI, LLD*

Managing Director
KEITH A. JOHNSON, *BSc (Accountancy), MBA, AICB*

Non-Executive Directors
MARGARET A. BLACKBURN-STEELE, *LLB (Hons.)*

LEON D. CHARLES, *BSc (Agri. Mgmt.), MBA, Acc. Dir.*

DERWIN M. HOWELL, *BSc (Elec. Eng.) (Hons.), MSc (Tele Systems), Executive MBA, MIET, MIEEE, C. Eng*.

NIGEL A. JOHN, *BSc (Civil Eng.), Cert. Proj. Mgmt., Acc. Dir.*

DENIS F. PAUL, *PhD (Chemistry)*

ISABELLE S.V. SLINGER, *BSc (Info. Systems and Computers), CA*

GRAHAM K. WILLIAMS , *BA (Econ.)*

KAREN YIP CHUCK, *Dip. (Business Admin.), ACIB, BSc (Econ.) (Hons.), MBA, Certified Internal Auditor (CIA)*

CORPORATE SECRETARY

JANELLE BERNARD, *LLB (Hons.), LEC, MBA*

REGISTERED OFFICE

Republic House
Maurice Bishop Highway
Grand Anse
St. George
Grenada, West Indies

REGISTRAR

Eastern Caribbean Central Securities Registry
P.O. Box 94
Bird Rock
Basseterre
St. Kitts, West Indies

ATTORNEYS-AT-LAW

Renwick & Payne
Church Street
St. George's
Grenada, West Indies

Henry Hudson-Phillips & Co.
Young Street
St. George's
Grenada, West Indies

AUDITORS

Ernst & Young
Worthing Main Road
Christ Church
Barbados, West Indies

Bank Profile

HEAD OFFICE

REPUBLIC HOUSE
Maurice Bishop Highway,
Grand Anse, St. George
Grenada, West Indies
Telephone: (473) 444-BANK (2265)
Fax: (473) 444-5501
Swift: NCBGGDGD
E-mail: info@republicgrenada.com
Website: www.republicgrenada.com

EXECUTIVE MANAGEMENT

Managing Director
KEITH A. JOHNSON, *BSc (Accountancy), MBA, AICB*

General Manager, Credit
NAOMI E. DE ALLIE, *BSc (Fin. Ser. Mgmt.), ACIB*

General Manager, Operations
DONNA L. Y. LANDER, *MBA (HR Mgmt.), FICB*

MANAGEMENT

Manager, Commercial Credit
VALENTINE S. ANTOINE, *BSc (Mgmt. Studies) ACIB, MBA (Finance)*

Manager, Compliance
MAVIS Mc BURNIE, *Exec. Dip. (Gen. Mgmt), AMLCA, AICB*

Manager, Head Office
CLIFFORD D. BAILEY, *BSc (Computing and Info. Systems), MSc (IT and Mgmt.)*

Manager, Business Support Services
HERMILYN E. M. CHARLES

Manager, Human Resources, Training and Development
Mc KIE J. GRIFFITH, *BSc (Mgmt.)*

Manager, Finance
ELIZABETH M. RICHARDS-DANIEL, *FCCA (Msc Financial Services)*

Manager, Information Technology Management Department
DORIAN L. Mc PHAIL

OTHER BANKING OFFICES

REPUBLIC HOUSE CLUSTER
REPUBLIC HOUSE
Maurice Bishop Highway,
Grand Anse, St. George
Telephone: (473) 444-BANK (2265)
Fax: (473) 444-5500/5501

Manager, Retail Services
ALTHEA R. ROBERTS, *AICB*

CARRIACOU
Main Street, Hillsborough
Telephone: (473) 443-7289
Fax: (473) 443-7860

Officer-in-Charge
ROGER J. PATRICE

ST. GEORGE'S CLUSTER
ST. GEORGE'S
Melville Street, St. George's
Telephone: (473) 440-3566
Fax: (473) 440-6698
Fax – Credit: (473) 440-6697

Manager, Retail Services
GARNET K. ROSS

GOUYAVE
Depradine Street
Gouyave, St. John
Telephone: (473)-444-8888
Fax: (473)-444-8899

Operations Officer
EDMOND CALLISTE, *AICB*

GRENVILLE CLUSTER
GRENVILLE
Victoria Street
Grenville, St. Andrew
Telephone: (473) 442-7618
Fax: (473) 442-8877

Manager, Retail Services
DEVON M. THORNHILL

SAUTEURS
Main Street
Sauteurs, St. Patrick
Telephone: (473) 442-1045
Fax: (473) 442-1042

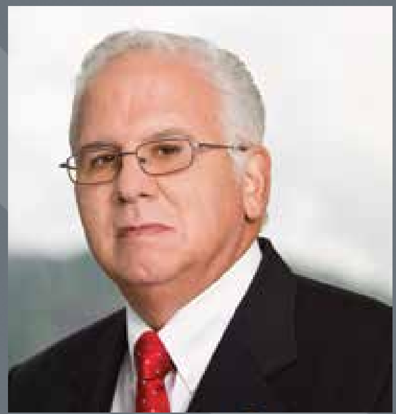
Officer in Charge
TARRA A. FRANCIS, *BSc (Mgmt. Studies) (Hons.)*

Financial Summary

All figures are in thousands of Eastern Caribbean dollars ($'000)

	2014	Restated 2013	Restated 2012	2011	2010	2009
Total assets	**808,224**	741,483	716,916	707,895	749,331	732,990
Customer Deposits	**684,097**	624,141	596,167	597,055	620,471	618,701
Advances	**476,286**	492,276	496,520	497,173	472,974	447,097
Stated Capital	**15,000**	15,000	15,000	15,000	15,000	15,000
Shareholders' Equity	**91,525**	93,100	97,134	91,762	95,789	89,356
Number of shares	**1,500**	1,500	1,500	1,500	1,500	1,500
Profit after taxation	**71**	(5,933)	7,794	1,896	9,283	8,679
Dividends based on results for the year	**–**	–	3,525	1,350	4,125	4,125
Dividends paid during the year	**–**	2,550	1,350	3,975	4,125	4,125
Earnings per share	**$0.05**	(3.96)	5.20	1.26	6.19	5.79

Board of Directors



RONALD F. deC. HARFORD

CMT, FCIB, FIBAF, FCABFI, LLD

Chairman,
Republic Bank Limited

KEITH A. JOHNSON

BSc (Accountancy), MBA, AICB

Managing Director,
Republic Bank (Grenada)
Limited

DERWIN M. HOWELL

*BSc (Elec. Eng.) (Hons.), MSc (Tele Systems),
Executive MBA, MIET, MIEEE, C. Eng.*

Executive Director,
Republic Bank Limited

MARGARET A. BLACKBURN-STEELE

LLB (Hons.)

Senior Partner,
Renwick and Payne,
Attorneys-at-Law

LEON D. CHARLES

BSc (Agri. Mgmt.), MBA, Acc. Dir.

Chief Executive Officer,
Charles and Associates Inc.

NIGEL A. JOHN

*BSc (Civil Eng.),
Cert. Proj. Mgmt., Acc. Dir.*

Consulting Engineer,

DR DENIS F. PAUL

PhD

Vice Provost,
Institutional
Advancement,
St. George's University

ISABELLE S. V. SLINGER

BSc (Info. Systems and Computers), CA

Managing Director,
Comserv Limited

GRAHAM K. WILLIAMS

BA (Econ.)

Managing Director/
Chairman,
Westerhall Estate
Limited

KAREN YIP CHUCK

*Dip. (Business Admin.), ACIB,
BSc (Econ.) (Hons.), MBA,
Certified Internal Auditor (CIA)*

General Manager,
Wealth
Management
Republic Bank Limited

Directors' Report

Your Directors have pleasure in submitting their Report for the year ended September 30, 2014.

FINANCIAL RESULTS AND DIVIDENDS

The Directors report that the Bank has recorded a profit after taxation of $0.071 million for the year ended September 30, 2014. The Directors have not declared a dividend for the year (2013: $0.00)

SUBSTANTIAL INTEREST IN SHARE CAPITAL AS AT SEPTEMBER 30, 2014.

	Ordinary Shares
Republic Bank Limited	764,700

A substantial interest is a holding of five percent or more of the issued share capital of the Bank.

DIRECTORS

In accordance with By-Law No.1, Paragraph 4.3.1., Denis F. Paul retires from the Board by rotation and, being eligible, offers himself for re-election for a term expiring at the close of the first annual meeting following this appointment.

DIRECTORS' INTEREST

Set out are the names of the Directors with an interest in the company at September 30, 2014 together with particulars of their holdings.

Director	Beneficial Interest	Non-Beneficial Interest
Margaret A. Blackburn-Steele	170	Nil
Leon D. Charles	200	Nil
Ronald F. deC. Harford	Nil	50
Derwin M. Howell	Nil	50
Nigel A. John	Nil	50
Keith A. Johnson	50	Nil
Denis F. Paul	Nil	50
Isabelle S. V. Slinger	Nil	50
Graham K. Williams	Nil	50
Karen Yip Chuck	Nil	50

AUDITORS

The retiring Auditors Ernst & Young have expressed their willingness to be re-appointed, and a resolution to that effect will be proposed at the Annual Meeting.

By order of the Board

JANELLE BERNARD
Corporate Secretary

Chairman's Review

RONALD F. deC. HARFORD

For the year ended September 30, 2014, the Bank recorded a profit after tax of $0.1 million, after accounting for further impairment expenses of $3.4 million on Government of Grenada debt (2013: $5.9 million loss after tax). Performance was also affected by an increase in other loan impairment expense of $4.1 million. Based on these results, the Bank has not declared a dividend for the year (2013: $0.00).

THE GLOBAL ECONOMY

Early indicators that the global economy would experience a solid rebound in 2014 were reversed by fragile economic recoveries. Despite varying levels of growth among its members, much of global growth continues to be driven by developed countries, which are collectively forecasted to expand by 1.8% in 2014. Developing countries are expected to grow by 4.4% this year. The International Monetary Fund's (IMF) forecasts that the world economy will expand by 3.3% this year and 3.8% in 2015, both downward revisions from April's forecasts.

Even these forecasts are likely to prove somewhat optimistic, with global growth likely to continue underperforming through to the medium term. Further, new geo-political developments such as the rise of the Islamic State militants and the spread of the Ebola virus, if not checked, could contribute to much smaller growth in 2015.

THE REGIONAL ECONOMY

According to the IMF the Caribbean economy is estimated to expand by 3.8% in 2014, marginally better than the 3.2% growth recorded in the previous year. Within the Organisation of Eastern Caribbean States economic activity improved slightly and is projected to expand by 0.9% in 2014, compared to 0.6% a year earlier. During the year, commodity exporters had to contend with lower prices. At the same time, improved economic conditions in major source markets sustained the recovery of the regional tourism industry. Most destinations in the region experienced increased stay-over arrivals in 2014. The region also benefitted from increased inward financial flows during the year, with the World Bank indicating that remittances to Latin America and the Caribbean are expected to increase by 5% in 2014, while preliminary evidence suggests that inward foreign direct investment to the Caribbean will also increase.

A number of Caribbean states continue to struggle with unsustainable fiscal accounts, with public debt close to or in excess of 100% of GDP. Added to this, are the pressures applied by expanding fiscal deficits caused by high expenditure and weak revenue flows in the context of anaemic, though improving, global demand. In response, several nations have been forced to streamline their finances and take steps to restructure their economies, with guidance being provided by the IMF and other multilateral agencies. Currently, Grenada is seeking to restructure its debt and Barbados is taking corrective action under the guidance of the IMF.

The Caribbean economy is expected to expand by a further 3.3% in 2015, driven by increased tourism demand. The decision by the UK government to reduce the Air Passenger Duty is expected to boost arrivals from that country. Improved global economic conditions are also projected to boost global FDI flows. There are several downside risks to this forecast, namely, vulnerability to weather-related disasters; a possible reversal of global growth trends; and the Ebola virus outbreak. Finally, unstable fiscal accounts and the associated need to walk a financial tightrope are expected to be a major weight on regional growth.

GRENADA

Considering the difficult economic and fiscal conditions facing Grenada, its 2013 performance was encouraging. Despite weak performances by most key sectors, the economy grew by an estimated 1.5%, driven largely by some US$80 million of work undertaken on the Sandals Resort International during the year, as well as increased enrolment at the St. George's University. Nonetheless, the unemployment rate was estimated at 33.5%, with the ensuing weak consumer demand tempering consumer price increases in 2013. Financial sector indicators remained weak. For the first nine months (Oct. 2013 - Jun. 2014) of the review period, commercial bank deposits increased by 4.8%, while loans contracted by 4.1%.

Grenada's debt to GDP ratio stood at 109.8% at the end of 2013. While its primary balance for that fiscal year was estimated to be -3.7%, the overall fiscal balance climbed to -7.1% when interest payments are included. In an attempt to improve the country's fiscal position, the administration put forward a number of measures which formed part of its proposed 'home-grown' three-year structural adjustment programme. Some of the measures, such as a 70% attrition policy throughout the public service, a wider tax net, more aggressive tax collection and increased property taxes, formed part of the EC$934 million 2014 Budget.

In the absence of recent data, developments thus far in 2014 can be characterised as hopeful. In agriculture, the cocoa sub-sector continued to benefit from government's farm support programme and would no doubt have received a fillip with the launch of the Diamond Chocolate Factory in March. Stay-over visitor arrivals declined by 5.5% in the first quarter compared to the same 2013 period. However, the second quarter performance was much better than last year's, with arrivals registering an 18.6% increase. Also, reports indicate that some of the new tax measures contributed to increasing receipts for the first nine months of the year.

