Republic Bank (Grenada) Limited

2018
Annual Report

2018
Annual Report

Making a difference

To provide hope for those in need and empowerment for those who are disenfranchised. To stay human and personal in our day to day service so that customers feel safe in our hands. To drive business with leading-edge technology. To stay the course and to thrive, no matter the economic climate. To change a life for the better. These are privileges we have earned on our journey of over 181 years and we will continue to do all that we can to make a positive difference in the lives of those we serve.

The Bank at a Glance

About Us

Incorporated on October 12, 1979, Republic Bank (Grenada) Limited is considered as one of the leading banks in Grenada with the widest network of branches (6). The Bank boasts its outstanding corporate social responsibility initiatives, which contribute to the general enhancement of Grenada; having won the prestigious Eastern Caribbean Central Bank's Best Corporate Citizen Award held among the commercial banks operating in the Eastern Caribbean Currency Union 8 times in the 20-year history of the award. In 2008, Republic Bank (Grenada) Limited became the first Grenadian corporation to list its shares on the Eastern Caribbean Securities Exchange. As at September 30, 2018, Republic Bank (Grenada) Limited's equity base stood at US$42.263 million and asset base at US$352.606 million.

Our 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.

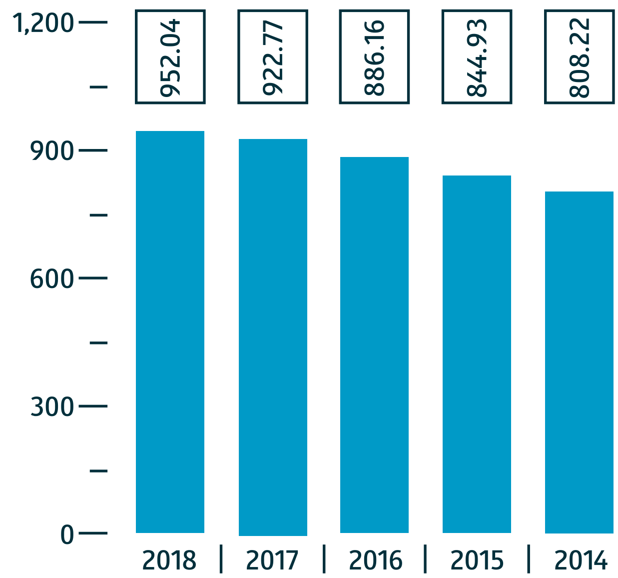
Our Mission

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.

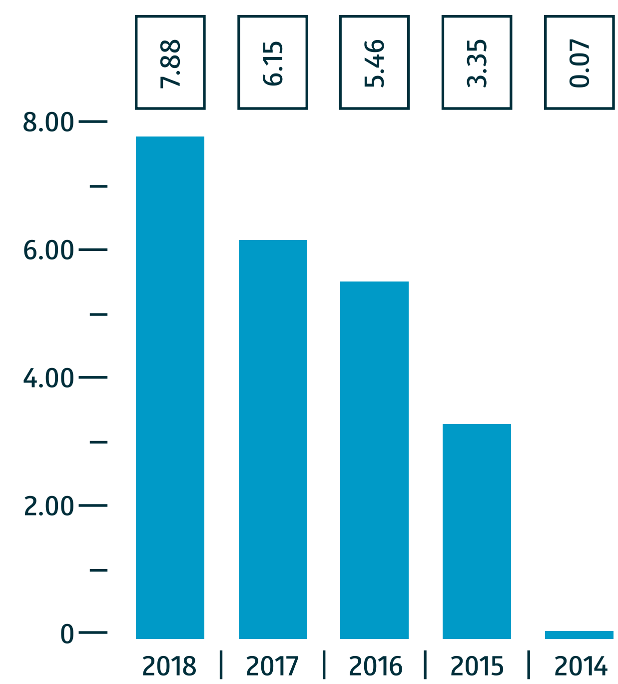
Core Values

Customer Focus
Integrity
Respect for the Individual
Professionalism
Results Orientation

Total Assets ($Millions)



Profit After Tax ($Million)

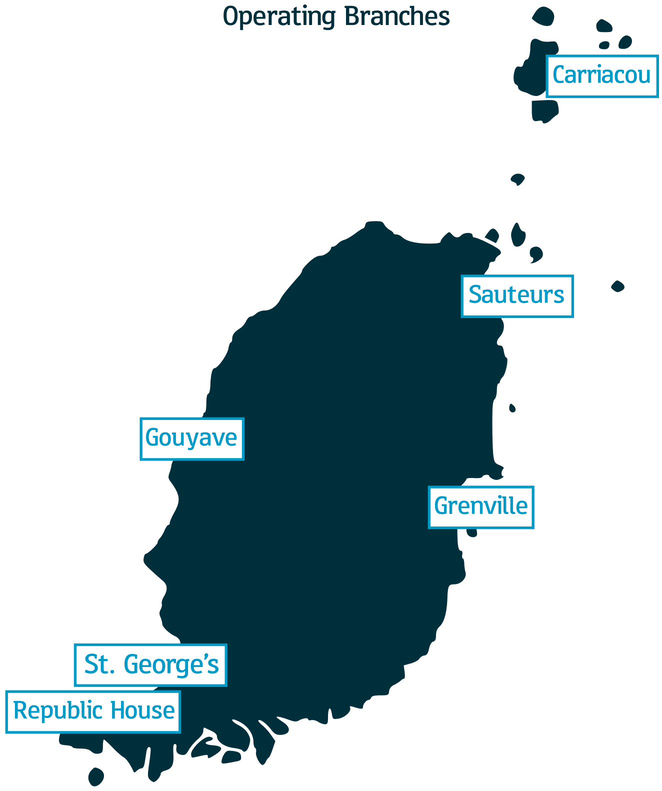


The Bank at a Glance

Network

Branches	6
ATMs	11
Employees	229
25	Financial Products & Services

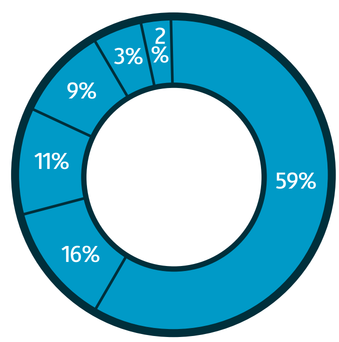
Operating Branches



Shares 2017 – 2018

	2017	2018
Share Price	$45	$45
Earnings per Share	$3.88	$4.84
Dividend Yield	0%	3.33%
PE Ratio	11.60	9.30

Sources of Revenue



Advances 59%

Investment Securities 16%

Fees & Commissions 11%

Exchange earnings 9%

Other Income 3%

Liquid Assets 2%

Corporate Social Responsibility

Republic Bank

THE POWER TO MAKE A DIFFERENCE

Through our social investment initiative, the Power to Make A Difference, we have formed powerful connections within communities with the aim of safeguarding the welfare and ensuring the sustainable success of this beautiful nation.

For more than a decade, through relationships with Non-Governmental Organisations (NGOs) and Community Based Organisations (CBOs), we have worked together to help enhance the quality of lives of the differently able; support healthcare programmes and disability awareness initiatives; provide opportunities for young people to realise their truest potential through sport, education, culture and the arts; and raise the bar for community investment through a wide-reaching, comprehensive staff volunteerism programme.

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Corporate Information

Making the difference through Culture

Across the Group, keeping tradition alive has stood paramount in working with diverse communities to preserve, protect, and promote various cultural aspects, with their development therefore positioned as yet another dimension through which young minds are challenged and awakened.

Notice of Meeting

ANNUAL MEETING

NOTICE is hereby given that the Thirty-fifth 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, on Thursday, December 13, 2018, at 9.00 a.m. for the following purposes:

1 To receive the Audited Financial Statements of the Company for the year ended September 30, 2018, and the Reports of the Directors and Auditors thereon.
2 To take note of the dividends paid for the twelve-month period ended September 30, 2018.
3 To elect Directors.
4 To re-appoint P K F as Auditors, and to authorise the Directors to fix their remuneration.
5 Any other business.

By order of the Board

Melissa Jankie
Corporate Secretary

November 13, 2018

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 13, 2018, 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 13, 2018, 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

A dividend of $1.50 for the financial year ended September 30, 2018 will be payable on December 6, 2018 (2017: Nil) to shareholders on record at the close of business on November 13, 2018.

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

Gregory I. Thomson, *BSc (Math and Physics), MBA*

Managing Director

Keith A. Johnson, *BSc (Accountancy), EMBA, AICB*

Non-Executive Directors

Leon D. Charles, *BSc (Hons.) Agri. Mgmt., MBA, Acc. Dir.*

Christopher Husbands, *BSc (Hons.) Civil and Env. Eng., MSc (Proj. Mgmt.), MBA (Finance), Acc. Dir.*

Richard M. Lewis, *HBA*

Parasram Salickram, *FCCA, ACMA, CGMA, CA, CFA, FRM*

Leslie-Ann Seon, *BA (Hons.), LLB (Hons.)*

Isabelle S. V. Slinger, *BSc (Info. Systems and Computers), CA*

Graham K. Williams, *BA (Econ.)*

Karen Yip Chuck, *Dip (Business Admin.), ACIB, BSc (Hons.) Econ., MBA, CIA*

Corporate Secretary

Melissa Jankie, *BSc (Econ.), LLB (Hons.), LPC*

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

Cnr. Church and Lucas Streets
St. George's
Grenada, West Indies

Seon & Associates

Lucas Street
St. George's
Grenada, West Indies

AUDITORS

P K F Accountants & Business Advisers

Grand Anse
St. George
Grenada, West Indies

Bank Profile

EXECUTIVE MANAGEMENT

Managing Director

Keith A. Johnson, *BSc (Accountancy), EMBA, AICB*

General Manager, Credit

Shaeen Ghouralal, *MBA, Dip. FM*

General Manager, Operations

Clifford D. Bailey, *BSc (Computing and Info Systems), MSc (IT and Mgmt.), Cert (Corp. Gov.)*

MANAGEMENT

Manager, Commercial Credit

Devon M. Thornhill, *BSc (Hons.) Bkg. and Fin.*

Manager, Head Office

Mavis H. Mc Burnie, *CAMS, AMLCA, Exec Dip. Mgmt Studies (Dist.), AICB, MBA*

Manager, Head Office

Mc Kie J. Griffith, *BSc (Mgmt.)*

Manager, Business Support Services

Hermilyn E.M. Charles

Manager, Finance

Elizabeth M. Richards-Daniel, *FCCA, MBA (Fin. Services)*

Manager, Information Technology

Dorian L. Mc Phail

Manager, Human Resources, Training and Development

Aesia B. Worme, *BSc (Hons.) Social Sciences, EMBA (Distinction), CAMS, Dip. Proj. Mgmt.*

HEAD OFFICE

Republic House

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

OTHER BANKING OFFICES

REPUBLIC HOUSE CLUSTER

Republic House Branch

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

Manager, Retail Services

Althea R. Roberts, *AICB*

Carriacou Branch

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

Officer-in-Charge

Roger J. Patrice

ST. GEORGE'S CLUSTER

St. George's Branch

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

Manager, Retail Services

Garnet K. Ross

Bank Profile

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

Officer-in-Charge
Hesta Mc Leish-Cox, *BSc (Bkg. and Fin.) (Acting)*

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

Manager, Retail Services
Kathleen Harris-Forrester *(Acting)*

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

Officer-in-Charge
Tarra A. Francis, *BSc (Hons.) Mgmt. Studies*

Financial Summary

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

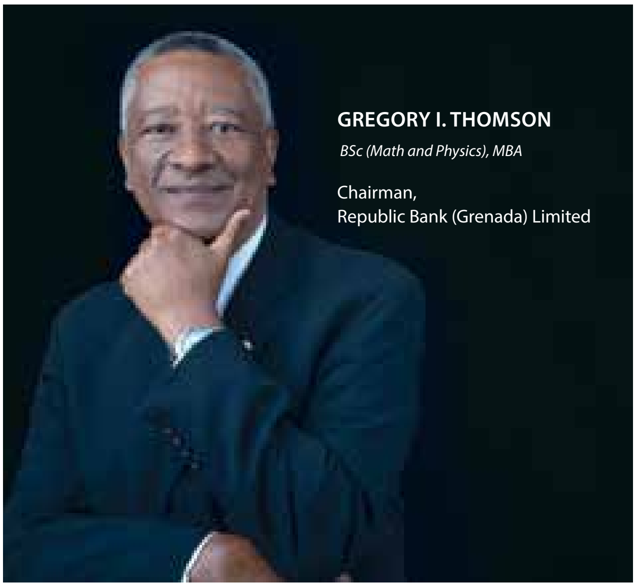
	2018	2017	2016	2015	2014	2013
Total Assets	**952,035**	922,771	886,156	844,925	808,224	741,483
Customer Deposits	**813,389**	795,324	769,232	728,603	684,097	624,141
Advances	**468,392**	442,879	468,508	476,924	476,286	492,276
Stated Capital	**20,745**	20,745	15,000	15,000	15,000	15,000
Shareholders' Equity	**114,110**	108,162	97,858	93,198	91,525	93,100
Number of Shares	**1,628**	1,628	1,500	1,500	1,500	1,500
Profit after Taxation	**7,878**	6,146	5,464	3,353	71	(5,933)
Dividends based on results for the year	**2,442**	–	–	1,500	–	–
Dividends paid during the year	**–**	–	1,500	–	–	2,550
Earnings per share ($)	**4.84**	3.88	3.64	2.24	0.05	(3.96)

Making the difference through Sport

The focus on sport as means of self-development and impetus for the realisation of the tremendous athletic potential that abounds within. These programmes continue to bring a greater sense of purpose in inspiring and guiding young achievers to set the right foundation to progress even further in their sporting careers while also offering invaluable coaching on softer life skills, such as discipline and team building.