In June, Grenada secured an extended credit facility arrangement with the IMF. The three-year programme will see US$21.7 million disbursed to the authorities in tranches, once performance criteria are met. At the same time, the government is seeking to resolve its almost two year-old default on US$193 million of bonds, and has been meeting regularly with its creditors.

Grenada's outlook for the next six months to March 2015 remains tentative. The tourism and agriculture sectors are expected to improve steadily, with several agriculture sub-sectors benefitting from favourable weather conditions. Unemployment will, however, remain high and consumer demand low. The economy is expected to expand by 1.1% in 2014. Having secured IMF support, it remains to be seen if the government will receive the additional financial support on which it appears to be banking on. The current status of the debt restructure could see local creditors, including the National Insurance Scheme, suffer a haircut. This is a contentious matter and could threaten the tenuous spirit of tolerance and sacrifice the authorities have been able to foster with the public and several groups over the last year.

Recent announcements related to major construction in the hotel and marine sectors are welcome news, and implementation is anxiously awaited.

Our Bank remains strong, with increased market share, and is positioned to take advantage of the economic turn-around when it occurs.

I wish to thank the management and staff for their dedication and commitment; our customers and shareholders for their loyalty and support; and my fellow directors for their continued guidance and wise counsel.

Grenada's outlook for the next six months to March 2015 remains tentative. The tourism and agriculture sectors are expected to improve steadily, with several agriculture sub-sectors benefitting from favourable weather conditions. Unemployment will, however, remain high and consumer demand low. The economy is expected to expand by 1.1% in 2014.

Managing Director's Discussion and Analysis

KEITH A. JOHNSON

INTRODUCTION

Republic Bank (Grenada) Limited was incorporated on October 12, 1979. The Bank is a subsidiary of Republic Bank Limited and a member of the Republic Group. The Bank is well represented in Grenada with six branches dispersed across the tri-island state.

The Bank maintains the leading market share position in Grenada for loans, deposits and total assets. The products and services offered have inherent flexibility and are specifically structured to satisfy the banking requirements of its many valued customers.

The following is a discussion and analysis of the financial condition and results of the Bank. This discussion should be read in conjunction with the audited financial statements contained on pages 30 to 78 of this report. All amounts are stated in Eastern Caribbean Currency.

Foreign currency balances have been converted to EC dollars at the prevailing mid-rate on September 30, for each financial year. The following are the mid-rates for the major currencies as at September 30:

	2014	2013
United States Dollars	**2.70**	2.70
Canadian Dollars	**2.4164**	2.6203
Pounds Sterling	**4.3738**	4.3617
Euro	**3.4018**	3.6362
TT Dollars	**0.4305**	0.4277

THE OPERATING ENVIRONMENT

The operating environment for the reporting period continued to be challenging, characterised by declining loan demand, high excess liquidity, and growing loan default. The Grenadian economy is slowly recovering after a long period of negative growth, with support from the IMF under the Extended Credit facility of US$21.7 million over three years.

The economy continues to face significant unemployment challenges with an unemployment rate estimated to be 33.5%.

While the Bank has improved on its 2013 financial performance, profitability has again been impacted by the Government's debt restructuring plan. Market conditions are reflected in the Bank's performance, with the loans portfolio declining, non-performing loan increasing, and deposits growing, fuelled by the closure of the branches of two other commercial banks.

Summary of Republic Bank (Grenada) Limited Operations

All figures are in EC$ Millions

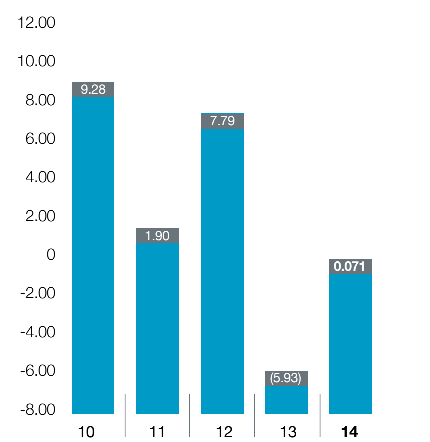
	2014	2013	Change	% Change
Profitability				
Core profit/(loss) before taxation and provisioning	**7.7**	(4.0)	11.7	292.5
Provision for loan losses	**7.2**	1.7	5.5	323.5
Profit/(loss) before taxation	**0.5**	(5.7)	6.2	108.8
Profit/(loss) after taxation	**0.1**	(5.9)	6.0	101.7
Balance Sheet				
Total assets	**808.2**	741.5	66.7	9.0
Total advances	**476.3**	492.3	(16.0)	(3.3)
Total deposits	**684.1**	624.1	60.0	9.6
Shareholders' equity	**91.5**	93.1	(1.6)	(1.7)

STATEMENT OF INCOME REVIEW

Financial Summary

The Bank recorded a profit after tax of $0.1 million for 2014, which is an improvement over the $5.9 million loss reported in 2013. This was primarily the result of the non-recurrence of impairment losses of $10.1 million on Government of Grenada bonds. This was off-set by a significant rise in loan loss provisioning, inclusive of $3.1 million on loans to the Government of Grenada.

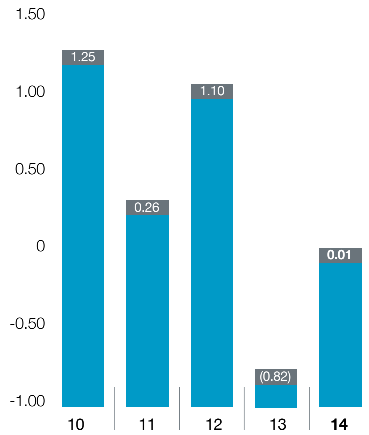
Profit /(Loss) After Tax ($ Millions)



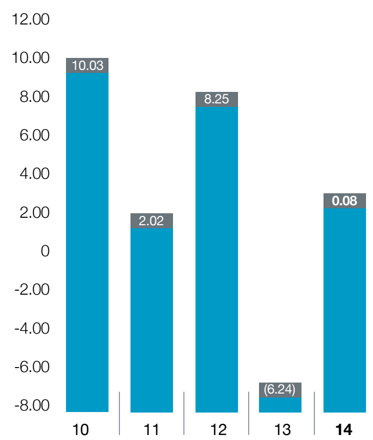
Managing Director's Discussion and Analysis

The Bank's return on average total assets and return on average equity increased in line with profits.

Return on Average Assets (%)



Return on Average Equity (%)



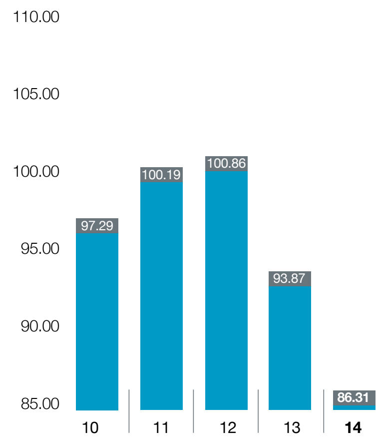
Net Interest and Other Income

Net interest income fell by 2.83% or $0.847 million to $29.1 million (2013: $29.96 million). The loan portfolio, net of provisions, decreased by 3.3% or $16.0 to $476.3 million (2013: $492.3 million). This overall decrease in portfolio, the growth in the non-performing segment, and the Government's restructuring plan, combined to produce the reduction in interest income on loans, which decreased by 1.62% or $0.634 million.

Interest on investments fell by $0.410 million or 9.85%, even though the portfolio grew. Additions to the portfolio were mostly achieved towards the end of the period, and were at much lower yields than the average. The reinvestment of high yielding Investments, as they matured, into lower yielding instruments also affected overall return.

Interest cost reduced by 1.72%, in contrast to a 9.6% increase in the deposits portfolio, as the Bank carefully managed its liabilities. The ratio of average interest earning assets to average customer deposits reduced to 86.31% as the bank was faced with a declining loan portfolio and growing deposits.

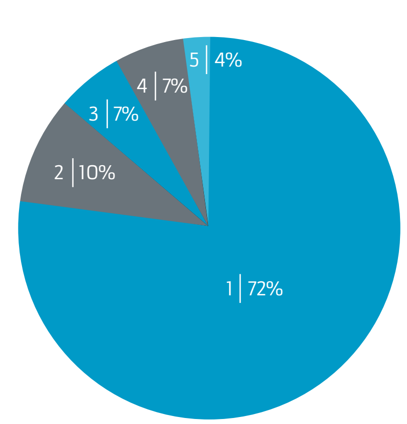
Interest Earnings Assets to Deposits (%)



Other income of $11.2 million in 2014 was $1.6 million or 16.4% higher than the 2013 earnings of $9.6 million. This was primarily due to the one-off gain of $1 million on the sale of Visa shares.

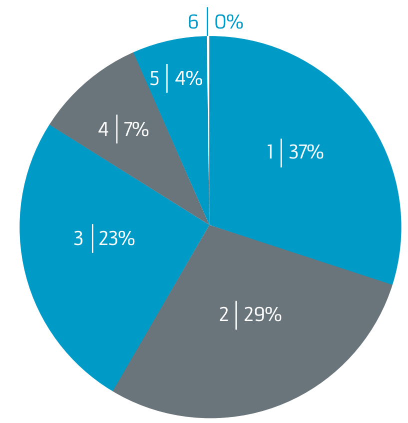
Operating expenses reduced by 25% or $10.9 million to $32.7 million (2013: $43.6 million). This was primarily as a result of the impairment expense of $10.1 million recorded on the Government of Grenada bonds in 2013.

Sources of Revenue (%)



1 | Advances
2 | Fees and Commissions
3 | Investment Securities
4 | Exchange Earnings
5 | Other Income

Revenue Distribution (%)



1 | Staff Cost
2 | Interest Expense
3 | General Administration Expense
4 | Depreciation
5 | Other Expense
6 | Impairment Expense

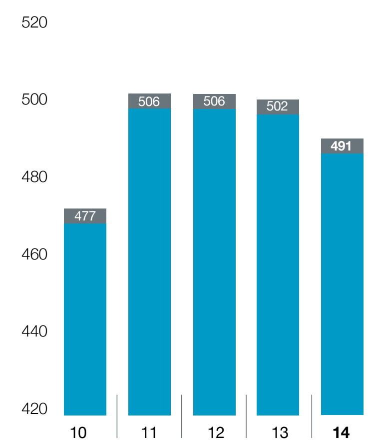
Balance Sheet Review

In 2014 total assets increased by 9% or $66.7 million to $808.2 million (2013: $741.5 million). The gross loans portfolio decreased by $11 million or 2.19% to $491 million (2013: $502 million) an indication of the economic challenges faced during the year and a reflection of the market which recorded a decrease of 4.1% in the nine months to June 2014.

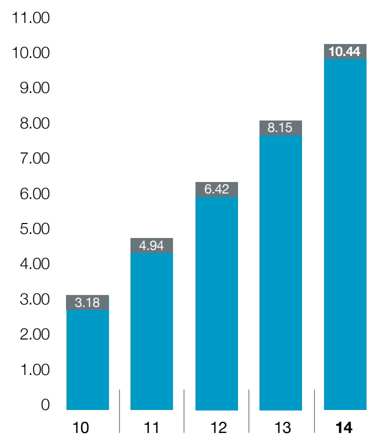
Investments increased by 26.9% or $23.6 million, primarily due to investments from international markets added to the Bank's investment portfolio.

The Bank's continued efforts at maintaining quality in its loans portfolio was impacted by the economy and Government's debt restructuring plan. This resulted in an increase in the ratio of non-performing loans to gross loans, from 8.15% in 2013 to 10.44% at the end of fiscal 2014. The ECCB's benchmark for this ratio is 5%. It should be noted though, that, while the Bank's ratio is increasing, it is still comparatively better than the market average of over 14% as at June 2014. The bank continues to focus efforts on returning to pre-2011 levels over the next few years, taking account of the economic forecast for Grenada.

Gross Loans and Advances ($ Millions)

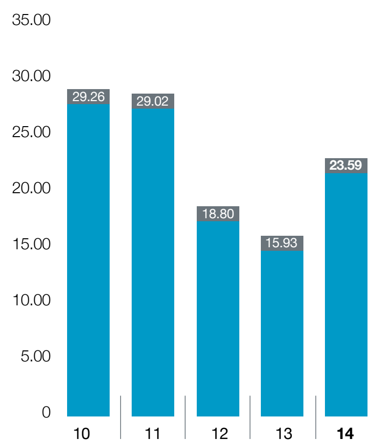


Non-Performing Loans to Gross Loans (%)



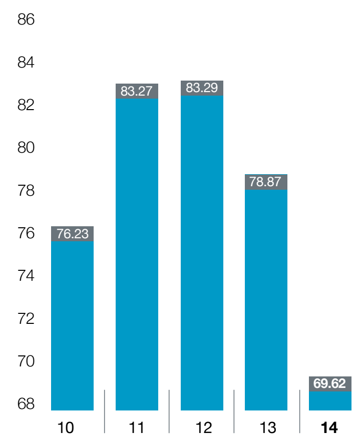
The ratio of specific provision for loan losses to non-performing loans moved from 15.9% in 2013 to 23.6% in 2014 reflecting a more conservative approach, despite the strong quality of the Bank's collateral.