02
Board of Directors and Management

Board of Directors



GREGORY I. THOMSON

BSc (Math and Physics), MBA

Chairman,
Republic Bank (Grenada) Limited

KEITH A. JOHNSON

BSc (Accountancy), EMBA, AICB

Managing Director,
Republic Bank (Grenada) Limited

LEON D. CHARLES

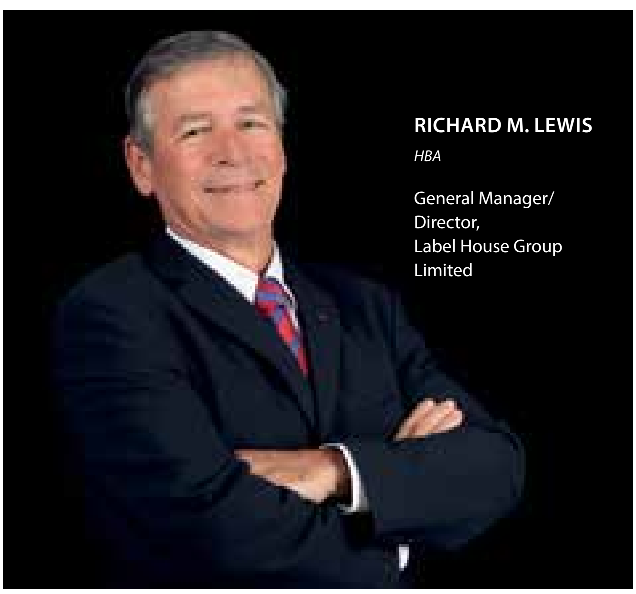
BSc (Hons.) Agri. Mgmt., MBA, Acc. Dir.

Chief Executive Officer,
Charles and Associates Inc.

CHRISTOPHER HUSBANDS

BSc (Hons.) (Civil and Env. Eng.), MSc (Proj. Mgmt.), MBA (Finance) Acc. Dir.

General Manager,
National Water and Sewerage Authority



RICHARD M. LEWIS

HBA

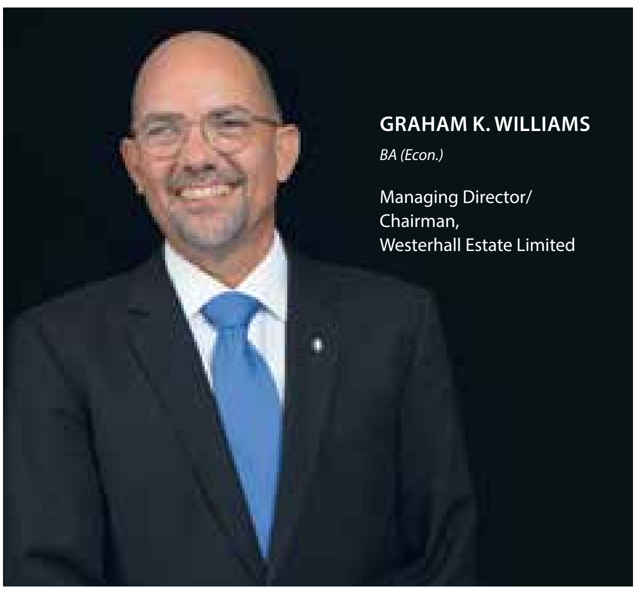
General Manager/ Director,
Label House Group Limited

PARASRAM SALICKRAM

FCCA, ACMA, CGMA, CA, CFA, FRM

Chief Financial Officer,
Republic Financial Holdings Limited
General Manager,
Planning and Financial Control,
Republic Bank Limited

Board of Directors



Board of Directors

GREGORY I. THOMSON

BSc (Math and Physics), MBA

Chairman, Republic Bank (Grenada) Limited

Retired Banker

Gregory I. Thomson was appointed to the Board of Republic Bank (Grenada) Limited in 2017. He served as the Deputy Managing Director of Republic Bank Limited for seven years before retiring from this position in 2012. He has more than 35 years of experience in Banking and Finance, and holds an MBA from the University of Western Ontario, Canada and a BSc in Mathematics and Physics from the University of the West Indies (St. Augustine).

External Appointment

Mr. Thomson is currently a member of the Board of Directors at One Caribbean Media Ltd.

KEITH A. JOHNSON

BSc (Accountancy), EMBA, AICB

Managing Director, Republic Bank (Grenada) Limited

Keith A. Johnson was appointed Managing Director of Republic Bank (Grenada) Limited in 2009. He started his banking career in Guyana in 1976 and has served in various leadership roles in the Bank's Guyana operations. Mr. Johnson holds an EMBA in Business Management from the University of the West Indies (UWI) (Cave Hill), a BSc in Accountancy from the University of Guyana, and is an Associate of the Institute of Canadian Bankers.

External Appointments

Mr. Johnson is the Vice Chairperson of the Caribbean Association of Banks Inc., the Vice-President of the Eastern Caribbean Currency Union Bankers Association, and is also the current President of the Grenada Bankers Association.

LEON D. CHARLES

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

Chief Executive Officer, Charles and Associates Inc.

Leon D. Charles was appointed to the Board of Republic Bank (Grenada) Limited in 1990. Mr. Charles is the owner and manager of the consulting firm, Charles and Associates (CAA) Inc., with professional training including an MBA from the University of Western Ontario, a BSc (First Class Honours) in Agriculture Management from the University of the West Indies, and additional training in International Environmental Law, Overcoming Negotiation Deadlocks and Climate Finance Readiness. He is active in a wide range of business and sustainable development fields at the local, regional and international levels. His core activities in business include strategic planning, project development and evaluation, management training, and facilitation; while activities in sustainable development include climate change advisory services, high level national representation at the United Nations climate change negotiations, poverty reduction, and early childhood development programming.

CHRISTOPHER HUSBANDS

BSc (Hons) Civil and Env. Eng., MSc (Proj. Mgmt.), MBA (Finance), Acc. Dir.

General Manager, National Water and Sewerage Authority

Christopher Husbands was appointed to the Board of Republic Bank (Grenada) Limited in 2015. He has been the General Manager of the National Water and Sewerage Authority since 2008. Mr. Husbands holds an MBA in Finance from the University of Toronto, an MSc in Project Management from the Florida International University, and a BSc with Honours in Civil and Environmental Engineering from the University of the West Indies. He has participated in a wide variety of short term courses, conferences and workshops, and was awarded the designation of 'Accredited Director' after completing the Eastern Caribbean Securities Exchange Directors Education and Accreditation Programme.

RICHARD M. LEWIS

HBA

General Manager/Director, Label House Group Limited

Richard M. Lewis was appointed to the Board of Republic Bank (Grenada) Limited in 2015 and is the General Manager/Director of Label House Group Limited; the largest specialist label and packaging printer in the Caribbean. Mr. Lewis holds an HBA with Honours from the University of Western Ontario Richard Ivey School of Business, and is a graduate of the Newcastle Institute of Technology. He is also a Director of Republic Bank (Guyana) Limited and a Director of Republic Securities Limited.

External Appointments

Mr. Lewis is the Chairman of Prestige Business Publications and the Beacon Insurance Company Ltd.

Board of Directors

PARASRAM SALICKRAM

FCCA, ACMA, CGMA, CA, CFA, FRM

Chief Financial Officer, Republic Financial Holdings Limited
General Manager, Planning and Financial Control,
Republic Bank Limited

Parasram Salickram, was appointed to the Board of Republic Bank (Grenada) Limited in 2016. He is the Chief Financial Officer, Republic Financial Holdings Limited and General Manager, Planning and Financial Control, Republic Bank Limited. Prior to his current position, Mr. Salickram worked as an External Auditor in Guyana for 7 years, and has served as Chief Financial Officer of the Group's subsidiaries in the Dominican Republic and Barbados. Mr. Salickram is a Fellow of the Association of Chartered Certified Accountants, a member of the Chartered Institute of Management Accountants, and a member of the Chartered Global Management Accountants. He is a CFA® charterholder and holds the Financial Risk Manager (FRM) designation from the Global Association of Risk Professionals (GARP). He is also a graduate of the Harvard Business School Advanced Management Program (AMP).

LESLIE-ANN SEON

BA (Hons.), LLB (Hons.), LEC

Principal, Seon & Associates

Leslie-Ann Seon was appointed to the Board of Republic Bank (Grenada) Limited in 2015. Admitted to practice at the Bars of Grenada, Barbados, and the British Virgin Islands since 1993, Ms. Seon has extensive experience in the fields of corporate and commercial law, insolvency, real estate, and cross-border transactional advisory work. She holds a BA with Honours and an LLB with Honours from the University of the West Indies, and the LEC from the Hugh Wooding Law School.

External Appointments

Ms. Seon is the Principal of the law firm of Seon & Associates, currently serves as Chairman of the Grenada Investment Development Corporation, and is the Honorary Consul in Grenada for Chile.

ISABELLE S.V. SLINGER

BSc (Info. Systems and Computers), CA

Principal, Comserv Limited

Isabelle S.V. Slinger was appointed to the Board of Republic Bank (Grenada) Limited in 2009. She is the Principal of Comserv Ltd; a company that has been active in the Financial and Information Technology sectors for more than 25 years, providing advisory services to companies both locally and internationally. An Honours graduate of London Metropolitan University and holder of a BSc in Computers and Information Systems, Ms. Slinger is a practicing member and secretary of the Institute of Chartered Accountants of the Eastern Caribbean (ICAEC), and also operates various companies in the local agro-tourism sector.

External Appointments

Ms. Slinger currently serves on several boards including the Grenada Investment Development Corporation, T. A. Marryshow Community College, and David Slinger and Co. Ltd.

GRAHAM K. WILLIAMS

BA (Econ.)

Managing Director/Chairman, Westerhall Estate Limited

Graham K. Williams was appointed to the Board of Republic Bank (Grenada) Limited in 2012. He is the Managing Director and Chairman of Westerhall Estate Limited and has extensive experience in new product development and business expansion and development. Mr. Williams holds a BA in Economics from the University of Windsor.

External Appointments

Mr. Williams is the Chairman of Guardian General Insurance (OECS) Ltd.

KAREN YIP CHUCK

Dip. (Business Admin.), ACIB, BSc (Hons.) (Econ.) , MBA, CIA

General Manager, Corporate and Investment Banking,
Republic Bank Limited

Karen Yip Chuck was appointed to the Board of Republic Bank (Grenada) Limited in 2013. A banker for more than 25 years, Ms. Yip Chuck is the General Manager, Corporate and Investment Banking, Republic Bank Limited. She is a graduate of The University of the West Indies (UWI) and Heriot Watt University of Edinburgh. Ms. Yip Chuck is a Certified Internal Auditor and an Associate of the Chartered Institute of Banking (ACIB).

External Appointments

Ms. Yip Chuck serves on the boards of Trintrust Limited, London Street Project Company Limited, Stone Haven Villas Limited, and the Trinidad and Tobago Chamber of Industry and Commerce.

Directors' Report

Your Directors have pleasure in submitting their Report for the year ended September 30, 2018.

FINANCIAL RESULTS AND DIVIDENDS

The Directors report that the Bank has recorded a profit after taxation of $7.878 million for the year ended September 30, 2018. The Directors have declared a dividend of $1.50 per share (2017: Nil).

SUBSTANTIAL INTEREST IN SHARE CAPITAL AS AT SEPTEMBER 30, 2018.

	Ordinary Shares
Republic Financial Holdings Limited	1,232,337

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, Graham K. Williams, Isabelle S.V. Slinger, and Christopher Husbands retire from the Board by rotation and, being eligible, offer themselves for re-election for a term expiring at the close of the third annual meeting following this appointment.

In accordance with By-Law No.1, Paragraph 4.3.1, Gregory I. Thomson, having been appointed since the last meeting to fill the casual vacancy created by the resignation of Ronald F. deC. Harford and, being eligible, offers himself for election for a term expiring at the close of the third annual meeting following this appointment.

DIRECTORS' INTEREST

Set out are the names of the Directors with an interest in the company at September 30, 2018, together with particulars of their holdings.

Director	Beneficial Interest	Non-Beneficial Interest
Leon D. Charles	200	Nil
Gregory I. Thomson	Nil	50
Keith A. Johnson	50	Nil
Isabelle S. V. Slinger	Nil	50
Graham K. Williams	Nil	50
Karen Yip Chuck	Nil	50
Leslie-Ann Seon	50	Nil
Christopher Husbands	150	Nil
Richard M. Lewis	Nil	50
Parasram Salickram	Nil	50

AUDITORS

The retiring Auditors P K F 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

Melissa Jankie

Melissa Jankie

Corporate Secretary

Chairman's Review

GREGORY I. THOMSON

Chairman's Review

This is my first year as Chairman, having taken over from Mr. Ronald F. deC. Harford in January 2018. Mr. Harford was Chairman of The Board for 20 years, during which period he provided great insight and astute leadership. I wish to sincerely thank him for his sterling service to the Bank and to wish him all the best in his future endeavours.

FINANCIAL PERFORMANCE

I am pleased to report that for the year ended September 30, 2018, the Bank recorded a Net Profit after tax of $7.88 million, an increase of $1.73 million over last year's performance. This improvement was mainly due to an increase in other income and a reduction in credit losses.

Assets increased by 3.17% to $952.0 million from the 2017 level of $922.8 million. As at September 30, 2018, the Bank is well capitalised with a Tier 1 capital ratio of 14.41%.

During fiscal 2018, the Bank early-adopted International Financial Reporting Standard (IFRS) 9, which resulted in a decrease in capital of $1.5 million. The Eastern Caribbean Central Bank (ECCB) has signalled its intention to implement Basel II/III from June 2020, which will have a further negative impact on capital. We, however, have sufficient capital to withstand the expected additional capital requirements. Based on the results for 2018 and our solid capital ratios, but tempered by the impending implementation of Basel II/III, the Board has approved a dividend of $1.50 for the year (2017: Nil). The dividend will be paid on December 6, 2018.

GRENADA ECONOMY

The construction, tourism and education sectors were the main contributors to Grenada's economic growth in 2017. Since 2014, Grenada's tourism industry has experienced yearly growth from its traditional markets. This year, tourism continued to show positive signs of growth, with stop-over tourist arrivals growing by 9.8% during the first seven months of 2018. The US, Grenada's main market, saw a 16.1% year-on-year increase. The cruise sector grew as well, increasing by 26.8% during the January-July period.

The construction sector activity was aided by tourism-related projects like the Silver Sands Resort and the Kimpton Kawana Bay Hotel, which are scheduled to open in November 2018 and October 2019 respectively. While these construction projects provided a welcome boost to employment levels, Grenada's unemployment rate is still high at 23.6%.

The government continues to implement sound fiscal management as it recorded a fiscal surplus of 3% of Gross Domestic Product (GDP) in 2017. Revenues were boosted by healthy economic activity and improved tax administration, while the implementation of fiscal rules and other government policies aided in the reduction of recurrent expenditure. Tight fiscal management was maintained for the first quarter of 2018 with a fiscal surplus of 1.4% of GDP.

The successful completion of the final phase of debt restructuring, has helped to reduce the nation's public debt to 70.8% of GDP at the end of 2017.

The financial sector has shown improvement in profitability, asset quality and liquidity. Private sector credit improved slightly in 2017, expanding by 0.6%, following a marginal contraction of 0.2% in the previous year.

REGIONAL AND GLOBAL ECONOMY

In its October 2018 Regional Economic Outlook, the International Monetary Fund (IMF) forecast 2018 GDP growth of 1.4% for both tourism-dependent countries and commodity exporters. While this rate is an improvement over the 2017 growth rate of 1.1% for tourism-dependent countries, for commodity exporters it represents a complete reversal of the 1.3% contraction registered last year. In 2019, Tourism-dependent countries are expected to grow by 1.8% and commodity exporters by 1.6%. The global economy is projected to grow by 3.7% in 2018 and 2019. This is identical to that achieved in 2017.

OUTLOOK

Healthy economic growth is projected for 2018 and the IMF and the Eastern Caribbean Central Bank have forecasted growth of 3.6% and 3.9% respectively for Grenada. The tourism sector will be the main impetus for growth and this sector is expected to receive a further boost with the opening of Silver Sands Grenada later this year. The construction sector will continue to experience growth with tourism-led projects like the Kimpton Kawana Bay Hotel. Inflation, which was mostly contained in 2017, should increase moderately in 2018 with the rise in global energy prices. The IMF, in its July 2018 report, is projecting the Grenada economy to grow by 3.6% in 2019.

As expected, natural disasters would remain an ever-present downside risk for the tri-island state.

APPRECIATION

On behalf of the Board of Directors, I extend special thanks to the management and staff for their commitment and dedication, our shareholders and customers for their loyalty and support, and my fellow directors for their continued guidance and counsel.

Managing Director's Discussion and Analysis

KEITH A. JOHNSON

Managing Director's Discussion and Analysis

INTRODUCTION

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

Grenada's economy continues to improve, and for 2017, expanded by 3.7%. This performance was attributable in part to reforms and initiatives implemented under the three-year Homegrown Structural Adjustment Programme, which concluded during the year. There were strong performances in major sectors such as tourism, construction, and education, with positive spin-off effects in auxiliary sectors such as transport, storage and communications; wholesale and retail trade; and real estate, renting and business services. Meanwhile, output in the agricultural sector declined.

The general improvement in the economy is reflected in the increase in the loans portfolio of the Bank, as well as the wider market. For the 12 months to July 2018, the market experienced a 1.78% increase, while the Bank experienced a 5.15% increase. The Bank's increase in loans during the period was 81% of the total increase in the market and, as a result, increased its market share from 27.94% as at July 31, 2017 to 28.87% as at July 31, 2018.

The Bank's non-performing portfolio reduced further during fiscal 2018 and, as at September 30, 2018, the non-performing loans ratio declined to 3.81% from 6.16% in 2017. This is a significant achievement for the Bank as it is the first time since 2011 that our non-performing loans ratio fell below the Eastern Caribbean Central Bank's (ECCB) prudential threshold of 5%.

During the third quarter of fiscal 2018, the Bank early-adopted IFRS 9 - Financial Instruments, with effect from October 1, 2017, in advance of October 1, 2018, the effective date for the Bank, as required by the International Accounting Standards Board. The net impact of adopting the standard is a reduction of $1.495 million in equity.

The following is a discussion and analysis of the financial performance and position of the Bank for the year ended September 30, 2018. This discussion should be read in conjunction with the audited financial statements contained on pages 52 to 119 of this report. All amounts are stated in Eastern Caribbean dollars (EC).

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, 2018.

	2018	2017
United States dollars	**2.7000**	2.7000
Canadian dollars	**2.0737**	2.1714
Pounds sterling	**3.5203**	3.6071
Euro	**3.1338**	3.1914
Trinidad and Tobago dollars	**0.4067**	0.4067

Managing Director's Discussion and Analysis

SUMMARY OF OPERATIONS

All figures are in millions of Eastern Caribbean dollars

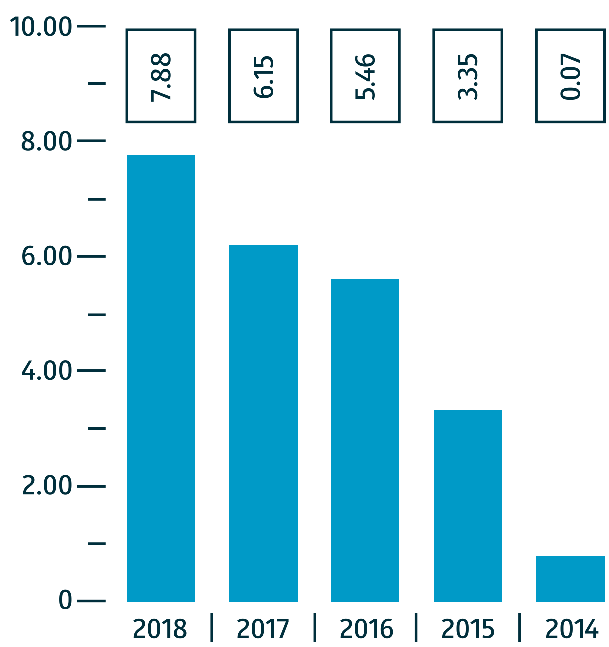
	2018	2017	Change	Change %
Profitability				
Core profit before taxation and credit loss	**10.183**	9.275	0.908	9.79
Credit loss on financial assets	**0.186**	1.859	(1.673)	(89.98)
Profit before taxation	**9.997**	7.416	2.581	34.80
Profit after taxation	**7.878**	6.146	1.731	28.17
Statement of Financial Position				
Total assets	**952.035**	922.771	29.264	3.17
Total advances	**468.392**	442.879	25.513	5.76
Total deposits	**813.389**	795.324	18.065	2.27
Shareholders' equity	**114.110**	108.162	5.947	5.50

STATEMENT OF INCOME REVIEW

For the year ended September 30, 2018, the Bank recorded a net profit after tax of $7.878 million, an increase of 28.18% or $1.732 million from the $6.146 million recorded in fiscal 2017. This improvement was largely the result of an increase in other income of $2.016 million and a reduction in credit loss on financial assets of $1.673 million, partly offset by an increase in operating expenses ($0.688 million) and taxes ($0.849 million).

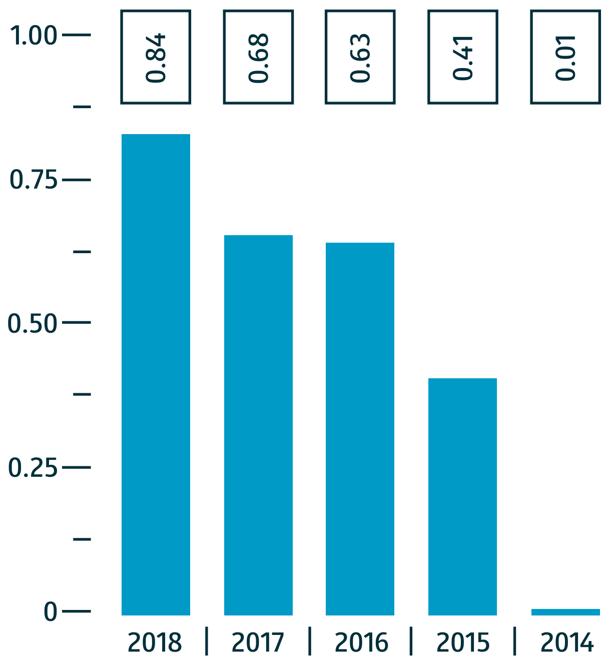
The Bank's principal performance indicators improved in fiscal 2018. Return on average assets (ROA) increased from 0.68% to 0.84% and return on average equity (ROE) from 5.97% to 7.09%.

Profit After Tax ($Millions)

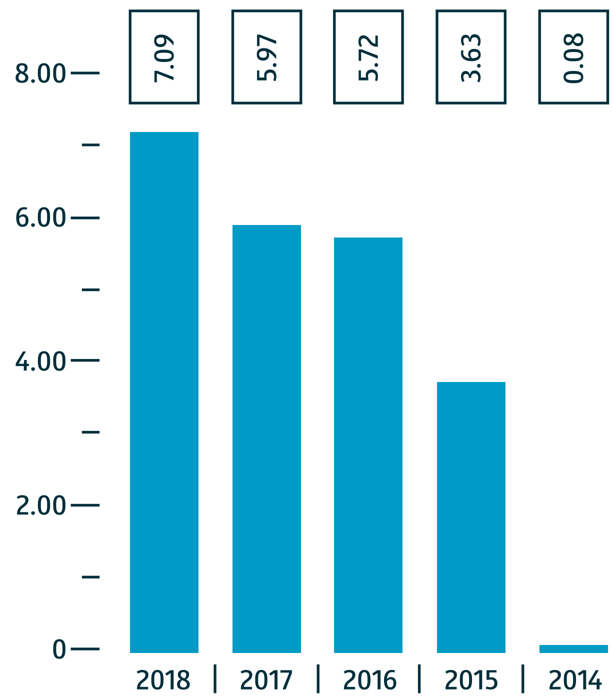


Managing Director's Discussion and Analysis

Return on Average Assets (%)

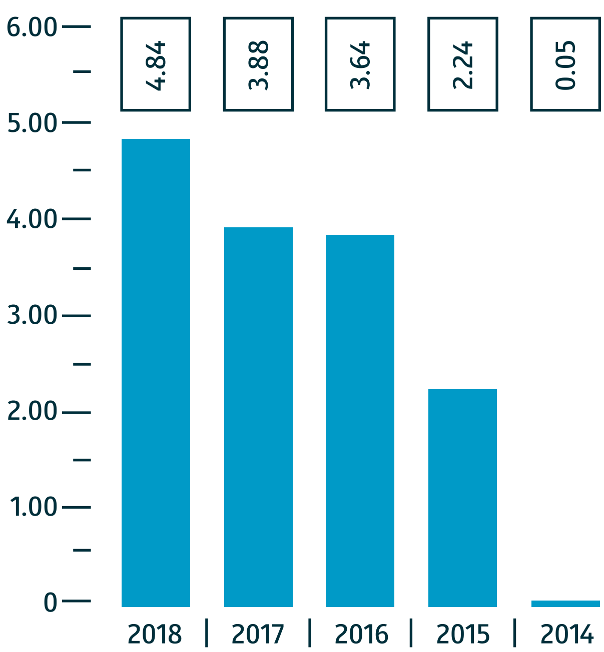


Return on Average Equity (%)



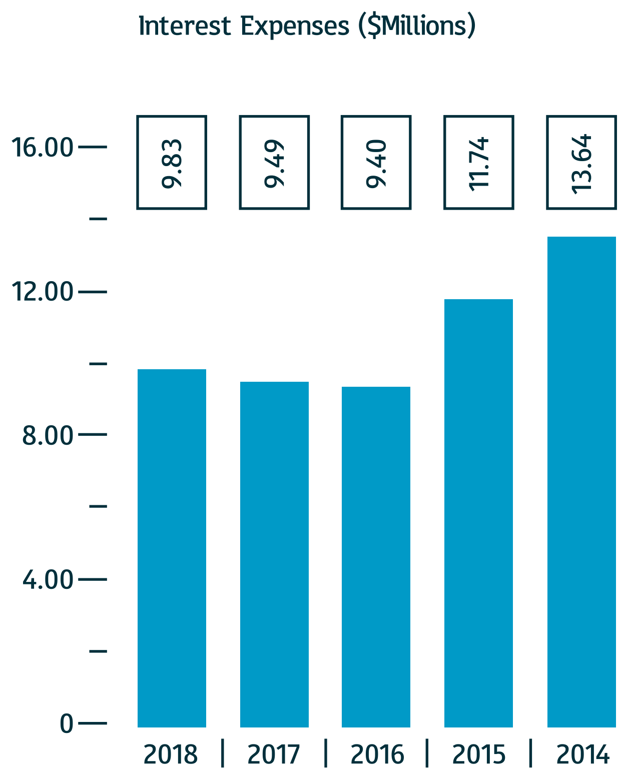
Earnings per share increased to $4.84 from $3.88 in 2017, in line with the increase in profits.

Earnings per Share ($)



Managing Director's Discussion and Analysis

NET INTEREST INCOME



Following an increase of $0.943 million in 2017, total interest income declined by 0.19% or $0.082 million to $43.073 million in 2018. While interest income on investments increased, this was offset by a reduction in interest income on loans.

Interest income from investments increased by $1.230 million, or 16.30%, from the previous financial year. This increase was consistent with the $25.034 million growth in the portfolio and represented continued efforts to utilise excess liquidity within the Bank's risk appetite.

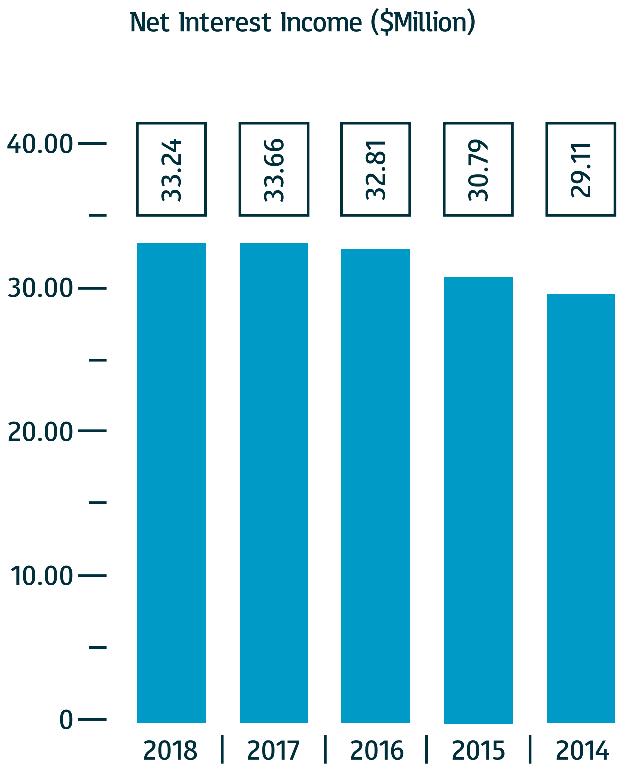
Notwithstanding growth in the loan portfolio of $25.513 million or 5.76%, interest income on loans reduced by $1.564 million or 4.51% during the financial year. This was due to declining yields arising from market competition to reduce interest rates to maintain existing relationships and attract new business.