Specific Provisions to Non-Performing Loans (%)



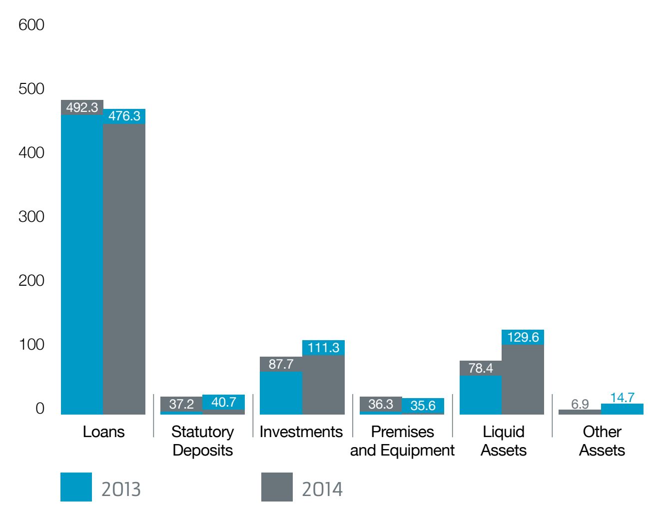
The Loans to deposits ratio reduced to 69.62% (2013: 78.87%) reflecting weak loan demand, compounded by the growth in deposits.

Loans to Deposits (%)



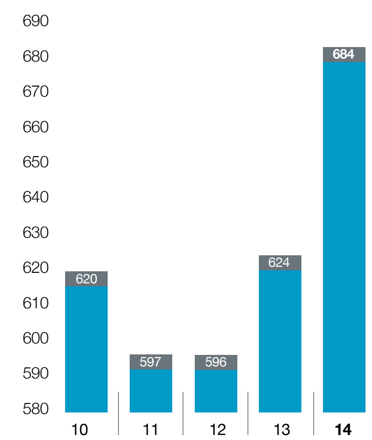
Between 2013 and 2014, the composition of assets changed markedly in the categories of Liquid Assets and Investments. Total assets increased by $66.7 million or 9%, the main contributor being liquid assets which grew by $51.2 million or 49.1%, fuelled mainly by the $60 million growth in deposits, due in part, to the closure of the branches of two other commercial banks. Investments grew by $23.6 million or 26.9%.

Composition of Assets ($ Millions)



Customer deposits increased by $60 million or 9.6% to $684.1 million compared to $624.1 million in 2013. Deposit growth in the market was more subdued, increasing by 4.8% from September 2013 to June 2014.

Customer Deposits ($ Millions)



MANAGEMENT OF RISK

Overview

The Bank's prudent banking practices are based on solid risk management. Utilising the resources of Republic Bank Limited, our parent company, we keep abreast of our dynamic environment and manage continually evolving risks as our business activities change in response to market, credit, product and other developments. The Bank manages a variety of risks in the ordinary course of business. Our approach to each of the major specific risks is listed in the notes to the accounts.

Capital Structure

The Bank's policy is to maintain a prudent relationship between capital resources and the risks of its underlying business. Shareholders' equity stood at $91.5 million at the end of the year under review.

The Bank's dividend policy is to distribute 40% to 50% of its net earnings to shareholders. Based on the results for 2014, no dividend has been declared.

Capital adequacy is monitored by 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 risk-based capital guidelines require a minimum of core capital (Tier 1) to risk-weighted assets of 4%, with a minimum total qualifying capital (Tier 2) to risk-weighted assets of 8%.

At September 30, 2014, the Bank exceeded the minimum levels required with Tier 1 capital to risk-weighted assets of 14.37% and total qualifying capital to risk-weighted assets of 15.65%. These ratios exceed the prudential guidelines, as well as the Bank's internal benchmark of 12%.

Corporate Social Responsibility

Ten (10) years ago, we embarked on a journey, through our Power to Make a Difference programme, to empower the nation's youth, elderly and socially disadvantaged through education, culture and sport, and to improve the overall quality of life for these persons. This year our major project provided renovations to the roof and other upgrades at the Mechanical Engineering Wing at T.A. Marryshow Community College. This has greatly impacted the quality of learning and learning resources available to students enrolled in Fabrication Engineering Technology (including Machine Shop and Welding), Automotive Service Technology, Auto-Collision Repair Technology and Plumbing Technology. It has also enhanced the College's ability to effectively support, manage and supervise students registered in the several Technology disciplines.

The Grenada National Museum project which involves structural enhancements to the Amerindian Heritage and the European Invasion display rooms is one that we are very proud of. The Amerindian heritage room displays collections on the history and culture of the Amerindian peoples who occupied Grenada before the arrival of Europeans, while the European Invasion room will house displays on the arrival of Europeans in the Americas and document the struggles between the Amerindians and the Europeans in Grenada. The way the artefacts are now being displayed allows for easier learning for students as well as tourists about our history and culture.

As we work within their communities we believe that our projects create immense opportunities for youth development, sowing the seeds of hope that would bear the fruits in successful well-balanced individuals making positive and effective contributions to the society. This commitment to our corporate social responsibility is also manifested in our scholarship and bursary programmes, enabling studies at the University of the West Indies. Our sponsorship of the annual Republic Bank RightStart Cup Youth Football tournament for Secondary Schools is the premiere and only one of its kind in our nation. Ongoing sponsorship of the Republic Bank Angel Harps Steel Orchestra is a tremendously effective way of keeping our culture alive as well as provides the youth with the opportunity for camaraderie and self-expression. Our annual commitment to thirteen charitable organisations gives these charities the support they so desperately need to continue their valuable work with the marginalised in our communities. These and other initiatives, make indelible marks on the social landscape in which we operate.

The ECCB continues to recognise the Bank for its outstanding contributions in the area of Corporate Social Responsibility, and in November 2013, we received their overall 'Best Corporate

Managing Director's Discussion and Analysis

Citizen' award for the sixth occasion since inception sixteen (16) years ago. The competition is open to the forty (40) commercial banks operating in the ECCU. Our recurrent success underscores the Bank's tremendous and consistent contribution to the society. This year we received individual Good Corporate Citizen awards for 'Customer Service', 'Sports' and 'Environmental Awareness'.

Customer Service

Customer service delivery of a superior quality is the standard the Bank has set over the years and strives to maintain on a consistent basis. We achieve this through continuous staff education, training and process improvement. The launch of our new website is one tool that has enhanced our ability to do so, with easier navigation and the addition of a Customer Care link. Additionally, all our ATMs island wide have been upgraded to facilitate advertisement of our products, again making information easily accessible to all.

In our recently conducted annual customer service survey, our scores indicate noteworthy improvement in overall customer service delivery. The assessment also revealed that customers are generally satisfied with Republic Bank's Customer Care. Our stronger areas are Accuracy, Courtesy, Care and Consideration, as well as Professionalism. Results of our business survey were also heartening.

Outlook

The immediate future shows signs of marginal improvement, as Grenada's economy is expected to grow by 1.1% in 2014 with slow economic improvements towards the latter half of 2014. Inflation is expected to remain low at 1.6%, while the island's debt-to-GDP ratio is likely to end the year at 111.3%. Progress over the next twelve months will depend on the sustainability of the economic recovery with the assistance of the International Monetary Fund support programme.

We await the effects of the government's official restructuring plan and the International Monetary Fund Support Programme, as focus is placed on Grenada's economic restoration, fiscal sustainability and securing financial stability.

Meanwhile, we continue to focus on our core operations, including Business Continuity readiness, and prepare for the roll-out to Grenada of the ECCB's Automated Clearing House. The introduction of the Foreign Account Tax Compliance Act (FATCA) earlier this year, and ongoing AML issues will also be areas of focus, as the Bank seeks to be in compliance with all legal requirements.

Appreciation

We wish to acknowledge and thank the staff for their continued support, dedication, and commitment. We also express gratitude to the Chairman and Directors of the Board for their ongoing guidance, direction, and counsel.

Executive Management

KEITH A. JOHNSON

Managing Director,
Republic Bank
(Grenada) Limited

NAOMI E. DE ALLIE

General Manager,
Credit

DONNA L. Y. LANDER

General Manager,
Operations

Management

VALENTINE S. ANTOINE

Manager,
Commercial Credit

CLIFFORD D. BAILEY

Manager,
Head Office

HERMILYN E. M. CHARLES

Manager,
Business Support Services

MAVIS Mc BURNIE

Manager,
Compliance

Mc KIE J. GRIFFITH

Manager,
Human Resources,
Training and Development

DORIAN L. Mc PHAIL

Manager, Information Technology Management Department

ELIZABETH M. RICHARDS-DANIEL

Manager,
Finance

ALTHEA R. ROBERTS

Manager,
Retail Services,
Republic House Cluster

GARNET K. ROSS

Manager,
Retail Services,
St. George's Cluster

DEVON M. THORNHILL

Manager,
Retail Services,
Grenville Cluster

The Power to Make a Difference

Clockwise from top left:

A Staff receives hands-on culinary skills training from students at the St. Mark's Secondary School Home Economics department.

Students enrolled in the Plumbing Technology department demonstrate their talent to visiting Staff at the newly refurbished Mechanical Engineering Wing at the T.A. Marryshow Community College.

In the spirit of giving at Christmas – Manager, Retail Services Republic House Cluster, Mrs. Althea Roberts, makes annual donation to representative from a Charitable organization

Youth football in action – 2 teams battle for 1st game honour at the opening of the 2014 RightStart Cup Youth Football Tournament for Secondary Schools.

Painting a bright Picture. This Staff member is given a lesson in picture painting by a talented student at the Victoria School for Special Education.

A day at the Museum. Managing Director, Mr. Keith Johnson takes time to engage students on a tour of the newly enhanced Amerindian Heritage Room at Grenada's lone museum.

The late Nigerian lawyer Obafemi Awolowo expressed it best when he said, *"In honest hands, literacy is the surest and the most effective means to true education."* Globally and regionally, the disparities between literacy levels are cause for concern. In recognising that fact, Republic Bank chose to place a particular focus on the rarely acknowledged issue of literacy. When we formally pledged our support through our Power to Make a Difference programme toward national empowerment and the building of successful societies, we did so with the knowledge that this one group, with one focus, with one collective power could leave a positive and indelible mark on this Region.

In focusing that energy on the issue of literacy, we envisioned a Nation of highly literate and educated people who could harness their powers to make a difference toward the successful future of our society. There are many people who have never read a book but can understand the spoken word yet not when it is written. With the world moving at such an accelerated technological pace, we cannot afford to sit back and hope that those who are still illiterate will somehow find their way.

We believe every one has the ability to make a valuable contribution to society. This belief has guided the growth of our Programme. This has a four pillar-scope: the Power to Learn, the Power to Care, the Power to Succeed and the Power to Help. Our hope, as we firmly move forward in realising the Programme's goals, is that other corporate organisations will intensify their focus on social responsibility – creating a positive movement that will redound to the benefit of the Nation and the Region.

We have, as time has passed, built invaluable relationships. These relationships are forged with numerous non-governmental organisations (NGOs) and community-based organisations (CBOs), working side by side with them to help transform the shape and face of communities, while unlocking the potential of those residing within the communities. The experience has been educational, fulfilling and humbling.

Under the Power to Learn, we took our focus to schools, putting steps in place to help young people receive the education that they deserved. A child's learning environment plays an important role in his or her ability to absorb the information given. A leaky roof, broken desks, unstable floors - all these create an uncomfortable environment. We have come to realise that an uncomfortable student is an unfocussed student.

Our contribution toward the refurbishment of the Mechanical Engineering Wing at the T.A. Marryshow Community College has improved the quality of learning and learning resources. Students enrolled in Fabrication Engineering Technology (including Machine Shop and Welding), Automotive Service Technology, Auto-Collision Repair Technology and Plumbing Technology have benefited from this enhancement. The upgrade has also enhanced the College's ability to effectively support, manage and supervise students registered in the several Technology disciplines. On a national level, the positive outcomes from this project will strengthen the skilled labour force and provide countless youth opportunities in gaining life-long, self-sustaining skills.

With assistance from Republic Bank, the Grenada National Museum completed the first phase of its revitalisation drive, with structural enhancements to the Amerindian Heritage and the European Invasion display rooms. The Amerindian heritage room displays collections on the history and culture of the First Peoples who occupied Grenada before the Europeans' presence. The European Invasion room will depict the arrival of Europeans in the Americas and document the struggles between the Amerindians and the Europeans in Grenada.

The enhancements will offer:

- Updated exhibits that will provide information including at least 15 illustrated panels highlighting various aspects of Amerindian heritage in Grenada. Among them will be an Amerindian Heritage Map pinpointing various sites on the islands;
- A special focus on young people in Grenada, featuring a 'Children's Corner' in the Amerindian Heritage Room. Display material, including posters designed as comics as well as video and audio productions, will showcase archaeology in a more interactive and appealing format to children;
- Enhanced awareness and protection of cultural heritage in Grenada with the 'Teacher kits' and community outreach initiatives;
- Development of a special curriculum for young students, in an effort to increase involvement and interest in science and social studies.

Literacy, however, is not an issue solely related to our young people. There is a deficit in the older generations of our society as well. Our continued sponsorship of the UWI Scholarship and Bursary programmes affords Grenada nationals the opportunity to advance their academic pursuits. The Republic

The Power to Make a Difference

Bank Scholarship assists qualified Grenadians in completing a Bachelors Degree at any of the University of the West Indies (UWI) campuses. The value of the scholarship is $20,000 per annum for a maximum of three years. Additionally, the Bursary programme assists students wishing to complete a Bachelors degree here through the UWI – Open Campus. Up to $40,000 per annum is spent on bursaries. The areas of focus under both programmes are Management Studies, Information Technology, Economics, Marketing, Finance and Accounting.

We see our investment as an opportunity to create a new generation of fully literate citizens. It gives us the platform to strengthen the flow of communication between parents and children, and in so doing improve family relations. With the steps that Republic Bank takes towards the Power of One, our children will benefit and develop sound, reasoning skills. The opportunities these newly acquired skills provide will help them reach more amicable solutions when faced with challenges now and as they move towards a brighter future.