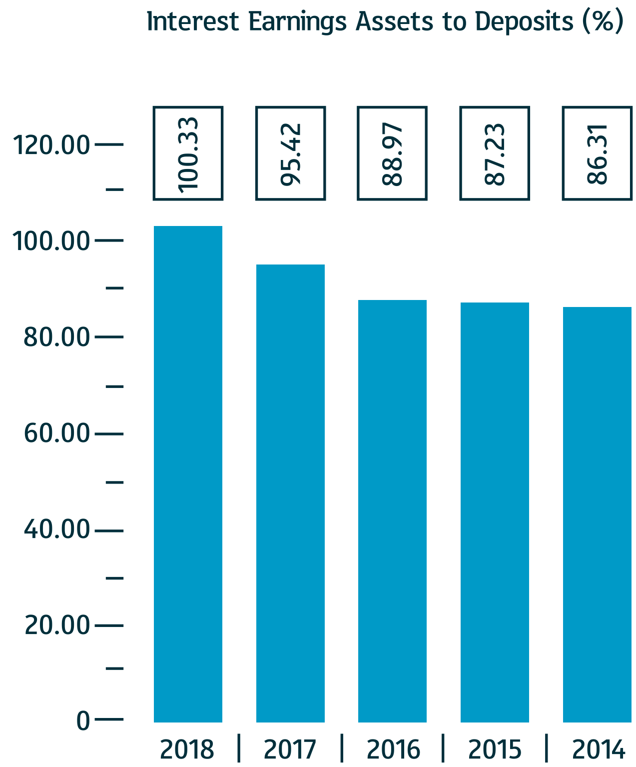
Interest expense increased by 3.56% or $0.338 million to $9.831 million from the $9.493 million recorded in 2017. Savings deposits increased by $18.350 million during the fiscal directly impacting interest expense.

Due to the decrease in interest income and the increase in interest expense, net interest income decreased by $0.420 million or 1.25%.

The ratio of the Bank's interest earning assets to customer deposits increased to 100.33% from 95.42% in 2017. This reflects the Bank's policy of making maximum use of customer deposits. The entire increase in deposits during the fiscal was used to partly fund the increase in loans and investments.

Managing Director's Discussion and Analysis





OTHER INCOME

Other income of $12.657 million in 2018 was $2.016 million or 18.95% higher than the 2017 earnings of $10.641 million. This was primarily due to an increase in exchange earnings of $1.306 million mainly due to an increase in foreign exchange activities. There was also an increase in commissions of $0.611 million.

Sources of Revenue

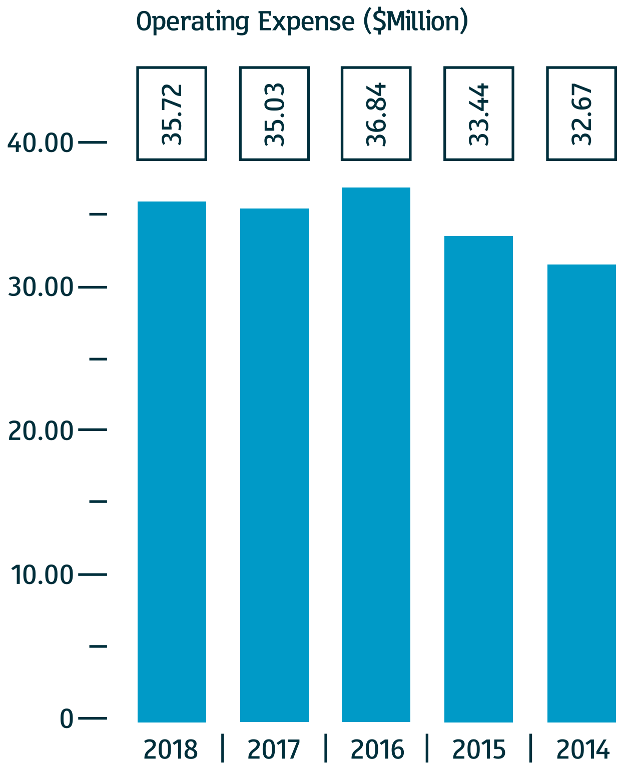
	2018	2017	Change
Advances	**59.45%**	64.49%	-5.04%
Investment securities	**15.74%**	14.02%	1.72%
Liquid assets	**2.09%**	1.70%	0.39%
Exchange earnings	**9.49%**	7.40%	2.09%
Fees and commissions	**10.51%**	9.75%	0.76%
Other operating income	**2.71%**	2.63%	0.09%

The major movements in sources of revenue were reflected in interest on loans and investments and exchange earnings.

Operating Expense

Operating expenses increased by 1.97% or $0.689 million to $35.716 million from $35.028 million in 2017. This was primarily due to an increase in staff cost of $0.791 million and an increase in advertising expenses of $0.282 million partly offset by a reduction in general administrative expenses of $0.339 million.

Managing Director's Discussion and Analysis



Revenue Distribution

	2018	2017	Change
Interest expense	**18.40%**	18.74%	-0.33%
Staff cost	**36.08%**	36.48%	-0.40%
Depreciation	**5.54%**	6.02%	-0.48%
General administration expense	**20.97%**	22.79%	-1.81%
Other expenses	**4.26%**	3.85%	0.41%
Retained earnings	**14.75%**	0.79%	13.95%
Statutory reserve	**0.00%**	11.34%	-11.34%

The major shifts in revenue distribution during the period were reflected in Retained earnings and Statutory reserves. Distribution to Retained earnings increased in fiscal 2018 as the total profit after tax of $7.878 million went to Retained earnings compared to $0.402 million in fiscal 2017. In fiscal 2017, $5.745 million of the profit after tax went to Statutory reserve due to a requirement to increase the reserve until it is equal to the Stated capital.

Consequently, revenue distribution to Statutory reserve decreased in fiscal 2018 as we are no longer required to transfer profits to Statutory reserve as the statutory reserve is now equal to the stated capital as required by law.

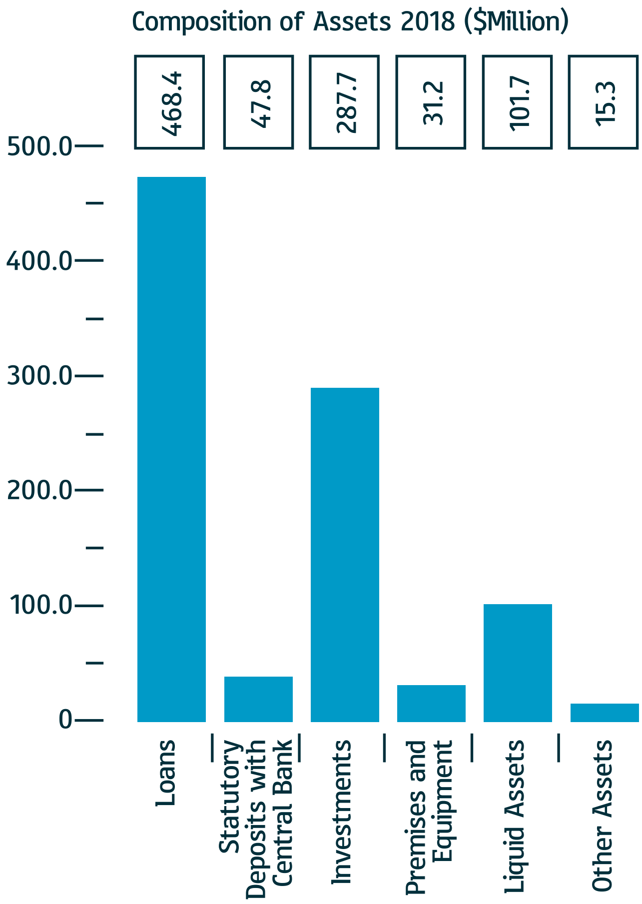
Credit loss expense

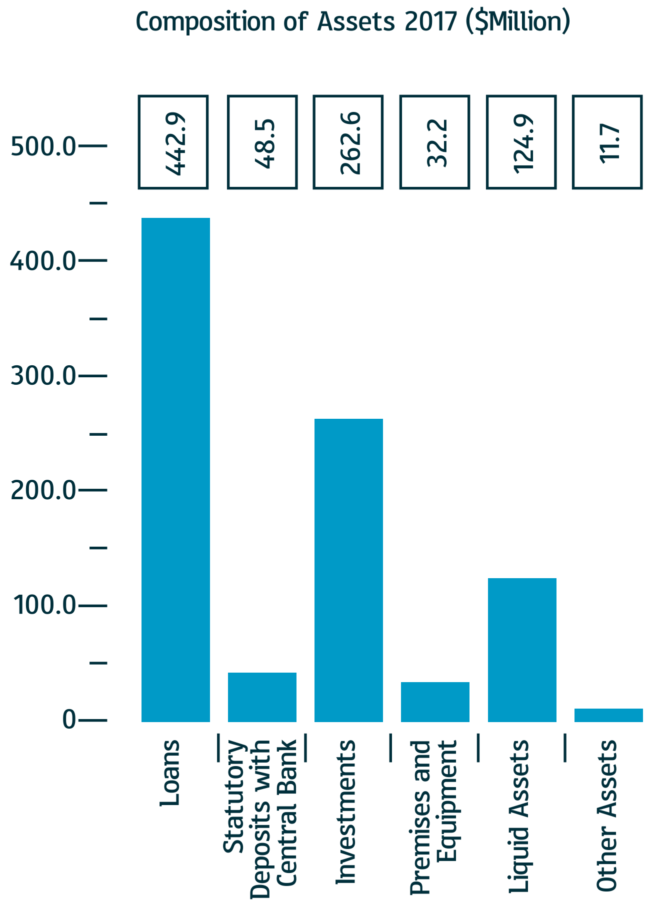
Credit loss expense decreased by $1.673 million year-on-year, mainly due to a reduction in loan loss provision of $1.569 million as a result of improvement in credit quality emanating from more rigorous risk management application and collection efforts.

Managing Director's Discussion and Analysis

STATEMENT OF FINANCIAL POSITION REVIEW

Total assets increased by 3.17% or $29.264 million to $952.035 from $922.771 in 2017. The major changes in the composition of assets during the fiscal were in loans and investments.





Liquid assets

Liquid assets decreased by 18.57% or $23.183 million to $101.687 million from $124.870 million in 2017. This decrease partly funded the increase in loans and investments.

Managing Director's Discussion and Analysis

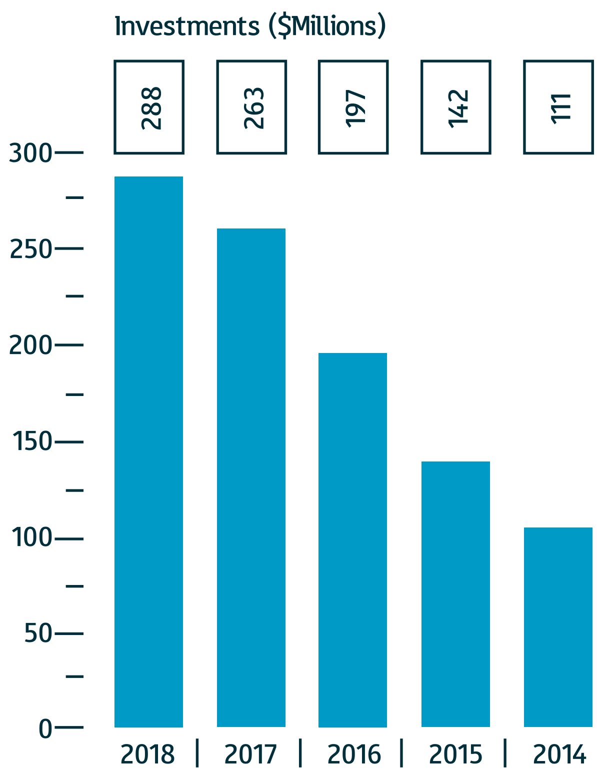
Investments

During fiscal 2018, the investments portfolio increased by $25.034 million or 9.53% to $287.665 million from $262.631 in 2017. This increase originated mainly from international markets and represents continued efforts to utilise excess liquidity within the Bank's risk appetite.

Loans

The gross loans portfolio increased by $18.870 million or 4.11% to $477.731 million from $458.861 million in 2017, reflecting the general improvement in the economy and the trend in the market where an increase of 1.78% was recorded for the period July 2017 to July 2018.

Performing loans increased by $28.697 million with 99.18% of the increase in mortgages. Retail and Corporate and Commercial loans increased by $1.779 million and $0.408 million respectively, while overdrafts decreased by $1.952 million.