Similarly, our premiere sponsorship event, the Republic Bank RightStart Cup Youth Football Tournament for Inter-secondary Schools puts the spotlight on great football talent. Each year, for the past eleven years, over 600 youth footballers – male and female – are given a chance to showcase their abilities in this arena and some have gone on to play at the national level and beyond. The rise in popularity in women's football in Grenada is partly attributed to the Girls' open tournament, played in the RightStart Cup. A Nation's youth is its future but there must be an example for them to follow, a past from which they can learn, so they can avoid old mistakes and make the "good" better. We at Republic Bank hold great store in this belief, that each of us has the positive power to make a difference.

In keeping with our mandate to promote national traditions and cultures as well as support the empowerment of our citizens through various forms of education, one of which is music, we continue our partnership with the Republic Bank Angel Harps Steel Orchestra. Our association with the Steel Pan

> The Power to Make a Difference programme aims to enhance the quality of life of disadvantaged persons; support healthcare programmes and disability awareness initiatives; provide opportunities for young people to realise their truest potential through sport, education and the arts; build community spirit and, in essence, help to correct some of society's ills.

Under the **Power to Care**, we have worked with those who have been deemed social outcasts because of their disabilities, **as well persons unable to afford basic needs and health care.** We have humbly witnessed how special they are as they deal with their challenges. Our continued support for the Chores Support Group in Grenada, GRENCODA Books and Uniform Programme, Dorothy Hopkin Centre for the Disabled, Grenada Heart Foundation, Grenada National Council of the Disabled, Grenada Cancer Society, Grenada Diabetes Foundation, Grenada National Patient Kidney Foundation, Foundation for Needy Students, Cadrona Home for the Aged, Hillsview Home for the Aged, Rotary Club of Grenada East – Vosh Eye Care Programme and the Pink Ribbon Society of Grenada, help provide care for persons who require assistance.

Our focus on the **Power to Help**, empowers our youth through Sports. The Carriacou Domestic Cricket Tournament continues to grow and produce new cricketing talent each year.

artform through the Republic Bank Angel Harps Steel Orchestra began over three decades ago. There exists the shared belief that there are great benefits to be gained, intrinsically and nationally, when one becomes involved with one's community through music. With every new group of young pannists trained, the Orchestra is increasing the level of music literacy in our nation. We continue to support the Carriacou Regatta and the Carriacou Maroon & String Band Music Festivals, both unique cultural events to our sister isle.

As we move into another year of the programme, we are energised, having seen the smiles, the peace and the comfort in the many lives that have been affected by the Power to make a Difference. We have become even more determined, having witnessed, the power of one voice, one group and one focus. We vow to keep steady this focus, with an added push to literacy, guided by the ever true understanding that literacy leads to education and education is power.

Statement of Corporate Governance Practices

Republic Bank (Grenada) Limited is committed to maintaining the highest standards of corporate governance. To this end, we continuously monitor and update as necessary our internal systems in order to ensure our standards reflect best international practice while tailored to the specific needs of the Bank. The Board of Directors exercises leadership, enterprise, integrity and good judgment in directing the Bank to achieve continuing prosperity. It will act in the best interests of the Bank, guided by a philosophy that is based on transparency, accountability and responsibility.

The Board provides entrepreneurial leadership to the Bank within a framework of prudent and effective controls that enables risk to be assessed and managed. It sets the Bank's strategic aims, ensuring that the necessary financial and human resources are in place for it to meet its objectives and review management performance. The Bank's values and standards are set to ensure that obligations to its shareholders and other stakeholders are met.

The Board is responsible for:

- oversight of the Bank, including its control and accountability systems;
- appointing and removing Directors and members of senior management;
- formulation of policy;
- input into, and final approval of management's development of corporate strategy and performance objectives;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- monitoring senior management's performance, implementing strategy, and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- approving and monitoring financial and other reporting; and
- approving credit facilities in excess of a defined amount.

Our Board of Directors is currently made up of nine (9) Non-Executive Directors and a Managing Director. The Board exercises independent judgment with management information to enable proper and objective assessment of corporate affairs. The Non-Executive Directors, who include our parent company's Chairman and one of its Executive Directors, reflect a diverse cross-section of the professional business community and are all highly respected, independent individuals with a wealth of experience in their respective fields.

The Managing Director and our parent company's Executive Director ensure that at Board meetings, Directors have access to the best possible banking, management and financial advice during their deliberations and this ensures that the Board has a clear perspective on all matters on which decisions are required.

The Board of Directors meets formally in the first month of each quarter and also in December, while a Sub-Committee of the Board meets in each of the seven months the Board does not meet. The Managing Director has explicit authorities and responsibilities that are documented and approved by the Board of Directors and reviewed as and when necessary.

At the Annual Meeting, eligible Directors retire by rotation, and may offer themselves for re-election. At the upcoming Annual Meeting, Denis Paul retires from the Board by rotation and being eligible, has offered himself for re-election.

The Board of Directors complies with a Model Code for Securities Transaction by Insiders of Listed Companies. Strict guidelines are provided by the Bank for the occasions when it may be perceived that Directors have special knowledge, and dealing in the Bank's shares is prohibited. The purchase or sale of shares by an insider requires the prior written consent of the Corporate Secretary, and transactions are tabled for the information of the Board of Directors.

The Bank's strategies, policies, agreed management performance criteria and business plans are defined and measurable in a manner which is precise and tangible, both to the Board and management. The Bank's affairs are subject to comprehensive assessment against accurate and relevant information, both financial and non-financial as appropriate, obtainable from the Bank's internal reporting systems as well as external sources, so that informed assessment can be made of issues facing the Board.

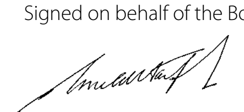
AUDIT COMMITTEE

This Committee meets quarterly to review the financial reporting process, the system of internal control, management of financial risks, the audit process, the Bank's process for monitoring compliance with laws and regulations and its own code of business.

The Committee comprises:

LEON D. CHARLES, Chairman
RONALD F.deC. HARFORD
MARGARET A. BLACKBURN-STEELE
ISABELLE S. V. SLINGER
NIGEL A. JOHN

Signed on behalf of the Board



RONALD F.deC. HARFORD
Chairman

September 30, 2014

Management's Responsibility for Financial Reporting

The Directors of Republic Bank (Grenada) Limited are responsible for the preparation and fair presentation of the financial statements and other financial information contained in this Annual Report. The accompanying financial statements have been prepared in conformity with International Financial Reporting Standards. Where amounts are based on estimates and judgments, these represent the best estimate and judgment of the Directors. General responsibilities include:

- establishing and maintaining effective internal controls and procedures for financial reporting;
- safeguarding of assets; and
- prevention and detection of fraud and other irregularities.

The financial information appearing throughout this Annual Report is consistent with that in the financial statements. Directors have a responsibility for ensuring that the Bank keeps accounting records which disclose with reasonable accuracy the financial position of the Bank.

The Directors have always recognised the importance of the Bank maintaining and reinforcing the highest possible standards of conduct in all of its actions, including the preparation and dissemination of statements presenting fairly the financial condition of the Bank. In this regard, the Directors have developed and maintained a system of accounting and reporting which provides the necessary internal controls to ensure that transactions are properly authorised and recorded, assets are safeguarded against unauthorised use or disposition and liabilities are recognised. The system is augmented by written policies and procedures, the careful selection and training of qualified staff, the establishment of an organisational structure that provides an appropriate and well-defined division of responsibility, and the communication of policies and guidelines of business conduct throughout the Bank.

The system of internal control is further supported by a professional staff of internal auditors from our parent company who conduct periodic audits of all aspects of the Bank's operations. External auditors have full and free access to, and meet periodically with, the Audit Committee to discuss their audit and findings as to the integrity of the Bank's accounting and financial reporting and the adequacy of the system of internal controls.

Signed on behalf of the Board

RONALD F. deC. HARFORD
Chairman

September 30, 2014

Contents

Independent Auditor's Report

TO THE SHAREHOLDERS OF REPUBLIC BANK (GRENADA) LIMITED

We have audited the financial statements of Republic Bank (Grenada) Limited which comprise the statement of financial position as at September 30, 2014, statement of income, statement of comprehensive 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 information.

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 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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' 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 September 30, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

ERNST & YOUNG
Chartered Accountants
Bridgetown
Barbados

October 28, 2014

Statement of Financial Position

As at September 30, 2014. Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	Notes	2014	Restated 2013	Restated 2012
ASSETS				
Cash		**9,615**	8,012	8,442
Statutory deposits with Central Bank		**40,729**	37,214	36,356
Due from banks		**117,270**	63,144	23,070
Treasury Bills		**2,820**	5,889	5,889
Investment interest receivable		**1,201**	1,330	1,565
Advances	4 (a)	**476,286**	492,276	496,520
Investment securities	5 (a)	**111,319**	87,701	98,898
Premises and equipment	6	**35,601**	36,349	38,123
Employment benefits	7 (a)	**6,731**	6,520	4,692
Deferred tax assets	8 (a)	**1,458**	1,600	1,641
Other assets	9	**5,194**	1,448	1,720
TOTAL ASSETS		**808,224**	**741,483**	**716,916**
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		**17,349**	8,931	6,197
Customers' current, savings and deposit accounts	10	**684,097**	624,141	596,167
Employee obligations	7 (a)	**3,516**	3,380	2,948
Taxation payable		**–**	–	48
Deferred tax liabilities	8 (b)	**3,136**	3,600	1,460
Accrued interest payable		**306**	764	1,459
Other liabilities	11	**8,295**	7,567	11,503
TOTAL LIABILITIES		**716,699**	**648,383**	**619,782**
EQUITY				
Stated capital	12	**15,000**	15,000	15,000
Statutory reserves	2 (j)	**15,000**	15,000	15,000
Other reserves	13	**3,303**	4,531	821
Defined benefit reserve	13	**1,759**	2,177	1,438
Retained earnings		**56,463**	56,392	64,875
TOTAL EQUITY		**91,525**	**93,100**	**97,134**
TOTAL LIABILITIES AND EQUITY		**808,224**	**741,483**	**716,916**

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

These financial statements were approved by the Board of Directors on October 28, 2014 and signed on its behalf by:

RONALD F. deC HARFORD
Chairman

KEITH A. JOHNSON
Managing Director

Statement of Income

For the year ended September 30, 2014. Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	Notes	2014	Restated 2013
Interest income	14 (a)	**42,751**	43,837
Interest expense	14 (b)	**(13,643)**	(13,882)
Net interest income		**29,108**	29,955
Other income	14 (c)	**11,213**	9,636
		40,321	39,591
Operating expenses	14 (d)	**(32,665)**	(43,567)
Operating profit/(loss)		**7,656**	(3,976)
Loan impairment expense, net of recoveries	4 (b)	**(7,196)**	(1,686)
Net profit/(loss) before taxation		**460**	(5,662)
Taxation expense	15	**(389)**	(271)
Net profit/(loss) after taxation		**71**	(5,933)
Earnings per share ($)			
Basic		**$0.05**	($3.96)
Number of shares ('000)			
Basic		**1,500**	1,500

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

Statement of Comprehensive Income

For the year ended September 30, 2014. Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	2014	Restated 2013
Net profit/(loss) after taxation	**71**	**(5,933)**
Other Comprehensive (loss)/income:		
Items of other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Realised gains transferred to statement of income	**(1,052)**	(40)
Tax effect	**316**	12
	(736)	(28)
Revaluation of available-for-sale investment securities	**(703)**	5,340
Tax effect	**211**	(1,602)
	(492)	3,738
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:	**(1,228)**	**3,710**
Items of other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Re-measurement (losses)/gains on defined benefit plans	**(831)**	1,181
Tax effect	**249**	(354)
	(582)	827
Re-measurement gains/(losses) on medical and group life plans	**235**	(125)
Tax effect	**(71)**	37
	164	(88)
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:	**(418)**	**739**
Total other comprehensive (loss)/income for the year, net of tax	**(1,646)**	4,449
Total comprehensive (loss)/income for the year, net of tax	**(1,575)**	**(1,484)**

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

Statement of Changes in Equity

For the year ended September 30, 2014. Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	Stated capital	Statutory reserves	Other reserves	Defined benefit reserves	Retained earnings	Total equity
Balance at September 30, 2012 as originally stated	15,000	15,000	821	–	64,875	95,696
Impact of adopting IAS 19 (revised) - Note 2 (b.i)	–	–	–	1,438	–	1,438
Balance at September 30, 2012 (Restated)	15,000	15,000	821	1,438	64,875	97,134
Total comprehensive loss for the year	–	–	3,710	739	(5,933)	(1,484)
Dividends	–	–	–	–	(2,550)	(2,550)
Balance as at September 30, 2013 (Restated)	15,000	15,000	4,531	2,177	56,392	93,100
Total comprehensive loss for the year	–	–	(1,228)	(418)	71	(1,575)
Balance as at September 30, 2014	**15,000**	**15,000**	**3,303**	**1,759**	**56,463**	**91,525**

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

Statement of Cash Flows

For the year ended September 30, 2014. Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	Notes	2014	Restated 2013
Operating activities			
Profit/(Loss) before taxation		**460**	(5,662)
Adjustments for:			
Depreciation	14(d)	**3,143**	3,631
Loan impairment expense, net of recoveries	4(b)	**7,196**	1,686
Investment impairment (recoveries)/expense	5(b)	**(183)**	10,089
Gain on disposal of available-for-sale investment		**(1,052)**	(40)
Net (Gain)/ Loss on sale of premises and equipment		**(15)**	4
Work-in-progress written-off		**–**	219
Foreign exchange (gain)/loss on available -for-sale investment		**(64)**	7
Amortisation of premium/discount on available -for-sale investment		**218**	324
Increase in employee benefits/obligations, net		**(671)**	(340)
Decrease in advances		**8,794**	2,558
Increase in customers' deposits and other fund raising instruments		**59,956**	27,974
Increase in statutory deposits with Central Bank		**(3,515)**	(858)
(Increase)/decrease in other assets and investment interest receivable		**(3,617)**	507
Increase/(decrease) in liabilities and accrued interest payable		**270**	(4,679)
Taxes paid, net of refund		**(6)**	–
Cash provided by operating activities		**70,914**	**35,420**
Investing activities			
Purchase of investment securities		**(30,705)**	(17,555)
Purchase of Treasury Bills		**(2,820)**	(5,889)
Redemption of investment securities		**6,413**	23,691
Redemption of Treasury Bills		**5,889**	5,889
Additions to premises and equipment		**(2,431)**	(2,157)
Proceeds from sale of premises and equipment		**51**	61
Cash (used in)/provided by investing activities		**(23,603)**	4,040
Financing activities			
Increase in balances due to other banks		**8,418**	2,734
Dividends paid to shareholders		**–**	(2,550)
Cash provided by financing activities		**8,418**	184
Net increase in cash and cash equivalents		**55,729**	39,644
Cash and cash equivalents at beginning of year		**71,156**	31,512
Cash and cash equivalents at end of year		**126,885**	71,156
Cash and cash equivalents at end of year are represented by:			
Cash on hand		**9,615**	8,012
Due from banks		**117,270**	63,144
		126,885	**71,156**

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

1 CORPORATE INFORMATION

Republic Bank (Grenada) Limited (the Bank) is incorporated in Grenada and provides banking services through six branches in Grenada and Carriacou. 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.

Republic Bank Limited (the 'Parent') is incorporated in the Republic of Trinidad and Tobago and was continued under the provision of the Companies Act, 1995 on 23 March 1998. Its registered office is located at Republic House, 9-17 Park Street, Port of Spain.

CLICO Investment Bank Limited (CIB) owned together with its subsidiary First Company, 18.3% of Republic Bank Limited. On October 17, 2011 the High Court ordered that CLICO Investment Bank Limited (CIB) be wound up and the Deposit Insurance Company appointed liquidator. Accordingly, this 18.3% shareholding is under the control of the Deposit Insurance Company.

Until October 31, 2012, the CL Financial Group held through its various subsidiaries, 51.4% of the shares of Republic Bank Limited of which Colonial Life Insurance Company (Trinidad) Limited (CLICO) and CLICO Investment Bank Limited (CIB) combined, held 51.1%.

On November 1, 2012, 24.8% of Republic Bank Limited formerly owned by Colonial Life Insurance Company (Trinidad) Limited CLICO was transferred into an investment fund launched by the Government of Trinidad and Tobago and called the CLICO Investment Fund (the Fund). The trustee of the Fund is the CLICO Trust Corporation Limited which holds the 24.8% shareholding in Republic Bank Limited in trust solely for the benefit of subscribing unit holders of the Fund. The Fund is as a consequence the largest shareholder in Republic Bank Limited.

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 across the Bank.

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/improvements 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 September 30, 2013 except for the adoption of new standards and interpretations noted below:

IFRS 7 - Disclosures - Offsetting Financial Assets and Financial Liabilities (effective January 1, 2013)

These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32. The amendment only affects disclosures and as such, did not have an impact on the Bank's financial position and performance.

IFRS 13 - Fair Value Measurement (effective January 1, 2013)

IFRS 13 does not affect when fair value is used, but rather describes how to measure fair value where fair value is required or permitted by IFRS. Fair value under IFRS 13 is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date' (i.e., an 'exit price'). 'Fair value' as used in IFRS 2 Share based Payments and IAS 17 Leases is excluded from the scope of IFRS 13. This IFRS has not materially impacted the fair value measurements of the Bank. Additional disclosures, where required, are provided in Note 19 - Fair value.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

i) New accounting policies/improvements adopted (continued)

IAS 19 - Employee Benefits (Revised) (effective January 1, 2013)

The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording.

The more significant changes include the following:

For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognised in other comprehensive income (OCI) when they occur. Amounts recorded in the statement of income are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset/(liability) are recognised in OCI with no subsequent recycling to the statement of income.

Expected returns on plan assets are no longer recognised in profit or loss. Expected returns are replaced by recording interest income in profit or loss, which is calculated using the discount rate used to measure the pension obligation.

Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures which are provided in Note 7, include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.

Termination benefits will be recognised at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognised under IAS 37.

The distinction between short-term and other long-term employee benefits will be based on expected timing of settlement rather than the employee's entitlement to the benefits.

The standard mandates the application of this new policy on a retrospective basis, as a result of which the Bank, in accordance with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors is required to apply the policy to transactions, conditions and other events. This requires the Bank to adjust the opening balances of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy has always been applied.

The standard has been applied retrospectively, with the following permitted exceptions:

- The carrying amounts of other assets have not been adjusted for changes in employee benefit costs that were included before October 1, 2012
- Sensitivity disclosures for the defined benefit obligation for the comparative period (year ended September 30, 2013) have not been provided.

The effects of the change in accounting policy are:-

- Amounts recognised in profit or loss will comprise of current service costs, any past service costs and gain or loss on settlement, and net interest on the net defined liability/(asset); and
- Amounts recognised in other comprehensive income as re-measurements of the net defined benefit liability/(asset) will comprise actuarial gains and losses, return on plan assets (excluding amounts included in net interest on the net liability/(asset), and any change in the effect of the asset ceiling if applicable.

Impact on statement of financial position

The defined benefit pension asset and related deferred tax liability increased by $2,739 (2012: $1,558) and $822 (2012: 467) as at September 30, 2013. The post-retirement medical and group life obligation and related deferred tax asset decreased by $356 (2012: $496) and $111 (2012: $149) respectively.

For the year ended September 30, 2014. Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

i) New accounting policies/improvements adopted (continued)

IAS 19 - Employee Benefits (Revised) (effective January 1, 2013) (continued)

Impact on statement of income

	2013	2012
Operating expenses	15	–
Net (loss)/profit before taxation	(15)	–
Taxation expense	(4)	–
Net (loss)/profit after taxation	**(19)**	**–**
Earnings per share ($)		
Basic	$0.00	$0.00

Impact on statement of comprehensive income

	2013	2012
Other comprehensive income:		
Re-measurement gain on defined benefit plans	1,056	2,054
Tax effect	(317)	(616)
Other comprehensive income for the year, net of tax	739	1,438
Total comprehensive income for the year, net of tax	**720**	**1,438**

Improvements to IFRS applicable to annual periods beginning on or after January 1, 2013

The IASB's annual improvement process deals with non-urgent but necessary clarifications and amendments to IFRS. In the 2009 – 2011 annual improvement cycle, the IASB issued the following amendments which were adopted by the Bank - IAS 1, IAS 16, IAS 32 and IAS 34. The amendments were applied retrospectively in accordance with the requirements of IAS 8 for changes in accounting policy. The adoption of these clarifications had no impact on the financial performance of the Bank.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

ii) New accounting policies/improvements not applicable to the Bank

The following standards are in issue and have become effective during the financial year but are not applicable to the Bank.

IFRS	Subject of Amendment
IFRS 1	Government Loans – Amendments to IFRS 1. Effective for annual periods beginning on or after January 1, 2013.
IFRS 10/IAS 27	Consolidated Financial Statements/Separate Financial Statements: Effective for annual periods beginning on or after January 1, 2013.
IFRS 11/IAS 28	Joint Arrangements/Investments in Associates and Joint Ventures: Effective for annual periods beginning on or after January 1, 2013.
IFRS 12	Disclosure of Interests in Other Entities: Effective for annual periods beginning on or after January 1, 2013.
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine: Effective for annual periods beginning on or after January 1, 2013.

iii) Standards in issue not yet effective

The following is a list of standards and interpretations issued that are not yet effective up to the date of issuance of the Bank's financial statements. The Bank reasonably expects these standards and interpretations to be applicable at a future date and intends to adopt those standards and interpretations when they become effective.

The Bank is currently assessing the impact of adopting these standards and interpretations since the impact of adoption depends on the assets held by the Bank at the date of adoption, it is not practical to quantify the effect at this time.

IFRS 9 - Financial Instruments: Classification and Measurement (effective January 1, 2018)

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. In subsequent phases, the Board will address impairment and hedge accounting. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Bank's financial assets.

IFRS 10, IFRS 12 and IAS 27 - Investment Entities (Amendments) (effective January 1, 2014)

The amendments apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity. The concept of an investment entity is new to IFRS. The amendments represent a significant change for investment entities, which are currently required to consolidate investees that they control. Significant judgement of facts and circumstances may be required to assess whether an entity meets the definition of investment entity.

IFRS 14 Regulatory Deferral Accounts (effective January 1, 2016)

The standard requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements.

IFRS 14 allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Existing IFRS preparers are prohibited from applying this standard. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS.

For the year ended September 30, 2014. Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

iiii Standards in issue not yet effective (continued)

IFRS 14 Regulatory Deferral Accounts (effective January 1, 2016) (continued)

Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income.

IAS 19 Defined Benefit Plans: Employee Contributions— Amendments to IAS 19 (effective July 1, 2014)

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. IAS 19 requires such contributions that are linked to service to be attributed to periods of service as a negative benefit.

The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. Examples of such contributions include those that are a fixed percentage of the employee's salary, a fixed amount of contributions throughout the service period, or contributions that depend on the employee's age.

These changes provide a practical expedient for simplifying the accounting for contributions from employees or third parties in certain situations.

IAS 32 - Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (effective January 1, 2014)

These amendments clarify the meaning of the phrase' currently has a legally enforceable right to set-off' by stating that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights of set-off must not be contingent on a future event. The amendments further clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets - Amendments to IAS 36 (effective January 1, 2014)

These amendments clarify the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets was originally changed as a result of IFRS 13, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair value less costs to sell. An unintended consequence of the amendments was that an entity would be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison to the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by the amendment. However the IASB has added two disclosure requirements:

i. Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal.
ii. Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendments harmonise disclosure requirements between value in use and fair value less costs of disposal.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

iiii Standards in issue not yet effective (continued)

IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting — Amendments to IAS 39 (effective January 1, 2014)

The amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The amendments cover three circumstances for novations all of which must be met to continue hedge accounting under this exception. The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries. For novations that do not meet the criteria for the exception, entities have to assess the changes to the hedging instrument against the de-recognition criteria for financial instruments and the general conditions for continuation of hedge accounting. The Bank does not apply hedge accounting and this standard will not be adopted by the Bank.

IFRIC 21 - Levies (effective January 1, 2014)

IFRIC 21 is applicable to all levies other than outflows that are within the scope of other standards (e.g., IAS 12) and fines or other penalties for breaches of legislation. Levies are defined in the interpretation as outflows of resources embodying economic benefits imposed by government on entities in accordance with legislation.

The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognised before the specified minimum threshold is reached.

Improvements to International Financial Reporting Standards

The annual improvements process of the International Accounting Standards Board deals with non-urgent but necessary clarifications and amendments to IFRS. In the 2010-2012 annual improvements cycle, and the 2011-2013 annual improvements cycle, the IASB issued eleven amendments to eight standards. These amendments are applicable to annual periods beginning on or after July 1, 2014.

IFRS	Subject of Amendment
IAS 16 and 38	Property, Plant and Equipment and Intangible Assets
IAS 24	Related Party Disclosures
IAS 40	Investment Property
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payments
IFRS 3	Business Combinations
IFRS 8	Operating Segments
IFRS 13	Fair Value Measurement

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, Treasury Bills and bankers' acceptances with original maturities of three months or less.

d) Statutory deposits with Central Bank

Pursuant to the Banking Act of Grenada 2005, Republic Bank (Grenada) Limited is required to maintain specified assets as a reserve requirement for its deposit liabilities. The minimum requirement is 6% of the average deposit liabilities over a four-week period.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e) Financial instruments

The Bank's financial assets and financial liabilities are recognised in the statement of financial position when it becomes party to the contractual obligation of the instrument. A financial asset is de-recognised 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 de-recognised when the obligation under the liability is discharged, cancelled or expires. All 'regular way' purchases and sales are recognised at settlement date.

i) Advances

Advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and are therefore classified as loans and receivables. 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 investments - available-for-sale' or 'Financial assets designated at fair value through profit or loss'. After initial measurement, advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised 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 amortisation is included in 'Interest income' in the statement of income. The losses arising from impairment are recognised in the statement of income in 'loan impairment expense, net of recoveries'.

ii) Investment securities

- Available-for-sale (AFS)

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. AFS financial instruments include equity investments and debt securities. Securities held as available-for-sale are initially recognised 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. Unquoted equity instruments are recognised at cost, being the fair value of the consideration paid for the acquisition of the investment.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income 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 recognised in equity are included in the statement of income as an impairment expense on investment securities. Interest earned whilst holding AFS instruments is reported as interest income using the effective interest rate method.

iii) Debt securities and other fund raising instruments

Debt securities and other fund raising instruments are recognised initially at fair value net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

f) Impairment of financial assets

The Bank assesses at each reporting 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.

i) Advances

All non-performing and individually significant advances are individually reviewed and specific provisions made for the impaired portion based on the realisable value of the collateral and discounted by the original effective interest rate of the advance. The provision made is the difference between the outstanding balance and the discounted value of the collateral. Individually insignificant loans with similar characteristics are assessed for impairment on a group basis. When all efforts have been exhausted to recover a non-performing advance, that advance is deemed uncollectible and written-off against the related allowance for impairment losses.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

f) Impairment of financial assets *(continued)*

i) Advances *(continued)*

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 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 realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each quarterly 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 specific impairment. Allowances are evaluated on each quarterly 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.