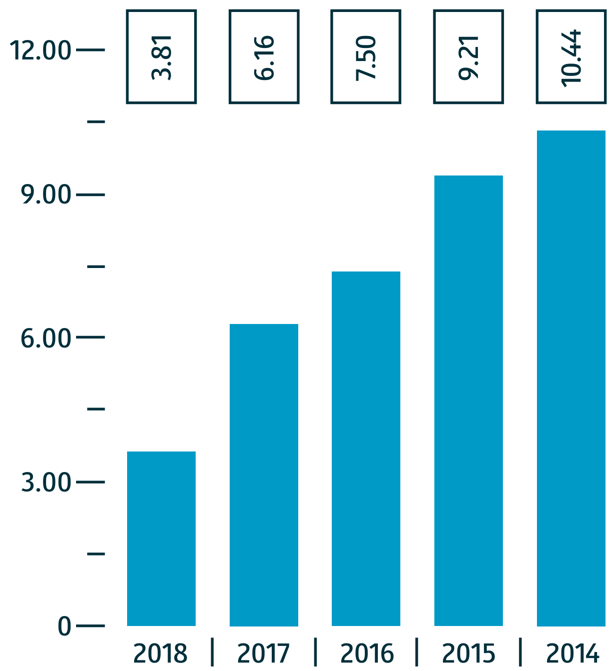
Managing Director's Discussion and Analysis

Non-performing loans

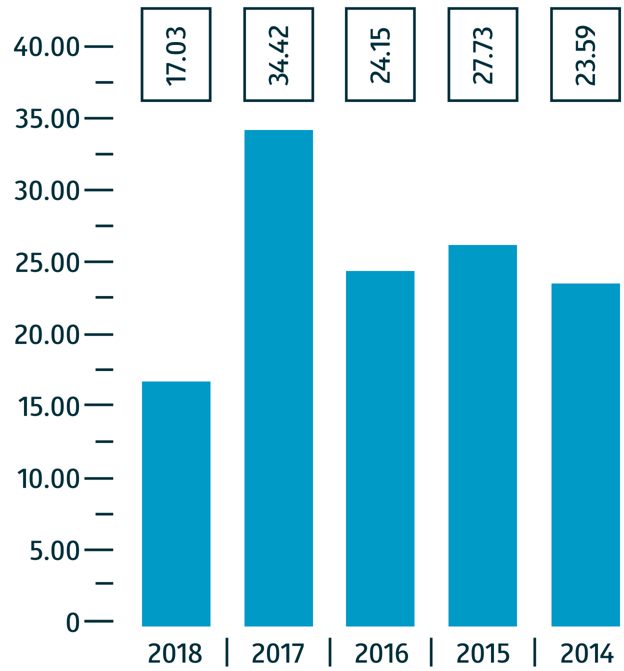
During the financial year, there was a significant decline in the non-performing portfolio which decreased by 35.62% or $10.075 million to $18.207 million from $28.282 million in 2017. As a result, the non-performing loans ratio decreased to 3.81% from 6.16% at the end of fiscal 2017. This is the fourth consecutive year the Bank experienced a decrease in this ratio after peaking at 10.44% in 2014 and is now within the ECCB's benchmark of 5%.

The ratio of specific provision for loan losses to non-performing loans moved to 17.03% from 34.42% in 2017 reflecting the strong quality of the Bank's collateral.

Non-Performing to Gross Loans (%)



Specific Provisions to Non-Performing to Gross Loans (%)



Managing Director's Discussion and Analysis

Deposits

Customer deposits increased by $18.065 million or 2.27% to $813.389 million from $795.324 million in 2017. The entire increase in deposits was used to partly fund the increase in loans and investments.

The market also experienced an increase in deposits. During the period July 2017 to July 2018, both the market and the Bank experienced an increase in deposits of 4.61% and 3.31% respectively.

Loans to deposits

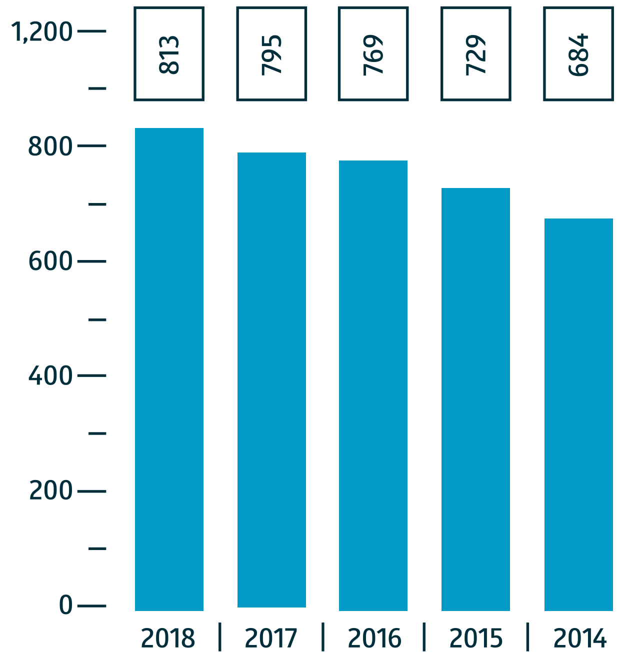
While both deposits and loans increased during the period, the increase in loans was $7.448 million more than the increase in deposits, resulting in an increase in the loans to deposit ratio to 57.59%, up from 55.69% in 2017.

MANAGEMENT OF RISK

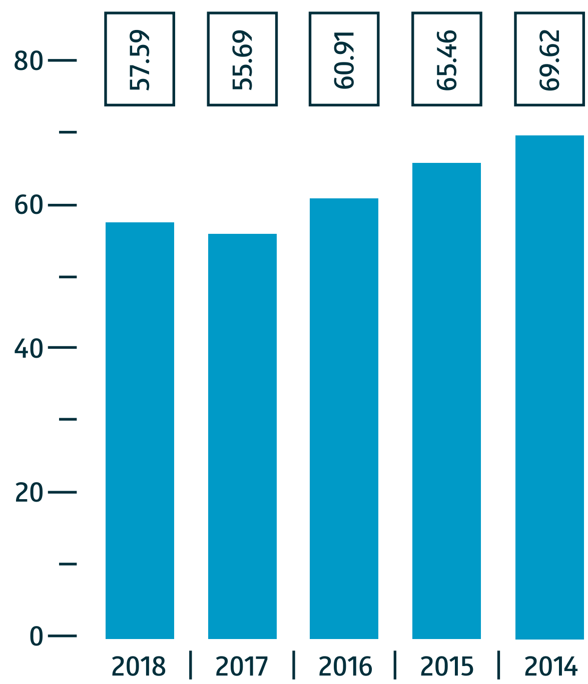
Overview

The Bank's prudent banking practices are based on solid risk management. Utilising the resources of Republic Financial Holdings 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.

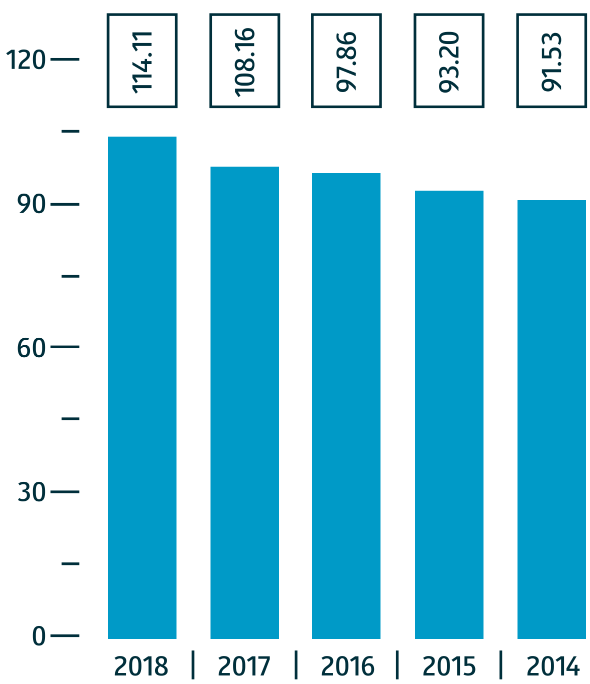
Customer Deposits ($Million)



Loans to Deposits (%)



Shareholders' Equity ($Millions)



Managing Director's Discussion and Analysis

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 $114.110 million as at September 30, 2018, an increase of $5.947 million during the fiscal. The increase in equity was due to profits of $7.878 million partly offset by the impact of IFRS 9 of $1.495 million and a reduction in defined benefit reserve.

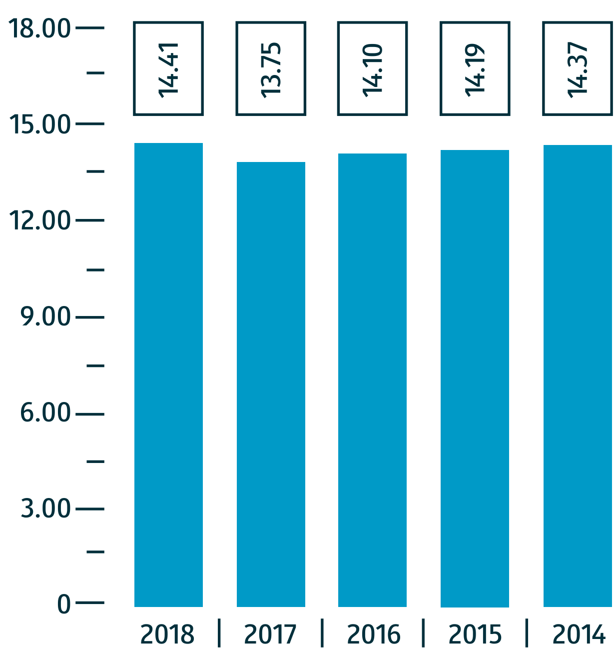
The adoption of IFRS 9, as at October 1, 2017, resulted in an increase in impairment expenses of $1.054 million, and, as permitted by the Standard, reduced equity. Additionally, the previously held market value adjustment of $1.586 million held under IAS 39 was reversed from equity. These were partly offset by deferred taxes of $1.145 million which resulted in a net decrease in equity of $1.495 million.

Regulatory Capital

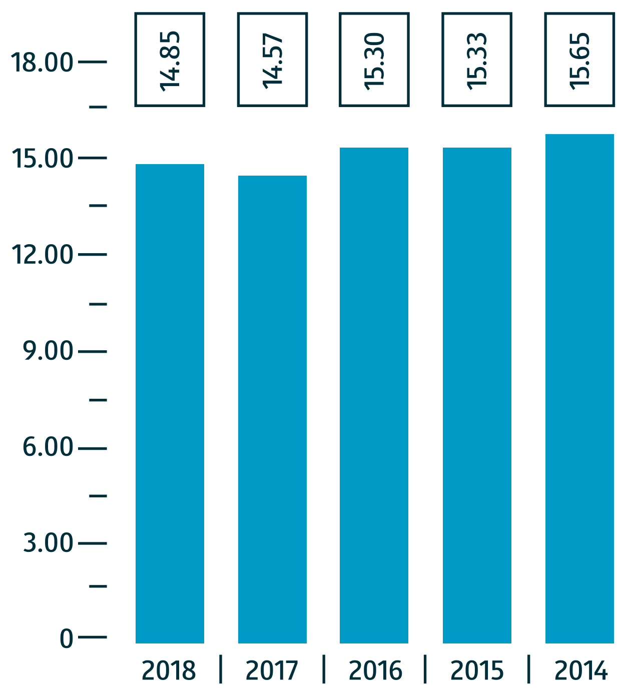
Capital adequacy is monitored by employing techniques based on the guidelines developed by the Basel Committee on Banking Regulations and Supervisory Practice (the Basel Committee), as implemented by the Eastern Caribbean Central Bank for supervisory purposes. The risk-based capital guidelines require 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%. As at September 30, 2018, the Bank exceeded the minimum levels required, with Tier 1 capital to risk-weighted assets of 14.41% and total qualifying capital to risk-weighted assets of 14.85 %. These ratios exceed the prudential guidelines as well as the Bank's internal benchmark of 12%.

The implementation of Basel II/III by the Eastern Caribbean Central Bank is still pending and we are uncertain of its precise impact on our capital. However, our initial calculations, based on the ECCB's early documentation, indicate a minimal impact on capital. It is on that basis and the fact that the Bank continues to operate well above its internal capital ratio benchmark that the Directors have declared a dividend of $1.50 per share for the year ended September 30, 2018.

Capital Adequacy Tier 1 (%)



Capital Adequacy Tier 2 (%)



Managing Director's Discussion and Analysis

CUSTOMER SERVICE

Customer Care is important to the success of any organisation. Ensuring that customers receive a positive experience is vital to remaining competitive in the market. Our service delivery is based upon seven service elements, namely: courtesy, care and consideration, knowledge, accuracy, professionalism, speed and follow up. Our most recent survey results show improvement in service delivery; and we commit to maintaining this forward trend.

STAFF TRAINING AND DEVELOPMENT

Republic Bank continues to make huge strides in the development of its human capital and has, this year, invested $0.416 million dollars towards staff training and professional development. We see this investment as vital in our quest to develop a highly engaged workforce that is well-equipped to effectively and efficiently adjust to meet the changing demands of our customers and the banking industry.

Special emphasis was placed on our managers and supervisors who are charged with leading staff towards achieving our mission, goals and strategy. In this regard, sessions aimed at building leadership capacity and improving performance management were held. These included Emotional Intelligence, Building Leadership Excellence, Conflict Resolution, and 360-Degree Feedback Training.

In this extremely competitive financial environment, there is a need to differentiate ourselves from the competition if we are to steadily grow our business. As a result, we embarked on an intensive Sales Team Development programme for front-line staff designed to help them hone the skills necessary to seek, attract and retain business. At the same time, we continued to focus on developing the financial analytical skills of staff to strengthen their credit decision making.

The Bank continues to encourage staff to pursue higher education through its Personal Incentive Development programme and, at present, 31 staff members, who otherwise may not have had the opportunity, are pursuing first degrees in areas such as Banking and Finance, Management, Information Technology and ACCA. Support was also provided to staff in becoming certified in areas such as Corporate Governance and Anti Money Laundering.

Recognising the importance of a healthy workforce, attention was also placed on the holistic health and wellbeing of staff. Educational programmes geared towards sensitising staff on how to better serve customers who are differently-able; heightening awareness of gender-based violence; and the staging of our successful sports and family day; all contributed towards the health and well-being of staff.

These were all important undertakings towards the Bank's vision of becoming the employer of choice in Grenada.

INFORMATION TECHNOLOGY

The Bank continues its drive towards providing its customers with the best possible IT solutions and products. To this end, the Republic Group has embarked on a project of consolidating its IT systems across all members of the Group, which will result in improved service to customers and enhanced efficiency in our operations.

The ECCB has launched its Electronic Fund Transfer solution, the second phase of its Automated Clearing House, which facilitates the transfer of funds on behalf of commercial banks' customers within the ECCU. This solution creates a more effective way of processing salaries and other payments to the Bank's customers, as well as non-customers, in a more timely and cost-efficient manner.

OUTLOOK

The International Monetary Fund (IMF) and the Eastern Caribbean Central Bank have forecasted growth of 3.6% and 3.%, respectively for 2018. The tourism sector will be the main impetus for growth and the sector is expected to receive a further boost with the opening of Silver Sands Grenada later this year. The construction sector will continue to experience growth with tourism-led projects like Silver Sands and Kimpton Kawana Bay Hotel.

Managing Director's Discussion and Analysis

The positive outlook for the economy augurs well for the Bank in fiscal 2019 as we anticipate it will assist us in meeting our strategic objectives. We anticipate we would continue to grow the performing loans portfolio and further reduce the non-performing portfolio.