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

ii) Investment securities

The Bank individually assesses each investment security for objective evidence of impairment. In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as Advances above. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income. If an impaired instrument has been renegotiated, interest continues to be accrued 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 than 30% or a prolonged decline to be one in which fair value is below the weighted-average cost for greater than one year.

If an available-for-sale equity security is impaired based upon the Bank's qualitative or quantitative impairment criteria, any further decline in the fair value at subsequent reporting dates is recognised as impairment. 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 recognised for the difference between the fair value and the original cost basis, less any previously recognised 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 recognised 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 reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of income.

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

The depreciation rates used are as follows:

Leasehold Premises	1%
Freehold premises/Buildings	2%
Equipment, furniture and fittings	12.5% - 33.33%
Vehicles	20%

h) Employee benefits/obligations

i) Pension assets

The Bank operates a defined benefit plan, the assets of which are 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 Plans every three years.

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

For these defined benefit plans, 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 in accordance with the advice of qualified actuaries.

The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses and return on plan assets (excluding interest) are recognised immediately through other comprehensive income.

The defined benefit plans mainly expose the Bank to risks such as investment risk, interest rate risk and longevity risk.

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

ii) Other post-retirement obligations

The Bank provides post-retirement medical and group-life 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 statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax items are recognised in correlation to the underlying transaction either in profit and loss or other comprehensive income (OCI).

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits or any unused tax losses can be utilised.

Income tax payable on profits is recognised as an expense in the period in which profits arise.

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

Data on basic earnings per share has been computed by dividing the net profit attributable to equity holders by the weighted average number of ordinary shares in issue during the year.

l) Interest income and expense

Interest income and expense are recognised in the statement of income for all interest-bearing instruments on an accrual basis using the effective interest rate method. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premiums on Treasury Bills and other discounted instruments.

m) Fee and commission income

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

n) Customers' liabilities 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 statement of financial position but are detailed in Note 22(b) of these financial statements.

o) Comparative Information

Certain changes in presentation have been made in these financial statements. These changes had no effect on the operating results, profit after tax or earnings per share of the Bank for the previous year.

p) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean Dollars (the Bank's functional and reporting currency) at rates of exchange prevailing at the date the financial statement and non-monetary assets and liabilities are translated at historic rates. Revenue and expenses denominated in foreign currencies are translated into Eastern Caribbean dollars using prevailing monthly exchange rates. Realised gains and losses on foreign currency positions are reported in non-interest income.

For the year ended September 30, 2014. Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

q) Leases

Finance Leases

Finance charges on leased assets are taken into income using the amortisation method. This basis reflects a constant periodic rate of return on the lessor's net investment in the finance lease. Finance leases net of unearned finance income are included in the statement of financial position under advances.

Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease. Renewal of operating leases is based on mutual agreement between parties prior to the expiration date.

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 statement of financial position 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.

Collective impairment on advances (Note 4b)

Collective impairment on advances are calculated on an estimate of impairment incurred but not reported, existing in assets as at the reporting date. Estimated impairment incurred is determined by applying the average loan default rates against performing loan balances, 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 (Note 5)

The Bank has applied IAS 39 in its classification of investment securities which requires measurement of securities at fair value. For 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.

Employee benefits/obligations (Note 7)

In conducting valuation exercises to measure the effect of all employee benefit plans throughout the Bank, management uses judgement and makes assumptions in determining discount rates, salary increases, NIS ceiling increases, pension increases and the rate of return on the assets of the Plan. Assumptions are informed through discussions with the independent actuaries.

Deferred taxes (Note 8)

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

Premises and equipment (Note 6)

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)

	2014			
	Retail	Commercial and Corporate	Mortgages	Total
Performing advances	53,115	119,537	265,896	438,548
Non-performing advances	2,159	15,648	33,476	51,283
	55,274	135,185	299,372	489,831
Unearned interest	(6)	–	–	(6)
Accrued interest	105	294	764	1,163
	55,373	135,479	300,136	490,988
Allowance for impairment losses - Note 4 (b)	(1,211)	(9,461)	(4,030)	(14,702)
Net advances	**54,162**	**126,018**	**296,106**	**476,286**

	2013			
	Retail	Commercial and Corporate	Mortgages	Total
Performing advances	58,451	104,395	296,962	459,808
Non-performing advances	6,102	14,819	19,982	40,903
	64,553	119,214	316,944	500,711
Unearned interest	(13)	–	–	(13)
Accrued interest	119	328	847	1,294
	64,659	119,542	317,791	501,992
Allowance for impairment losses	(1,090)	(4,316)	(4,310)	(9,716)
Net advances	**63,569**	**115,226**	**313,481**	**492,276**

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4 ADVANCES *(continued)*

b) Allowance for impairment losses - reconciliation of the allowance for impairment losses for loans and advances by class

	2014			
	Retail	Commercial and Corporate	Mortgages	Total
Balance brought forward	1,090	4,316	4,310	9,716
Charge-offs and write-offs	(70)	(1,323)	(817)	(2,210)
Loan impairment expense	730	6,803	2,188	9,721
Loan impairment recoveries	(539)	(335)	(1,651)	(2,525)
Balance carried forward	1,211	9,461	4,030	14,702
Individual impairment	1,133	8,609	2,354	12,096
Collective impairment	78	852	1,676	2,606
	1,211	9,461	4,030	14,702
Gross amount of loans individually determined to be impaired, before deducting any allowance	**2,159**	**15,648**	**33,476**	**51,283**

	2013			
	Retail	Commercial and Corporate	Mortgages	Total
Balance brought forward	1,017	4,809	3,235	9,061
Charge-offs and write-offs	(708)	(318)	(5)	(1,031)
Loan impairment expense	1,342	3,635	3,020	7,997
Loan impairment recoveries	(561)	(3,810)	(1,940)	(6,311)
Balance carried forward	1,090	4,316	4,310	9,716
Individual impairment	943	3,230	2,344	6,517
Collective impairment	147	1,086	1,966	3,199
	1,090	4,316	4,310	9,716
Gross amount of loans individually determined to be impaired, before deducting any allowance	**6,102**	**14,819**	**19,982**	**40,903**

5 INVESTMENT SECURITIES

	2014	2013
a) Available-for-sale		
Government securities	**9,583**	9,745
State owned company securities	**20,524**	23,965
Corporate bonds/debentures	**80,715**	52,386
Equities	**497**	1,605
	111,319	**87,701**

	2014	2013
b) Impairment (recovery)/expense on investment securities		
Quoted	**268**	5,734
Unquoted	**(451)**	4,355
	(183)	**10,089**

6 PREMISES AND EQUIPMENT

	Capital works in progress	Freehold premises	Leasehold premises	Vehicles, equipment furniture and fittings	Total
2014					
Cost					
At beginning of year	527	28,944	7,244	36,956	73,671
Additions at cost	1,619	–	–	812	2,431
Disposal of assets	–	–	–	(597)	(597)
Transfer of assets	(1,318)	92	–	1,226	–
	828	29,036	7,244	38,397	75,505
Accumulated depreciation					
At beginning of year	(45)	3,687	3,683	29,997	37,322
Charge for the year	–	569	46	2,528	3,143
Disposal of assets	–	–	–	(561)	(561)
	(45)	**4,256**	**3,729**	**31,964**	**39,904**
Net book value	**873**	**24,780**	**3,515**	**6,433**	**35,601**

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6 PREMISES AND EQUIPMENT *(continued)*

	Capital works in progress	Freehold premises	Leasehold premises	Vehicles, equipment furniture and fittings	Total
2013					
Cost					
At beginning of year	622	28,944	7,289	36,578	73,433
Additions at cost	1,827	–	–	330	2,157
Disposal of assets	(234)	–	(45)	(1,640)	(1,919)
Transfer of assets	(1,688)	–	–	1,688	–
	527	28,944	7,244	36,956	73,671
Accumulated depreciation					
At beginning of year	(45)	3,118	3,682	28,555	35,310
Charge for the year	–	569	46	3,016	3,631
Disposal of assets	–	–	(45)	(1,574)	(1,619)
	(45)	**3,687**	**3,683**	**29,997**	**37,322**
Net book value	**572**	**25,257**	**3,561**	**6,959**	**36,349**

Capital commitments

	2014	2013
Contracts for outstanding capital expenditure not provided for in the financial statements	**485**	360
Other capital expenditure authorised by the Directors but not yet contracted for	**12,847**	6,645

7 EMPLOYEE BENEFITS/OBLIGATIONS

a) The amounts recognised in the statement of financial position are as follows:

	Defined benefit pension plan		Post-retirement medical and group life obligations	
	2014	Restated 2013	2014	Restated 2013
Present value of defined benefit obligation	**(19,394)**	(18,487)	**(3,516)**	(3,380)
Fair value of plan assets	**26,125**	25,007	**–**	–
Net asset/(liability) recognised in the statement of financial position	**6,731**	6,520	**(3,516)**	(3,380)

7 EMPLOYEE BENEFITS/OBLIGATIONS *(continued)*

b) Reconciliation of opening and closing statement of financial position entries:

	Defined benefit pension plan		Post-retirement medical and group life obligations	
	2014	Restated 2013	2014	Restated 2013
Restated opening defined benefit obligation	**6,520**	4,692	**(3,380)**	(2,948)
Net pension cost	**(89)**	(499)	**(403)**	(371)
Re-measurements recognised in other comprehensive income	**(831)**	1,181	**235**	(125)
Bank contributions	**1,131**	1,146	**–**	–
Benefits paid	**–**	–	**18**	53
Premiums paid by the Bank	**–**	–	**14**	11
Closing defined benefit asset/(obligation)	**6,731**	**6,520**	**(3,516)**	**(3,380)**

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

	Defined benefit pension plan		Post-retirement medical and group life obligations	
	2014	Restated 2013	2014	Restated 2013
Opening defined benefit obligation	**(18,487)**	(21,008)	**(3,380)**	(2,948)
Current service cost	**(525)**	(809)	**(168)**	(167)
Interest cost	**(1,276)**	(1,456)	**(235)**	(204)
Members' contributions	**(112)**	(136)	**–**	–
Re-measurements:				
- Experience adjustments	**482**	97	**235**	(109)
- Actuarial gains/(losses) from change in demographic assumptions	**–**	–	**–**	(248)
- Actuarial gains/(losses) from change in financial assumptions	**–**	4,405	**–**	232
Benefits paid	**524**	420	**18**	53
Premiums paid by the Bank	**–**	–	**14**	11
Closing defined benefit obligation	**(19,394)**	**(18,487)**	**(3,516)**	**(3,380)**

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7 EMPLOYEE BENEFITS/OBLIGATIONS *(continued)*

d) Liability profile:

	Defined benefit pension plans	Post-retirement medical	Group life obligations
The defined benefit obligation is allocated between the Plan's members as follows:			
- Active members	77.00%	87.00%	80.00%
- Deferred members	8.00%	0.00%	0.00%
- Pensioners	15.00%	13.00%	20.00%

Pension

The weighted average duration of the defined benefit obligation as at September 30, 2014 was 11.8 years.

29% of the defined benefit obligation is defined contribution in nature.

Nearly 100% of the benefits for active members was vested.

31% of the defined benefit obligation for active members is conditional on future salary increases.

Medical

The weighted average duration of the defined benefit obligation as at September 30, 2014 was 25.2 years.

21% of the benefit for active members was vested.

Group Life

The weighted average duration of the defined benefit obligation as at September 30, 2014 was 18.3 years.

28% of the benefits for active members was vested.

32% of the defined benefit obligation for active members was conditional on future salary increases.

e) Movement in fair value of Plan assets:

	Defined Benefit Pension Plan	
	2014	Restated 2013
Fair value of Plan asset at start of year	**25,007**	25,700
Interest Income	**1,773**	1,827
Return on Plan assets, excluding interest income	**(1,313)**	(3,321)
Bank contribution	**1,131**	1,146
Members' contributions	**112**	136
Benefits paid	**(524)**	(420)
Administrative expenses allowance	**(61)**	(61)
Fair value of Plan assets at end of year	**26,125**	25,007
Actual return on Plan assets	**460**	**(1,494)**

7 EMPLOYEE BENEFITS/OBLIGATIONS *(continued)*

f) Plan asset allocation as at September 30:

	Defined benefit pension plans					
	Carrying value		Fair value		% Allocation	
	2014	2013	2014	2013	2014	Restated 2013
Regional equity securities	**339**	426	**339**	426	**1.30%**	1.70%
Debt securities	**2,142**	2,229	**2,142**	2,229	**8.20%**	8.91%
Other short term securities	**12,266**	14,176	**12,266**	14,176	**46.95%**	56.69%
Money market instruments/cash and cash equivalents	**11,378**	8,176	**11,378**	8,176	**43.55%**	32.69%
Total	**26,125**	**25,007**	**26,125**	**25,007**	**100.0%**	**100.0%**

The Plan's investment strategy is determined by the Plan's Trustees with the agreement of the Bank. This strategy is largely dictated by statutory constraints and the availability of suitable investments. There are no asset-liability matching strategies used by the Plan.