With greater use of digital technology, and the group's IT consolidation efforts, it is anticipated we will achieve greater operational efficiency, improved customer-centric communications, and better service delivery to customers.

APPRECIATION

I express gratitude and appreciation to our staff, customers and other key stakeholders for their continued support and loyalty to the Bank. Special thanks to the Chairman and Directors of the Board for your continued guidance, which is critical to the continued growth and success of the Bank.

Executive Management

Management

HERMILYN E.M. CHARLES

Manager,
Business Support Services

MC KIE J. GRIFFITH

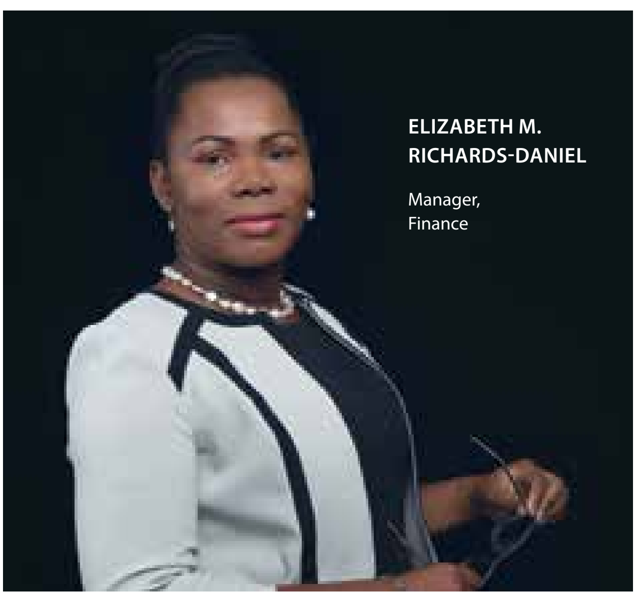
Manager,
Head Office

MAVIS H. MC BURNIE

Manager,
Head Office

DORIAN L. MC PHAIL

Manager,
Information Technology



ELIZABETH M. RICHARDS-DANIEL

Manager,
Finance

ALTHEA R. ROBERTS

Manager,
Retail Services,
Republic House Cluster

Management


GARNET K. ROSS
Manager,
Retail Services,
St. George's Cluster


DEVON M. THORNHILL
Manager,
Commercial Credit


AESIA B. WORME
Manager,
Human Resources,
Training and
Development

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 judgement 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 Non-Executive Directors and a Managing Director. The Board exercises independent judgement with management information to enable proper and objective assessment of corporate affairs. The Non-Executive Directors, who include our parent company's Chairman, 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 related company representatives on the Board 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 election. At the upcoming Annual Meeting, Graham K. Williams, Isabelle S.V. Slinger, and Christopher Husbands retire from the Board by rotation, and being eligible, have offered themselves for election. In addition, Gregory I. Thomson, who was appointed by the Board to fill the vacancy created by the resignation of Mr. Ronald F. deC. Harford, shall offer himself for election to the Board.

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:

Chairman
Leon D. Charles

Members
Gregory I. Thomson
Isabelle S. V. Slinger
Graham K. Williams
Christopher Husbands

Signed on behalf of the Board

Gregory I. Thomson
Chairman

September 30, 2018

Making the difference to the Differently Able

Far too often, people with physical and learning disabilities have less access to education, personal and professional development, and a better quality of life. Any effort to empower those with special needs must have at its heart the commitment to draw closer in solidarity, as well as the drive to work together to promote a culture of fellowship and inclusion through respect and equality.

03
Corporate Social Responsibility

ABOVE

2015 UWI Scholarship recipient, Ms. Estelle Pysadee, graduates with first class honours from the faculty of Social Sciences, UWI Cave Hill Campus, Barbados, on October 21, 2017.

RIGHT

Promoting the development of youth, through Culture. Republic Bank Angel Harps Steel Orchestra provides not only basic steel pan tutoring, but music literacy and other youth outreach programmes year-round, as well.

The Power to Make A Difference

TEAMWORK IN BUILDING STRONGER COMMUNITIES

The promise of the Power to Make A Difference is its ability to unite many people across boundaries of space and culture in the pursuit of building stronger, more sustainable communities.

Since its inception in 2003, that promise has consistently gained momentum as a growing corporate social responsibility movement, taking the shape of a significant investment of financial and human resources in programmes that challenge young minds and bodies, give hope to and empower thousands with special needs, preserve and promote cultural traditions, protect the environment, and embolden hundreds of staff volunteers.

This has been the narrative of the Power to Make A Difference – an ongoing journey to unlock the potential of the people we serve. It stands today as an extension of the Bank's commitment to do good by doing better – doing good by pledging support to noble causes; doing better in the service of others.

As we look back on that journey, working with diverse communities through the years, the way forward is as clear as the path taken. It has been a path full of unforgettable experiences, challenges, and triumphs; one that serves as a reminder of what worked well in the past, and encouragement to search out new avenues in the future.

Through one partnership, one commitment, and one goal at a time, the Power to Make A Difference has grown stronger. It has evolved through the years to represent the Group's longstanding promise to help build communities in the Caribbean, South America, and Ghana. In entering this new phase, the Power to Make A Difference remains driven by a renewed sense of purpose and greater acceptance of the multinational responsibility that comes with strategic social investment and the pursuit of sustainable development.

THE FOUNDATION (Phase I)

"The Republic Group believes that all of our Caribbean citizens deserve a better quality of life and we owe it to them to harness the power that we possess to make a positive difference in their lives. The voiceless should not be silenced behind statistics. The helpless must not be bogged down by apathy and an unwillingness to assist. The destitute cannot be swept to the wayside because of greed and selfishness. These are our people and we must do something to alleviate their condition."

– **Ronald F. deC. Harford**

The special needs child able to experience more of the world around them, the dyslexic student learning alongside peers, the young footballer pursuing a future through scholarship, the senior citizen who now has a comfortable place to sleep – their well-being, their successes, their smiles – these are the reasons the Power to Make A Difference exists.

Starting out from the Make a Difference Fund, founded in 1998 in Trinidad and Tobago, the Power to Make A Difference programme took its first steps in 2004 with sights set on supporting initiatives based on poverty alleviation, social development, and youth development through education, sport, culture and the arts.

Built upon four pillars – **The Power to Care, The Power to Help, The Power to Learn**, and **The Power to Succeed** – the Power to Make A Difference would quickly add to the Bank's history of successful partnership with advocacy groups, welcoming new and long-time allies to the fold.

During this first phase, several partnerships were formed with a diverse array of Non-Governmental Organisations (NGOs) and Community Based Organisations (CBOs) whose projects and initiatives showed the most promise in building successful societies and empowering individuals throughout Grenada, Carriacou and Petite Martinique.

The Bank charted forward in youth empowerment through education with the equipping of a technical lab for Bishop's College, one of two secondary schools in Carriacou; creating a bursary programme to assist students pursuing a Bachelor's degree at home through the UWI Open Campus Programme; and sponsoring the annual Award for Overall Academic Excellence at the T.A. Marryshow Community College.

During this time, the Power to Make A Difference programme welcomed the Grenada, Carriacou and Petite Martinique Foundation for Needy Students, GRENCODA School Books and Uniforms Programme, and the Grenada Save the Children Development Agency (GRENSAVE) Summer Camp, into the fold.

In the area of sport, sustained sponsorship of the widely popular secondary schools football competition, Republic Bank RightStart Cup Youth Football Tournament, kept the lifeline active whereby the Bank could continue to engage thousands of young achievers throughout the country.

Social development was further expanded to include the building and repairing of homes for the elderly and children with special needs, particularly the Charles Memorial Home, St. Mark and the Dorothy Hopkin Centre for the Disabled, St. George.

In the pursuit of cultural preservation, significant progress was made through continuous sponsorship of the Carriacou Regatta Festival, which showcases the work and expertise of the sailing community in Grenada, Carriacou, and Petite Martinique; and the continued sponsorship of the nation's oldest steel orchestra, the Republic Bank Angel Harps.

The Power to Make A Difference

Sponsorships of the Emancipation March at the Rainbow City Festival and the Summer Solstice Saturday Market further presented innovative avenues whereby the Bank could continue to support and empower diverse communities throughout the nation.

The foundation having been firmly set, the focus then turned outward as the Group continued its evolution as a truly Caribbean organisation; one intent on making good on the promise of building successful, sustainable societies, not just locally but across borders.

BUILDING A FOLLOWING (Phase II)
"Working together we were able to set the tone, pace, and even the standard for what Republic Bank is here to accomplish – building this beautiful nation and its communities into a more successful and sustainable society. And now the time has come to move forward; to explore additional avenues whereby we could continue to build momentum in the fight and encourage even more members of our society to become more involved through both example and leadership."
– Daniel Roberts

Across the region, the Group had already been doing its part in the pursuit of sustainable development. Not surprisingly, as the Group's footprint grew, so too did its outreach to even more members of society; and the Power to Make A Difference quickly took root.

With the effort already affixed on youth empowerment, the Bank persevered in support of the Republic Bank RightStart Cup and the Carriacou Domestic Cricket Tournament; expanding to include new collaborations with the National Disaster Management Authority's Disaster Awareness Quiz for Primary Schools, the Grenada International "Tri de Spice" Triathlon, Westmorland Secondary School, Presentation Brothers College, Morne Jaloux R.C. School, St. Patrick's Catholic School, and St. Mark's Secondary School.

During this phase, the Bank added to its history of supporting national culture through continued sponsorship of the Angel Harps Senior Steel Orchestra; increasing that role to encompass youth development through culture to include sponsorship of the immensely talented, Angel Harps Junior Steel Orchestra.

Additionally, novel collaborations with the Grenada Board of Tourism on the Carriacou Maroon Festival; the Grenada National Museum to convert the European Invasion and Amerindian Heritage display rooms to a full social history gallery and resource centre; and the Carriacou Regatta Festival meant that those vital aspects of our nation's rich history would be preserved for future generations to come.

However, the thrust was always on doing more, on finding ways in which to leverage local knowledge with regional reach.

In the second phase of the Power to Make A Difference, the momentum built up over the first phase led to a broader focus on social development issues, including finding innovative ways of engaging more diverse communities and empowering the socially marginalised and more vulnerable, specifically, the at-risk and the differently able.

In the pursuit of improving the standard of living for many, alliances were formed with Hillview Home, which provides accommodation for senior citizens, on the construction of a new wing, and the Pink Ribbon Society, in support of the worldwide awareness-raising Globeathon Walk against Women's Cancer, and the Society's longstanding support for survivors and families of breast and other cancers in Grenada.

In seeking to provide more access to education, personal and professional development and a better quality of life to those with special needs, the emphasis remained on close collaboration with their biggest advocates, as the most effective way of achieving shared goals. There was a strong focus on providing physical facilities for differently abled persons, as well as training opportunities for them to assist in their adaptation and in raising general education and awareness of their special needs.

Some of the projects under this phase included partnerships with the St. Andrew's School for Special Education, the Victoria School for Special Education, the Resource Centre for the Blind, the Grenada National Council of the Disabled, the Grenada School for Special Education, and the Dorothy Hopkin Centre for the Disabled.

Bit by bit, each partnership during this phase signalled the Group's resolve to engage diverse communities in the pursuit of sustainable development through inclusion across various levels; further adding to the narrative of responsible social investment through a dynamic mix of investment, advocacy and teamwork.

A FOUNDATION OF ENTERPRISE (Phase III)
"Our programme continues to evolve; not as an ad hoc dispensation of sponsorships but rather as the building of bridges. These are bridges between Republic Bank and the wider community; ones that pave the way forward as examples of powerful partnerships and must be continually sustained as an example of how our organisation can continue to do the people's work for the benefit of many."
- Keith Johnson

The journey that started more than a decade ago continued to define the Group as a socially responsible corporate citizen and the Power to Make A Difference as the kind of investment initiative that is welcomed in homes and hearts within the Caribbean region.

The Power to Make A Difference

At the time of the programme's third phase, the Group's identity had extended to comprise neighbours in South America and Ghana in addition to those already existing in the Caribbean. The Republic Bank Group was now Republic Financial Holdings Limited; the Power to Make A Difference, a household name across many borders.

In this new phase, the Bank redoubled the effort to build successful societies, persevering with programmes aimed at youth empowerment, raising cultural literacy awareness, advocacy of the rights of the differently able, and broadening the shape and scope of staff volunteerism programmes.

It was also during this critical phase that the Bank stepped up its ongoing drive to give many a greater sense of agency in shaping their destinies as a way of further creating unique opportunities to encourage many within society to become more self-reliant and community-focussed; setting in play the opportunity for them to pass this knowledge to others.

Guided by the belief in drawing closer in solidarity, using the Power to Make A Difference to make these connections fostered a Group-wide drive to promote a culture of fellowship and inclusion that quickly led to finding new allies and new pursuits. Key to that belief was the commitment to promote a message of respect and equality and to become more vocal in adding the Group's part to the discourse of raising awareness, understanding, tolerance and acceptance, not just within society but also within our Republic family.

This would provide the bedrock for the staff volunteerism programme whereby staff avail themselves to help enrich the lives of residents of senior citizen homes, orphanages and disability centres around the country.

The relationships forged along this leg of the journey continued in the same vein with support of disability institutions and healthcare advocacy groups like the Dorothy Hopkin Centre for the Disabled and the Grenada National Council for the Disabled, the Cadrona Home for the Aged, the Grenada Cancer Society, the Grenada National Patient Kidney Foundation, the Grenada Diabetes Association, the Grenada Heart Foundation, CHORES Support Group, Hillview Home for the Aged, the Grenada Pink Ribbon Society and the Rotary Club of Grenada East – Vosh Eye Care Programme.

These partnerships simultaneously helped empower many and brought the Bank even closer to understanding their needs; signalling the resolve to engage diverse communities in the pursuit of sustainable development through inclusion across various levels.

Youth empowerment continued to be one of the main areas of focus; occupying Group-wide attention as one of the most sustainable means of building successful societies. With literacy and education at the forefront of youth empowerment, the Bank maintained the course of its existing partnerships with the GRENCODA Books and Uniform Programme and the Grenada Foundation for Needy Students, both of which continued to work wonders in providing academic necessities to young achievers. During this period, successful partnerships were formed with T.A. Marryshow Community College, to refurbish the Mechanical Engineering Wing, the New Life Organisation (NEWLO), to refurbish the St. Andrew's Life Centre and the Grenada Tennis Association, to resurface the Tanteen tennis court.