The regional equities held by the Pension Plan relates to Eastern Caribbean Financial Holdings and has a quoted price but the market is illiquid. Approximately 50% of the Plan's bond portfolio is made up of a bond issued by the Government of Grenada which is substantially impaired.

g) The amounts recognised in the statement of income are:

	Defined benefit pension plans		Post-retirement medical and group life obligations	
	2014	Restated 2013	2014	Restated 2013
Current service cost	**(525)**	(809)	**(168)**	(167)
Net interest on net defined asset/(liability)	**497**	371	**(235)**	(204)
Administration expenses	**(61)**	(61)	**–**	–
Total included in staff costs	**(89)**	**(499)**	**(403)**	**(371)**

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7 EMPLOYEE BENEFITS/OBLIGATIONS *(continued)*

h) Re-measurements recognised in other comprehensive income:

	Defined benefit pension plans		Post-retirement medical and group life obligations	
	2014	Restated 2013	2014	Restated 2013
Experience (losses)/gains	**(831)**	1,181	**235**	(125)
Total included in other comprehensive income	**(831)**	**1,181**	**235**	**(125)**

i) Summary of principal actuarial assumptions as at September 30:

	2014	Restated 2013
	%	%
Discount rate	**7.00**	7.00
Rate of salary increase	**4.00**	4.00
Pension increases	**0.00**	0.00
Medical cost trend rates	**6.00**	6.00
NIS ceiling rates	**3.00**	3.00

Assumptions regarding future mortality are based on published mortality rates. The life expectancies underlying the value of the defined benefit obligation as at September 30, 2014 are as follows:

	Defined benefit pension plans		Post-retirement medical and group life obligations	
	2014	Restated 2013	2014	Restated 2013
Life expectancy at age 60 for current pensioner in years:				
- Male	**21**	21	**21**	21
- Female	**25**	25	**25**	25
Life expectancy at age 60 for current members age 40 in years:				
- Male	**21**	21	**21**	21
- Female	**25**	25	**25**	25

7 EMPLOYEE BENEFITS/OBLIGATIONS *(continued)*

j) Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions used. The following table summarises how the defined benefit obligation as at September 30, 2014 would have changed as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

	Defined benefit pension plans		Post-retirement medical and group life obligations	
	1% p.a. increase $'000	1% p.a. decrease $'000	1% p.a. increase $'000	1% p.a. decrease $'000
- Discount rate	(1,895)	2,409	(640)	889
- Future salary increases	2,441	(1,716)	113	(97)
- Medical cost increases	–	–	639	(476)

An increase of 1 year in the assumed life expectancies shown above would increase the defined benefit obligation at September 30, 2014 by $0.200 million and the post-retirement medical benefit by $0.750 million but decrease group life obligation by $0.770 million

These sensitivities were calculated by re-calculating the defined benefit obligations using the revised assumptions.

k) Funding

The Bank meets the entire cost of funding the defined benefit pension plan. The funding requirements are based on regular actuarial valuations of the Plan made every three years and the assumptions used to determine the funding required may differ from those set out above. The Bank expects to pay $1.176 million to the Pension Plan in the 2015 financial year.

The Bank operates the post-retirement medical benefit plan as a self-insured arrangement administered by insurance brokers. Retirees contribute at a fixed rate depending on the level of cover selected. The Bank pays 'premiums' of twice the retiree contributions but will be required to meet the balance of cost of the benefits if these joint premiums prove inadequate. The Bank expects to pay $0.016 million to the Medical Plan in the 2015 financial year.

The Bank pays premiums to meet the cost of insuring the Plan's benefits. Assuming no change in premium rates the Bank expects to pay premiums of around $0.017 million to the Group Life Plan in the 2015 financial year.

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8 DEFERRED TAX ASSETS AND LIABILITIES

Components of deferred tax assets and liabilities

a) Deferred tax assets

	Restated Opening Balance	Credit/(Charge) Statement of Income	Credit/(Charge) Other Comprehensive Income	Closing Balance
	2013			2014
Post-retirement medical and group life obligation	1,010	**111**	(71)	**1,050**
Premises and equipment	559	**(173)**	–	**386**
Unearned loan origination fees	31	**(9)**	–	**22**
	1,600	**(71)**	**(71)**	**1,458**

b) Deferred tax liabilities

	Restated Opening Balance	(Credit)/Charge Statement of Income	(Credit)/Charge Other Comprehensive Income	Closing Balance
	2013			2014
Pension asset	1,962	312	(249)	**2,025**
Unrealised reserve	1,638	–	(527)	**1,111**
	3,600	**312**	**(776)**	**3,136**

The Bank has not recognised the deferred tax asset of $992 (2013: $2,589) arising on unutilised tax losses as at September 30, 2014. These losses expire as at September 30, 2016 (2013: September 30, 2015). The cumulative deferred tax asset not recognised as at September 30, 2014 was $3,581.

9 OTHER ASSETS

	2014	2013
Accounts receivable and prepayments	**5,194**	1,448

10 CUSTOMERS' CURRENT, SAVINGS AND DEPOSIT ACCOUNTS

Concentration of customers' current, savings and deposit accounts

	2014	2013
State	**39,541**	25,201
Corporate and commercial	**65,460**	58,606
Personal	**557,119**	525,506
Other financial institutions	**21,977**	14,828
	684,097	**624,141**

11 OTHER LIABILITIES

	2014	2013
Accounts payable and accruals	**2,981**	2,494
Provision for profit sharing and salary increase	**–**	100
Unearned loan origination fees	**3,014**	3,127
Other	**2,300**	1,846
	8,295	**7,567**

12 STATED CAPITAL

	Number of ordinary shares 2014 '000	Number of ordinary shares 2013 '000	2014 $'000	2013 $'000
Authorised				
2,500 shares of no par value	**2,500**	2,500	**15,000**	15,000
Issued and fully paid				
At beginning of year and end of year	**1,500**	1,500	**15,000**	15,000

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13 OTHER RESERVES

		Other reserves		
	Defined benefit reserve	General contingency reserve	Net unrealised gains/(losses)	Total
Balance at October 1, 2012	**1,438**	**702**	**119**	**2,259**
Realised gains transferred to net profit	–	–	(28)	(28)
Revaluation of available-for-sale investments, net of tax	–	–	3,738	3,738
Re-measurement gains/(losses) on defined benefit, post retirement and group life plans	739	–	–	739
Balance at September 30, 2013	**2,177**	**702**	**3,829**	**6,708**
Realised gains transferred to net profit	–	–	(736)	(736)
Revaluation of available-for-sale investments	–	–	(492)	(492)
Re-measurement gains/(losses) on defined benefit, post retirement and group life plans	(418)	–	–	(418)
Balance at September 30, 2014	**1,759**	**702**	**2,601**	**5,062**

General Contingency Reserve

Specific provisions are made for non-performing advances based on the difference between the loan balances and the discounted realisable value of collateral held. These provisions are charged through the statement of income.

A General Contingency Reserve is created as an appropriation of retained earnings and serves to enhance the Bank's non-distributable capital base. As at September 30, 2014 the balance in the General contingency reserve of $702K is part of Other Reserves which totals $3,303K.

14 OPERATING PROFIT

	2014	Restated 2013
a) Interest income		
Advances	**38,568**	39,202
Investment securities	**3,754**	4,164
Liquid assets	**429**	471
	42,751	**43,837**
b) Interest expense		
Customers' current, savings and deposit accounts	**13,643**	13,871
Other interest bearing liabilities	**–**	11
	13,643	**13,882**

14 OPERATING PROFIT *(continued)*

	2014	Restated 2013
c) Other income		
Other fees and commission income	**5,591**	5,539
Net exchange trading income	**3,722**	3,296
Dividends	**33**	4
Gain from disposal of available-for-sale investments	**1,052**	40
Gain from sale of premises and equipment	**42**	22
Other operating income	**773**	735
	11,213	**9,636**
d) Operating expenses		
Staff costs	**16,637**	15,947
Staff profit sharing expense	**–**	–
Employee benefits/obligations expense - Note 7(g)	**492**	870
General administrative expenses	**10,547**	11,159
Loss from sale of premises and equipment	**27**	26
Property related expenses	**811**	909
Depreciation expense - Note 6	**3,143**	3,631
Advertising and public relations expenses	**1,045**	825
Impairment (recovery)/expense on investment securities - Note 5(b)	**(183)**	10,089
Directors' fees	**146**	111
	32,665	**43,567**

15 TAXATION EXPENSE

	2014	Restated 2013
Corporation tax	**6**	–
Deferred tax	**383**	271
	389	**271**

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15 TAXATION EXPENSE *(continued)*

Reconciliation between taxation expense and accounting profit

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

	2014	Restated 2013
Net profit/(loss) before taxation	**460**	(5,662)
Tax at applicable statutory tax rates- 30%	**138**	(1,699)
Tax exempt income	**(898)**	(1,092)
Items not allowable for tax purposes	**141**	447
Loss incurred	**992**	2,589
Over provision of prior year tax	**16**	26
	389	**271**

16 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 are both secured and unsecured and were carried out on commercial terms and conditions, at market rates. As at September 30, 2014 and 2013 there were no allowances for impairment against related parties.

	2014	2013
Advances, investments and other assets (net of provisions)		
Parent Company	**88,000**	49,651
Directors and key management personnel	**1,937**	2,528
Other related parties	**1,153**	1,053
	91,090	**53,232**
Deposits and other liabilities		
Parent Company	**580**	215
Directors and key management personnel	**515**	389
Other related parties	**16,933**	8,331
	18,028	**8,935**
Interest and other income		
Parent Company	**26**	15
Directors and key management personnel	**182**	188
Other related parties	**109**	95
	317	**298**

16 RELATED PARTIES *(continued)*

	2014	2013
Interest and other expense		
Parent Company	**358**	461
Directors and key management personnel	**160**	118
Other related parties	**10**	3
	528	**582**

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

	2014	2013
Key management compensation		
Short-term benefit	**627**	678
Post employment benefits	**31**	30
	658	**708**

17 RISK MANAGEMENT

17.1 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, authorisation 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 Credit, Audit, Asset/Liability Committee and Other Risks Committees, review specific risk areas.

The 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.

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, liquidity risk and market risk (interest rate risk, foreign currency risk and operational risk). The Bank reviews and agrees policies for managing each of these risks as follows:

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17 RISK MANAGEMENT *(continued)*

17.2 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 maximise 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. A Board Credit Committee, chaired by the Chairman of the Board and including executive and non-executive directors, is in place, with the authority to exercise the powers of the Board on all risk management decisions.

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 computerised Credit Scoring system with preset risk management criteria is in place at all 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 emphasise early detection of deterioration and prompt implementation of remedial action and where it is considered that recovery of the outstanding balance 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.

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.

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

17.2.1 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:

	2014	2013
	Gross maximum exposure	
Statutory deposits with Central Bank	**40,729**	37,214
Due from banks	**117,270**	63,144
Treasury Bills	**2,820**	5,889
Investment interest receivable	**1,201**	1,330
Advances	**476,286**	492,276
Investment securities, net of equities	**110,822**	86,096
Total	**749,128**	**685,949**
Undrawn commitments	**56,685**	57,923
Guarantees, indemnities, and letters of credit	**19,127**	10,233
Total	**75,812**	**68,156**
Total credit risk exposure	**824,940**	**754,105**

Where financial instruments are recorded at fair value, the amounts shown 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 collateral 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 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.

In the event of default it is the Bank's policy to dispose of property held as collateral in an orderly fashion. The proceeds are used to repay the outstanding claim. In general, the Bank does not occupy properties held as collateral for business use. As at September 30, 2014, the properties held as collateral which were still in the process of being disposed of, had a carrying value of $11.578 million (2013 - $12.090 million) and a fair value of 17.955 million.

For the year ended September 30, 2014. Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

17.2.2 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 analysed by the following geographical regions based on the country of domicile of our counterparties:

	2014	2013
Eastern Caribbean	**70,674**	55,968
Barbados	**6,294**	8,162
Grenada	**520,406**	524,359
Trinidad and Tobago	**104,780**	74,482
United States	**76,438**	52,420
Other Countries	**46,348**	38,714
	824,940	**754,105**

b) Industry sectors

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

	2014	2013
Government and Central Government Bodies	**23,292**	29,934
Financial sector	**250,658**	155,856
Energy and mining	**334**	2,010
Agriculture	**4,014**	5,102
Electricity and water	**20,671**	22,975
Transport storage and communication	**3,266**	9,462
Distribution	**48,679**	59,563
Real estate	**1,086**	1,395
Manufacturing	**5,739**	5,656
Construction	**9,518**	8,951
Hotel and restaurant	**124,392**	113,425
Personal	**295,834**	303,555
Other services	**37,457**	36,221
	824,940	**754,105**

Credit exposure with state-owned bodies have been categorised according to the service offered by the organisation rather than within "Government and Central Government Bodies".

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

17.2.3 Credit quality per category of financial assets

The Bank has determined that credit risk exposure arises from the following statement of financial position lines:

- Treasury Bills and Statutory deposits with Central Bank
- Due from banks
- Advances
- Investment securities

Treasury Bills and Statutory deposits with Central Bank

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

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.

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

	Superior	Desirable	Acceptable	Total
2014	**301**	**116,969**	**–**	**117,270**
2013	413	62,731	–	63,144

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:

For the year ended September 30, 2014. Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

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

Loans and advances - Commercial and Corporate

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

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

Acceptable: These counterparties are of average risk with a fair finacial 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.

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
2014	**–**	**18,486**	**99,813**	**7,719**	**126,018**
2013	–	2,043	97,977	15,206	115,226

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

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Impaired	Total
2014	**680**	**–**	**–**	**–**	**7,039**	**7,719**
2013	913	–	–	2,704	11,589	15,206

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 91 days	Impaired	Total
2014	**299,883**	**14,950**	**2,583**	**570**	**134**	**32,148**	**350,268**
2013	317,049	24,465	5,586	4,659	2,494	22,797	377,050

Loans and advances - Retail loans and Mortgages (continued)

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, securities secured by a Letter of comfort from the Government and securities placed with institutions that have been accorded the highest rating by an international rating agency. 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.

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 past financial year.

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

	Superior	Desirable	Acceptable	Sub-standard	Total
Investments securities - Available-for-sale					
2014	**94,325**	**–**	**11,622**	**4,875**	**110,822**
2013	66,386	8,660	5,457	5,593	86,096

17.3 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.

For the year ended September 30, 2014. Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

17 RISK MANAGEMENT *(continued)*

17.3 Liquidity risk *(continued)*

Three primary sources of funds are used to provide liquidity – retail deposits, wholesale deposits and the capital market. A substantial portion of the Bank is funded with 'core deposits'. The Bank maintains a core base of retail and wholesale funds, which can be drawn on to meet ongoing liquidity needs. The capital markets are accessed for medium to long-term funds as required, providing diverse funding sources to the Bank. Facilities are also established with correspondent banks, which can provide additional liquidity as conditions demand.

The Asset/Liability Committee (ALCO) sets targets for daily float, allowable liquid assets and funding diversification in line with system liquidity trends. While the primary asset used for short-term liquidity management is the Treasury Bill, the Bank also holds significant investments in other Government securities, which can be used for liquidity support. The Bank continually balances the need for short-term assets, which have lower yields, with the need for higher asset returns.

17.3.1 Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at September 30, 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 statement of financial position. See Note 20 for a maturity analysis of assets and liabilities.

Financial liabilities - on Statement of Financial Position

	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2014					
Customers' current, savings and deposit accounts	111,992	571,612	799	–	**684,403**
Due to banks	17,349	–	–	–	**17,349**
Other liabilities	2,981	2,300	–	–	**5,281**
Total undiscounted financial liabilities 2014	**132,322**	**573,912**	**799**	**–**	**707,033**

Financial liabilities - on Statement of Financial Position

	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2013					
Customers' current, savings and deposit accounts	76,150	546,721	2,034	–	**624,905**
Due to banks	8,931	–	–	–	**8,931**
Other liabilities	–	4,440	–	–	**4,440**
Total undiscounted financial liabilities 2013	**85,081**	**551,161**	**2,034**	**–**	**638,276**

17 RISK MANAGEMENT *(continued)*

17.3 Liquidity risk *(continued)*

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

Financial liabilities - off Statement of Financial Position

	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2014					
Guarantees and indemnities	6,911	9,967	2,249	–	19,127
Total	**6,911**	**9,967**	**2,249**	**–**	**19,127**
2013					
Guarantees and indemnities	4,144	5,227	862	–	10,233
Total	**4,144**	**5,227**	**862**	**–**	**10,233**

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

17.4 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.

17.4.1 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 for the Bank. 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.

The table below summarises the interest-rate exposure of the Bank's statement of financial position. Interest on financial instruments classified as floating is repriced at intervals of less than one year while interest on financial instruments classified as fixed is fixed until the maturity of the instrument.

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 September 30, 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 unrealised gains is the effect of changes in interest rates on the fair value of available-for-sale financial assets. This impact is illustrated in the following table.

For the year ended September 30, 2014. Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

17 RISK MANAGEMENT *(continued)*

17.4 Market risk *(continued)*

17.4.1 Interest rate risk *(continued)*

	Increase/ decrease in basis points	Impact on net profit 2014 Increase in basis points	2014 Decrease in basis points	2013 Increase in basis points	2013 Decrease in basis points
TT$ Instruments	+/- 50	–	–	–	–
US$ Instruments	+/- 50	–	–	(1)	1
EC$ Instruments	+/- 25	–	–	–	–
BDS$ Instruments	+/- 50	–	–	–	–

	Increase/ decrease in basis points	Impact on OCI 2014 Increase in basis points	2014 Decrease in basis points	2013 Increase in basis points	2013 Decrease in basis points
TT$ Instruments	+/- 50	(238)	244	(302)	310
US$ Instruments	+/- 50	(1,201)	1,226	(847)	867
EC$ Instruments	+/- 25	(29)	29	(37)	38
BDS$ Instruments	+/- 50	–	–	–	–

17.4.2 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 and related parties and associates. 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.

The principal currencies of the Bank is the Eastern Caribbean Dollar.

The tables below indicate the currencies to which the Bank had significant exposure at September 30, 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.

17 RISK MANAGEMENT *(continued)*

17.4 Market risk *(continued)*

17.4.2 Currency risk *(continued)*

	ECD	USD	TTD	OTHER	Total
2014					
FINANCIAL ASSETS					
Cash	8,494	765	–	356	9,615
Statutory deposits with Central Bank	40,729	–	–	–	40,729
Due from banks	21,057	94,548	537	1,128	117,270
Treasury Bills	2,820	–	–	–	2,820
Investment interest receivable	59	686	456	–	1,201
Advances	439,170	37,116	–	–	476,286
Investment securities	4,469	92,066	14,784	–	111,319
TOTAL FINANCIAL ASSETS	**516,798**	**225,181**	**15,777**	**1,484**	**759,240**
FINANCIAL LIABILITIES					
Due to banks	5,320	12,029	–	–	17,349
Customers' current, savings and deposit accounts	630,905	52,155	–	1,037	684,097
Interest payable	304	2	–	–	306
TOTAL FINANCIAL LIABILITIES	**636,529**	**64,186**	**–**	**1,037**	**701,752**
NET CURRENCY RISK EXPOSURE		**160,995**	**15,777**	**447**	
Reasonably possible change in currency rate (%)		1%	1%	1%	
Effect on profit before tax		**1,610**	**158**	**4**	

For the year ended September 30, 2014. Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

17 RISK MANAGEMENT *(continued)*

17.4 Market risk *(continued)*

17.4.2 Currency risk *(continued)*

	ECD	USD	TTD	OTHER	Total
2013					
FINANCIAL ASSETS					
Cash	7,012	603	–	397	8,012
Statutory deposits with Central Bank	37,214	–	–	–	37,214
Due from banks	9,313	51,125	628	2,078	63,144
Treasury Bills	5,889	–	–	–	5,889
Investment interest receivable	311	503	516	–	1,330
Advances	460,482	31,794	–	–	492,276
Investment securities	6,291	64,526	16,884	–	87,701
TOTAL FINANCIAL ASSETS	**526,512**	**148,551**	**18,028**	**2,475**	**695,566**
FINANCIAL LIABILITIES					
Due to banks	5,139	3,792	–	–	8,931
Customers' current, savings and deposit accounts	569,340	52,955	–	1,846	624,141
Interest payable	762	2	–	–	764
TOTAL FINANCIAL LIABILITIES	**575,241**	**56,749**	**–**	**1,846**	**633,836**
NET CURRENCY RISK EXPOSURE		**91,802**	**18,028**	**629**	
Reasonably possible change in currency rate (%)		1%	1%	1%	
Effect on profit before tax		**918**	**180**	**6**	

17.5 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 recognises 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 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.

18 CAPITAL MANAGEMENT

For the purpose of the Bank's capital management, capital includes issued share capital and other equity reserves. The Bank's policy is to diversify its sources of capital, to allocate capital within the Bank efficiently and to maintain a prudent relationship between capital resources and the risk of its underlying business. Equity decreased by $1.575 million to $91.525 million during the year under review.

Capital adequacy is monitored by the Bank, employing techniques based on the guidelines developed by the Basel Committee on Banking Regulations and Supervisory Practice (the Basel Committee), as implemented by the Eastern Caribbean Central Bank for supervisory purposes. The Basel 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

	2014	2013
Tier 1 Capital	**14.37%**	14.67%
Tier 2 Capital	**15.65%**	15.99%

At September 30, 2014 the Bank exceeded the minimum levels required for adequately capitalised institutions.

19 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 statement of financial position date and separately discloses this information where these fair values are different from net book values.

Where the Bank's available-for-sale investments are not actively traded in organised financial markets, the 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 realise 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.

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, Treasury Bills, investment interest receivable, customers' deposit accounts (except for certificates of deposit with a two year maturity), interest payable, other assets and other liabilities.

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.

The fair values of the floating rate debt securities in issue is based on quoted market prices where available and where not available is based on a current yield curve appropriate for the remaining term to maturity. For balances due to banks, where the maturity period is less than one year, the fair value is assumed to equal carrying value. Where the maturity period is in excess of one year, these are primarily floating rate instruments, the interest rates of which reset with market rates therefore the carrying values are assumed to equal fair values.

The fair value of fixed rate debt securities carried at amortised cost is estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for facilities with similar credit risk and maturity.

For the year ended September 30, 2014. Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

19 FAIR VALUE *(continued)*

19.1 Carrying values and fair values

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

	2014		
	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets			
Advances	476,286	477,286	1,000
Investment securities	111,319	111,319	–
Financial liabilities			
Customers' current, savings and deposit accounts	684,097	684,100	(3)
Total unrecognised change in unrealised fair value			**997**

	2013		
	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets			
Advances	492,276	494,871	2,595
Investment securities	87,701	87,701	–
Financial liabilities			
Customers' current, savings and deposit accounts	624,141	624,140	1
Total unrecognised change in unrealised fair value			**2,596**

19.2 Fair value and fair value hierarchies

19.2.1 Determination of fair value and fair value hierarchies

The Bank uses the following hierarchy for determining and disclosing the fair value of investment securities by valuation techniques:

Level 1

Included in the Level 1 category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

19 FAIR VALUE *(continued)*

19.2 Fair value and fair value hierarchies *(continued)*

19.2.1 Determination of fair value and fair value hierarchies *(continued)*

Level 2

Included in the Level 2 category are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Bank's own models whereby the majority of assumptions are market observable.

Level 3

Included in the Level 3 category are financial assets and liabilities that are not quoted as there are no active markets to determine a price. These financial instruments are held at cost, being the fair value of the consideration paid for the acquisition of the investment, and are regularly assessed for impairment.

	Level 1	Level 2	Level 3	Total
2014				
Available-for-sale financial assets at fair value through OCI				
Investment securities	73,930	37,389	–	111,319
Financial assets and liabilities carried at amortised cost for which fair value is disclosed				
Advances	–	477,286	–	477,286
Customers' current, savings and deposit accounts	–	684,100	–	684,100
	73,930	**1,198,775**	–	**1,272,705**

	Level 1	Level 2	Level 3	Total
2013				
Available-for-sale financial assets at fair value through OCI				
Investment securities	57,155	30,546	–	87,701
Financial assets and liabilities carried at amortised cost for which fair value is disclosed				
Advances	–	494,871	–	494,871
Customers' current, savings and deposit accounts	–	624,140	–	624,140
	57,155	**1,149,557**	–	**1,206,712**

For the year ended September 30, 2014. Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

19 FAIR VALUE *(continued)*

19.2 Fair value and fair value hierarchies *(continued)*

19.2.2 Transfers between Level 1 and 2

For the year ended September 30, 2014, no assets were transferred between Level 1 and Level 2.

19.2.3 Reconciliation of movements in Level 3 financial instruments measured at fair value

For the year ended September 30, 2014 and 2013, no assets were classified as Level 3 investment. There was therefore no movement in Level 3 financial instruments between 2014 and 2013.

20 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below analyses the discounted assets and liabilities of the Bank based on the remaining period at September 30, to the contractual maturity date. See Note 17.3 - 'Liquidity risk' - for an analysis of the financial liabilities based on contractual undiscounted repayment obligations.

	Within 12 months	After 12 months	Total
2014			
ASSETS			
Cash	9,615	–	9,615
Statutory deposits with Central Bank	40,729	–	40,729
Due from banks	117,270	–	117,270
Treasury Bills	2,820	–	2,820
Investment interest receivable	1,201	–	1,201
Advances	37,400	438,886	476,286
Investment securities	25,480	85,839	111,319
Premises and equipment	1,029	34,572	35,601
Pension assets	–	6,731	6,731
Deferred tax assets	–	1,458	1,458
Other assets	5,194	–	5,194
	240,738	**567,486**	**808,224**
LIABILITIES			
Due to banks	17,349	–	17,349
Customers' current, savings and deposit accounts	683,301	796	684,097
Provision for post-retirement medical benefits	–	3,516	3,516
Deferred tax liabilities	–	3,136	3,136
Accrued interest payable	303	3	306
Other liabilities	6,114	2,181	8,295
	707,067	**9,632**	**716,699**

20 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

	Within 12 months	After 12 months	Total
2013			
ASSETS			
Cash	8,012	–	8,012
Statutory deposits with Central Bank	37,214	–	37,214
Due from banks	63,144	–	63,144
Treasury Bills	5,889	–	5,889
Investment interest receivable	1,330	–	1,330
Advances	57,993	434,283	492,276
Investment securities	1,519	86,182	87,701
Premises and equipment	297	36,052	36,349
Pension assets	–	6,520	6,520
Deferred tax assets	–	1,600	1,600
Other assets	1,448	–	1,448
	176,846	**564,637**	**741,483**
LIABILITIES			
Due to banks	8,931	–	8,931
Customers' current, savings and deposit accounts	622,107	2,034	624,141
Provision for post-retirement medical benefits	–	3,380	3,380
Deferred tax liabilities	–	3,600	3,600
Accrued interest payable	764	–	764
Other liabilities	4,440	3,127	7,567
	636,242	**12,141**	**648,383**

21 DIVIDENDS DECLARED AND PAID

	2014	2013
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2013: $0.00 (2012: $1.70)	–	2,550
First dividend for 2014: $0.00 (2013: $0.00)	–	–
Total dividends paid	–	2,550

For the year ended September 30, 2014. Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

22 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

a) Litigation

As at September 30, 2014 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 the eventuality.

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

	2014	2013
Guarantees and indemnities	**19,127**	10,233
	19,127	**10,233**

	2014	2013
c) Sectoral information		
Corporate and commercial	**18,172**	10,099
Personal	**72**	134
Other	**883**	–
	19,127	**10,233**
d) Leasing arrangment		
Lease payments recognised as expense in period	**601**	604
The future minimum lease payments under the contracts, divided into the following buckets		
a. Less than one year	**525**	600
b. Between one to five years	**358**	878
	883	**1,478**

23 SEGMENT REPORTING

As at September 30, 2014 and 2013, the Bank's entire operations are in the retail and commercial banking class of business in Grenada.

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