The RightStart Cup Youth Football Tournament continued its course of challenging hundreds of secondary school students to discover and awaken the tremendous athletic potential that abounds within; bringing a greater sense of purpose in inspiring and guiding young achievers to set the right foundation to progress even further in their sporting careers.

Collaboration with the Anglican High School 100th Project Inc., led to the creation of a sports and recreational flat. Similarly, partnership with the Grenada Youth Adventurers (GYA) helped provide many underprivileged youth with basic swimming lessons during the Easter school vacation at 14 different locations around Grenada. This programme, which continues to grow from strength to strength, has also been critical in bringing out the best in the community, attracting more than 100 volunteers to donate their time and talent as swim coaches.

In promoting a culture of greater self-reliance, whereby many could discover a greater sense of agency in shaping their destinies, the Bank entered into ground breaking partnerships with the Proactive Nation Builders (PNB), who challenged more than 200 young achievers through their 'NIMBY' ("Not In My Back Yard") programme, as well as with the Franciscan Institute and their Common Sense Parenting Programme, aimed at effectively coaching more than 100 parents and teachers on how to better communicate with their children.

Outside of flagship programmes and sponsorships, the Group-wide staff volunteerism programme provided the rubric whereby dedicated staff members, their friends and loved ones, could align their efforts with a wide variety of NGOs and CBOs to create a powerful movement to help, to care, to teach and to move others along the path to success. Across the nation, volunteerism drives entered high gear at the River Sallee Government School and the Sauteurs Pre-School and Day-Care Centre; complementing an already engrained practice of volunteerism

The Power to Make A Difference

that had taken shape in the form of reading programmes, library visits, renovations and book donations along with bringing cheer to orphans and the differently able at Christmastime.

THE POWER OF ONE SERVING MANY;
THE POWER OF MANY SERVING OTHERS

"The Power to Make A Difference is our way of reinforcing the narrative that as we remember that human dignity and respect are the most valued possessions of every man, woman and child, we must do all that we can to guard and nurture them. It's a difficult journey to be sure, but we truly believe that in working together we will keep the faith and keep the pace in doing more and better for our society." **– Clifford D. Bailey**

In celebrating the Power to Make A Difference, we are grateful for being part of a remarkable journey of sacrifice, accomplishment, and discovery. As we look back, we look ahead; humbled by the successes, yet encouraged by opportunities to achieve even more. Above all, we are continually inspired by the alliances we have made and the stories of the people whose lives have been changed for the better. Without question, the next phase promises even greater chances to build on the foundation we have set together.

Our path forward, much like the path behind, has been met with challenges and victories, each making us stronger in its own way. In looking toward the future, we stand fast and true to our belief that each individual has the ability to make a lasting contribution to the overall good of the nation.

Guided by this belief, we recommit to the Power to Make A Difference, even more focussed on those we serve, and excited by the possibilities that abound whereby we can demonstrate the Power of One serving Many and the Power of Many serving Others.

04
Financial Statements

Making the difference through Volunteerism

The pursuit of Strength, Stability, Success, and Self-Reliance revealed invaluable opportunities to do even more with new allies and go even further with existing ones. The relationships forged along this journey and the rare experiences undergone tell the tale of staying the course of responsible social investment through a dynamic mix of investment, advocacy and teamwork.

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 judgements, these represent the best estimate and judgement 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

Gregory I. Thomson
Chairman

September 30, 2018

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PKF
Accountants & business advisers

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

REPUBLIC BANK (GRENADA) LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Republic Bank (Grenada) Limited ('the Company') which comprise the statement of financial position as at September 30, 2018, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Our description of how our audit addressed these matters is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Impairment Losses

Refer to note 2.2 of the financial statements for a description of the accounting policies and to note 17.2 for an analysis of credit risk.

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Impairment loss</td><td></td></tr>
<tr><td>
As described in the notes to the financial statements, the impairment losses have been determined in accordance with IFRS 9 – Financial Instruments. Financial instruments comprise the majority of the Company's assets and liabilities.

This was considered a key audit matter as IFRS 9 is a new and complex accounting standard which requires significant judgement to determine the impairment provision for financial instruments.

Key areas of judgement included:

▪ The interpretation of the requirement to determine impairment under the application of IFRS 9, which is reflected in the Company's expected credit loss model.

▪ The identification of exposures to financial instruments considered important to users of the financial statements given the estimation uncertainty and sensitivity of the valuations.

▪ Assumptions used in the expected credit loss model such as the financial condition of counterparty, expected future cash flows and forward-looking macro-economic factors (e.g unemployment rates, interest rates, property prices).
</td><td>
In assessing impairment provisions, we performed the following procedures:

▪ Assessed the modelling techniques and methodology against the requirements of IFRS 9.

▪ Assessed the design and tested the effectiveness of necessary controls and sensitivity of the provision to changes in modelling assumptions.

▪ Documented our understanding of the Company's policies and impairment loss procedures. Analysed the controls implemented to measure and identify impairment losses and their functioning during the reporting period.

▪ Assessed the completeness of the input data and the assumptions underlying the determination of the loss identification, probability of default and loss given default.

▪ Involved our IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model).

▪ Reviewed the qualitative and quantitative disclosures in the financial statements for their compliance with the requirements of IFRS 9.
</td></tr>
</table>

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key audit matter
▪ The need to apply additional checks to reflect current or future external factors that are not appropriately captured by the expected credit loss model.	▪ On a selected sample, analysed loan exposures that were assessed by the Company on an individual basis. For the selected exposures, assessed the reasonableness of the recovery amounts estimated by the Company, including the recoverable amount of collateral, based on available financial market data.

Other information included in the Company's 2018 Annual Report

Other information consists of the information included in the Company's 2018 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of Management and The Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

REPUBLIC BANK (GRENADA) LIMITED

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibility for the Audit of the Financial Statements (continued)

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists; we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

REPUBLIC BANK (GRENADA) LIMITED

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibility for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matter. We describe this matter in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communications.

We did not audit the 2017 comparative figures.

The engagement partner on the audit resulting in this independent auditor's report is Henry A. Joseph.

GRENADA

PKF

October 31st, 2018

Accountants & Business Adviser

Statement of Financial Position

As at September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

	Notes	2018	2017
ASSETS			
Cash		**11,753**	13,955
Statutory deposits with Central Bank		**47,764**	48,466
Due from banks		**60,645**	84,345
Treasury Bills		**26,196**	23,896
Investment interest receivable		**3,093**	2,674
Advances	4(a)	**468,392**	442,879
Investment securities	5	**287,665**	262,631
Premises and equipment	6	**31,227**	32,183
Employee benefits	7 (a)	**7,323**	7,078
Deferred tax assets	8 (a)	**2,871**	1,698
Other assets	9	**5,106**	2,966
TOTAL ASSETS		**952,035**	**922,771**
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		**8,264**	5,440
Customers' current, savings and deposit accounts	10	**813,389**	795,324
Employee obligations	7 (a)	**4,378**	4,136
Taxation payable		**776**	925
Deferred tax liabilities	8 (b)	**2,197**	2,804
Accrued interest payable		**177**	136
Other liabilities	11	**8,744**	5,844
TOTAL LIABILITIES		**837,925**	**814,609**
EQUITY			
Stated capital	12	**20,745**	20,745
Statutory reserve	2.5 (q)	**20,745**	20,745
Other reserves	13	**–**	2,289
Retained earnings		**72,620**	64,383
TOTAL EQUITY		**114,110**	**108,162**
TOTAL LIABILITIES AND EQUITY		**952,035**	**922,771**

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

These financial statements were approved by the Board of Directors on October 29, 2018 and signed on its behalf by:

GREGORY I. THOMSON
Chairman

KEITH A. JOHNSON
Managing Director

Statement of Income

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

	Notes	2018	2017
Interest income	14 (a)	**43,073**	43,155
Interest expense	14 (b)	**(9,831)**	(9,493)
Net interest income		**33,242**	33,662
Other income	14 (c)	**12,657**	10,641
		45,899	44,303
Operating expenses	14 (d)	**(35,716)**	(35,028)
Operating profit		**10,183**	9,275
Credit loss expense on financial assets	15	**(186)**	(1,859)
Net profit before taxation		**9,997**	7,416
Taxation expense	16	**(2,119)**	(1,270)
Net profit after taxation		**7,878**	6,146
Earnings per share (expressed in $ per share)			
Weighted average		**$4.84**	$3.88
Number of shares ('000)			
Basic		**1,628**	1,628
Weighted average		**1,628**	1,585

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

Statement of Comprehensive Income

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

	2018	2017
Net profit after taxation	**7,878**	**6,146**
Other comprehensive Income:		
Other comprehensive income that will be reclassified to the income statement in subsequent periods:		
Net gain on available-for-sale investments	–	(1,043)
Income tax related to above	–	312
	–	(731)
Total items that will be reclassified to the income statement in subsequent periods	–	**(731)**
Other comprehensive income that will not be reclassified to the income statement in subsequent periods:		
Net remeasurement losses on defined benefit plan	**(806)**	(1,353)
Income tax related to above	**242**	406
	(564)	(947)
Net remeasurement gains on medical and group life plans	**184**	130
Income tax related to above	**(55)**	(39)
	129	91
Total items that will not be reclassified to the income statement in subsequent periods	**(435)**	**(856)**
Other comprehensive loss for the year, net of tax	(435)	**(1,587)**
Total comprehensive income for the year, net of tax	**7,443**	**4,559**

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

Statement of Changes in Equity

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

	Stated capital	Statutory reserve	Other reserves	Retained earnings	Total equity
Balance at September 30, 2016	15,000	15,000	3,020	64,838	97,858
Shares issued	5,745	–	–	–	5,745
Total comprehensive income for the year	–	–	(731)	5,290	4,559
Transfer to Statutory reserve	–	5,745	–	(5,745)	–
Balance as at September 30, 2017	**20,745**	**20,745**	**2,289**	**64,383**	**108,162**
Balance as at October 1, 2017					
as previously stated	20,745	20,745	2,289	64,383	108,162
Net impact of adopting IFRS 9 (Note 19)	–	–	(2,289)	794	(1,495)
Restated opening balance under IFRS 9	**20,745**	**20,745**	**–**	**65,177**	**106,667**
Total comprehensive income for the year	–	–	–	7,443	7,443
Balance as at September 30, 2018	**20,745**	**20,745**	**–**	**72,620**	**114,110**

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

Statement of Cash Flows

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

	Notes	2018	2017
Operating activities			
Net Profit before taxation		**9,997**	7,416
Adjustments for:			
Depreciation	14(d)	**2,961**	3,052
Credit loss expense on financial assets	15	**290**	1,859
Investment impairment recoveries	15	**(104)**	(493)
(Gain)/loss on disposal of investment securities		**(21)**	445
Gain on sale of premises and equipment		**(74)**	(30)
Foreign exchange loss on investment securities		**2**	46
Amortisation of premium/discount on investment securities		**920**	546
Increase in employee benefits/obligations		**(438)**	(323)
(Increase)/decrease in advances		**(23,373)**	21,307
Increase in customers' deposits and other fund raising instruments		**18,065**	26,092
Decrease/(increase) in statutory deposits with Central Bank		**702**	(8,364)
Increase in other assets and investment interest receivable		**(2,559)**	(1,802)
Increase/(decrease) in liabilities and accrued interest payable		**479**	(46)
Taxes paid, net of refund		**(2,037)**	(97)
Cash provided by operating activities		**4,810**	**49,608**
Investing activities			
Purchase of investment securities		**(60,151)**	(78,934)
Purchase of Treasury Bills		**(26,452)**	(21,963)
Redemption of investment securities		**30,957**	12,201
Redemption of Treasury Bills		**13,740**	12,500
Additions to premises and equipment	6	**(2,162)**	(2,386)
Proceeds from sale of premises and equipment		**121**	73
Cash used in investing activities		**(43,947)**	**(78,509)**
Financing activities			
Increase in balances due to other banks		**2,824**	1,906
Proceeds from Rights issue		**–**	5,745
Cash provided by financing activities		**2,824**	**7,651**
Net decrease in cash and cash equivalents		**(36,313)**	**(21,250)**
Cash and cash equivalents at beginning of year		**108,711**	**129,961**
Cash and cash equivalents at end of year		**72,398**	**108,711**

Statement of Cash Flows

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

	Notes	2018	2017
Cash and cash equivalents at end of year are represented by:			
Cash on hand		**11,753**	13,955
Due from banks		**60,645**	84,345
Treasury Bills - original maturities of three months or less		**–**	10,411
		72,398	**108,711**
Supplemental information:			
Interest received during the year		**42,407**	42,671
Interest paid during the year		**9,790**	9,493
Dividends received		**21**	21

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

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

1 CORPORATE INFORMATION

Republic Bank (Grenada) Limited (the Bank) is incorporated in Grenada and provides banking services through 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 Financial Holdings Limited, formerly Republic Bank Limited.

Republic Financial Holdings Limited, the financial holding company for the Republic Group is incorporated, in the Republic of Trinidad and Tobago and its registered office is located at Republic House, 9-17 Park Street, Port of Spain. Republic Financial Holdings Limited is listed on the Trinidad and Tobago Stock Exchange.

The Republic Group (the 'Group') is a financial services group comprising several subsidiaries and associated companies. The Group is engaged in a wide range of banking, financial and related activities in the CARICOM region and Ghana.

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.

2.1 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. The preparation of financial statements in conformity with IFRS 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.

2.2 Changes in accounting policies

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, 2017 except for the adoption of new standards and interpretations below.

IAS 7 Disclosure Initiative – Amendments to IAS 7 (effective January 1, 2017)

The amendments to IAS 7 Statement of Cash Flows are part of the International Accounting Standards Board's (IABS) Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The adoption and amendment to this standard had no impact on the Bank.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (effective January 1, 2017)

The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The adoption and amendment to this standard had no impact on the Bank.

New and amended standards and interpretations

The Bank early adopted IFRS 9 - Financial Instruments and IFRS 7R - Financial instruments: Disclosures Revised in the third quarter of 2018 with effect from October 1, 2017 in advance of the effective date required by the International Accounting Standards Board. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Changes in accounting policies *(continued)*

New accounting policies/improvements adopted *(continued)*

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after January 1, 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of October 1, 2017 and are disclosed in this Note.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39.

The Bank's classification of its financial assets and liabilities is explained in Notes 2.5c (iii) and 2.5d. The quantitative impact of applying IFRS 9 as at October 1, 2017 is disclosed in the transition disclosures in this note.

Changes to impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for financial asset impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

Details of the Bank's impairment methodology are disclosed in Note 2.5 (g). The quantitative impact of applying IFRS 9 as at October 1, 2017 is disclosed in this Note.

IFRS 7R Financial Instruments: Disclosures Revised

To reflect the differences between IFRS 9 and IAS 39, IFRS 7R Financial Instruments: Disclosures Revised was updated and the Bank has adopted it, together with IFRS 9, for the year beginning October 1, 2017. Changes include transition disclosures as shown in this Note.

Reconciliations from opening to closing ECL allowances are presented in Notes 4(b) and 5(d).

Transition disclosures

The following sets out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Changes in accounting policies *(continued)*

New accounting policies/improvements adopted *(continued)*

IFRS 9 Financial Instruments *(continued)*

Transition disclosures (continued)

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of October 1, 2017 is, as follows:

	IAS 39 measurement		Reclassification	Remeasurement		IFRS 9	
	Category 3	Amount		ECL	Other	Amount	Category 3
Financial assets							
Cash and cash equivalents	L&R	13,955	–	–	–	13,955	AC
Statutory deposits with Central Bank	L&R	48,466	–	–	–	48,466	AC
Due from banks	L&R	84,345	–	–	–	84,345	AC
Treasury Bills	L&R	23,896	–	–	–	23,896	AC
Investment interest receivable	L&R	2,674	–	–	–	2,674	AC
Advances	L&R	442,879	–	(33)	–	442,846	AC
Debt instruments - amortised cost		–				–	
From investment securities- AFS [1]		–	262,084	(1,021)	(2,267)	258,796	
		–	**262,084**			**258,796**	**AC**
Investment securities - AFS		262,631					
To debt instruments - amortised cost [1]		–	(262,084)				
To equity instruments FVPL[2]		–	(547)				
		262,631	**(262,631)**			**–**	
Financial Assets at FVPL		–	–	–	–	–	
From investment securities- AFS [2]		–	547			547	
		–	547	–	–	547	FVPL
Total Financial Assets		**878,846**	**–**	**(1,054)**	**–**	**875,525**	
Non-financial assets							
Deferred tax assets		1,698	–	–	1,145	2,843	
Total Assets		**880,544**	**–**	**(1,054)**	**1,145**	**878,368**	

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Changes in accounting policies *(continued)*

New accounting policies/improvements adopted *(continued)*

IFRS 9 Financial Instruments *(continued)*

Transition disclosures (continued)

	IAS 39 measurement		Reclassification	Remeasurement		IFRS 9	
	Category 3	Amount		ECL	Other	Amount	Category 3
Financial liabilities							
Due to banks	AC	5,440	–	–	–	5,440	AC
Customers' current, savings and deposit accounts	AC	795,324	–	–	–	795,324	AC
Accrued interest payable	AC	136	–	–	–	136	AC
Total Financial Liabilities		**800,900**	**–**	**–**	**–**	**800,900**	
Non-financial liabilities							
Deferred tax liabilities		2,804	–	–	(677)	2,127	
Total Liabilities		**803,704**	**–**	**–**	**(677)**	**803,027**	

[1]

As of October 1, 2017, the Bank re-classified its previous AFS portfolio as debt instruments at amortised cost. These instruments met the Solely payments of principal and interest (SPPI) criterion, were not actively traded and were held with the intention to collect cash flows and without the intention to sell. The fair value of these instruments that the Bank still held at September 30, 2018 was $285.398 million. Their change in fair value over 2018, that would have been recorded in OCI had these instruments continued to be revalued through Other Comprehensive Income (OCI), would have been a decrease of $3.648 million.

[2]

The Bank has elected the option to irrevocably designate its previous AFS equity instruments as equity instruments at FVPL since the portfolio is small and there would be minimal differences when accounting for these at FVOCI.

[3]

IAS 39 categories include Loans and receivables (L&R), Available for sale, Held to maturity (HTM) and Fair Value through profit or loss. IFRS 9 categories include Amortised cost (AC) and Fair Value through profit or loss.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Changes in accounting policies *(continued)*

***New accounting policies/improvements adopted** (continued)*

***IFRS 9 Financial Instruments** (continued)*

Transition disclosures (continued)

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

	Stated capital and Statutory reserve $'million	Other reserves (Note 13) $'million	Retained earnings $'million	Total $'million
Closing balance under IAS 39 (September 30, 2017)	41,490	2,491	64,181	108,162
Reclassification of investment securities from available-for-sale to amortised cost	–	(1,586)	–	(1,586)
Transfer of general contingency reserves to retained earnings	–	(702)	702	–
Initial recognition of IFRS 9 ECLs	–	–	(1,054)	(1,054)
Deferred tax in relation to the above	–	–	1,145	1,145
Opening balance under IFRS 9 (October 1, 2017)	**41,490**	**203**	**64,974**	**106,667**

The following table reconciles the aggregate opening financial asset impairments under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances for financial assets under IFRS 9. Further details are disclosed in Notes 4(b) and 5(d).

	Financial asset impairment under IAS 39 at September 30, 2017	Remeasure-ment	ECLs under IFRS 9 at October 1, 2017
Impairment allowance for			
Loans and receivables per IAS 39/ financial assets at amortised cost under IFRS 9	13,519	33	13,552
Available-for-sale debt investment securities per IAS 39/ Debt instruments at amortised cost under IFRS 9	–	1,021	1,021
	13,519	**1,054**	**14,573**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Standards in issue not yet effective

The following is a list of standards and interpretations that are not yet effective up to the date of issuance of the Bank's financial statements. These standards and interpretations will be applicable to the Bank at a future date and will be adopted when they become effective. The Bank is currently assessing the impact of adopting these standards and interpretations.

IFRS 15 Revenue from Contracts with Customers (effective January 1, 2018)

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of disposal of certain non-financial assets including property, equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The standard will affect entities across all industries. Adoption will be a significant undertaking for most entities with potential changes to an entity's current accounting, systems and processes.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective January 1, 2018)

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(1) The beginning of the reporting period in which the entity first applies the interpretation

OR

(11) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

IFRS 16 Leases (effective January 1, 2019)

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective January 1, 2019)

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

IAS 19 Employee Benefits - Amendments to IAS 19 (effective January 1, 2019)

The amendments to IAS 19 Employee Benefits address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset)

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

IAS 19 Employee Benefits - Amendments to IAS 19 (effective January 1, 2019) *(continued)*

The amendments clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

This clarification provides that entities might have to recognise a past service cost, or a gain or loss on settlement, that reduces a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts.

2.4 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. The following amendments are applicable to annual periods beginning on or after January 1, 2018:

IFRS	Subject of Amendment
IFRS 1 -	First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters (effective January 1, 2018)
IAS 28 -	Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (effective January 1, 2018)
IFRS 3 -	Business Combinations – Previously held Interests in a joint operation (effective January 1, 2019)
IFRS 11 -	Joint Arrangements – Previously held Interests in a joint operation (effective January 1, 2019)
IAS 12 -	Income Taxes – Income tax consequences of payments on financial instruments classified as equity (effective January 1, 2019)
IAS 23 -	Borrowing Costs – Borrowing costs eligible for capitalisation (effective January 1, 2019)

2.5 Summary of significant accounting policies

a 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.

b Statutory deposits with Central Bank

Pursuant to the Banking Act of Grenada 2015, 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.

c Financial instruments - initial recognition

i Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Summary of significant accounting policies *(continued)*

c Financial instruments - initial recognition *(continued)*

ii Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Note 2.5(d)(i). Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

iii Measurement categories of financial assets and liabilities

From October 1, 2017, the Bank classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms, measured at either:

- Amortised cost, as explained in Note 2.5(d)(i)
- FVPL, as explained in Note 2.5(d)(ii)

Before October 1, 2017, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost), as explained in Notes 2.5(d)(i) and 2.5(d)(v).

Financial liabilities, other than loan commitments and financial guarantees are measured at amortised cost.

d Financial assets and liabilities

Under IFRS 9 (Policy applicable from October 1, 2017)

i Due from banks, Treasury Bills, Advances and Investment securities

Before October 1, 2017, Due from banks, Treasury Bills, Advances to customers and Investment securities included non–derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From October 1, 2017, the Bank only measures Due from banks, Treasury Bills, Advances to customers and Investment securities at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

The SPPI test

As a second step of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium / discount).

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Summary of significant accounting policies *(continued)*

d Financial assets and liabilities *(continued)*

Under IFRS 9 (Policy applicable from October 1, 2017) *(continued)*

i Due from banks, Treasury Bills, Advances and Investment securities *(continued)*

The SPPI test (continued)

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL or FVOCI without recycling.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

ii Financial assets at fair value through profit or loss

Financial assets in this category are those that are designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis, or
- The assets (until September 30, 2017, under IAS 39) are part of a group of financial assets under IAS 39, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income, using the Effective Interest Rate (EIR), taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other income when the right to the payment has been established.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Summary of significant accounting policies *(continued)*

d Financial assets and liabilities *(continued)*

Under IFRS 9 (Policy applicable from October 1, 2017) *(continued)*

iii Undrawn loan commitments

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements but no ECL was determined based on historical observation of defaults.

iv Debt securities and other fund raising instruments

Financial liabilities issued by the Bank that are designated at FVPL, are classified as liabilities under Debt securities in issue and Other fund raising instruments, where the substance of the contractual arrangement results in the Bank having an obligation to deliver cash to satisfy the obligation. These are initially recognised at fair value net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

Under IAS 39 (Policy applicable before October 1, 2017)

v Available-for-sale financial investments

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. 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.

e Reclassification of financial assets and liabilities

From October 1, 2017, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2018, except on the initial adoption of IFRS 9 as required. On adoption, the Bank classified its financial assets and liabilities in accordance with its existing business models.

f Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, to facilitate changes to the original loan agreement or arrangement due to weaknesses in the borrower's financial position and/or non-repayment of the debt as arranged and terms and conditions have been restructured to the extent that, substantially, it becomes a new loan, with the difference recognised as an impairment loss. The newly recognised loans are classified as Stage 2 for ECL measurement purposes.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Summary of significant accounting policies *(continued)*

f Derecognition of financial assets and liabilities *(continued)*

Derecognition due to substantial modification of terms and conditions *(continued)*

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original rate, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Derecognition other than for substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset, or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement.

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset, or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Summary of significant accounting policies *(continued)*

f Derecognition of financial assets and liabilities *(continued)*

Derecognition other than for substantial modification*(continued)*

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

g Impairment of financial assets (Policy applicable from October 1, 2017)

i Overview of the ECL principles

As described in Note 2.2 New accounting policies/improvements adopted, the adoption of IFRS 9 has fundamentally changed the Bank's financial asset impairment methodologies by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From October 1, 2017, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The Bank uses the general probability of default approach when calculating ECLs. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 2.5(g)(ii). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 17.2.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the size and nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note 17.2.6.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank classifies its loans and investments into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1

When loans and investments are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans and investments also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Summary of significant accounting policies *(continued)*

g Impairment of financial assets (Policy applicable from October 1, 2017) *(continued)*

i Overview of the ECL principles *(continued)*

Stage 2

When a loan or investment has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans and investments also include facilities, where the credit risk has improved and the loan or investment has been reclassified from Stage 3.

Stage 3

Loans and investments considered credit-impaired (as outlined in Note 17.2). The Bank records an allowance for the LTECLs.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

ii The calculation of ECLs

The Bank calculates ECLs based on the historical measure of cash shortfalls, discounted at the instrument's coupon rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given period of time. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 17.2.4.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Bank considers among other factors the risk rating category and aging of the financial asset. Each of these is associated with different PDs, EADs and LGDs. When relevant, it also incorporates how defaulted loans and investments are expected to be recovered, including the value of collateral or the amount that might be received for selling the asset.

Impairment losses and recoveries are accounted for and disclosed separately.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Summary of significant accounting policies *(continued)*

g Impairment of financial assets (Policy applicable from October 1, 2017) *(continued)*

ii The calculation of ECLs *(continued)*

The mechanics of the ECL method are summarised below:

Stage 1

The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD which are derived as explained under Stage 3 for loans and using Global Credit Loss tables for traded investments and modified with management overlays when not traded.

Stage 2

When a loan or investment has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The LGDs are derived as explained under Stage 3 for loans and using Global Credit Loss tables for traded investments and modified with management overlays when not traded.

Stage 3

For loans and investments considered credit-impaired (as defined in Note 17.2), the Bank recognises the lifetime expected credit losses for these loans and investments. The method is similar to that for Stage 2 assets, with the PD set at 100%.

In most instances, LGDs are determined on an individual loan or investment basis, including discounting the expected cash flows at the original EIR. Stage 3 LGDs are grouped by similar types to provide percentage averages to be applied for Stage 1 and Stage 2 loans.

In limited circumstances within the Bank, where portfolios were small and the products homogenous with minimal history of defaults, a simplified ECL approach was applied using historical loss rates and staged based on the sovereign rating of the residence of the loan.

iii Other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft facilities, in which the Bank has the right to cancel and/or reduce the facilities. The Bank limits its exposure to credit losses on overdraft facilities to the outstanding balance.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, as explained in Note 17.2.4, but emphasis is also given to qualitative factors such as changes in usage and repayment patterns.

iv Treasury Bills, Statutory deposits with Central Bank and Due from banks

Treasury Bills, Statutory deposits with Central Bank and Due from banks are short term funds placed with Central Banks in the countries where the Bank is engaged in the full range of banking and financial activities and correspondent banks and the Bank therefore considers the risk of default to be very low. The ECL on these instruments were determined to be zero.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Summary of significant accounting policies *(continued)*

g Impairment of financial assets (Policy applicable from October 1, 2017) *(continued)*

v Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees, letters of credit and loan commitments are off-balance sheet instruments and have no history of default. As a result, the Bank considers the risk of default to be very low and the ECLs on these instruments were determined to be zero.

vi Forward looking information

In its ECL models, the Bank considers a broad range of forward looking information as economic inputs, such as:

- Currency rates
- GDP growth
- Unemployment rates
- Industry risk
- Real estate price trends
- Commodity price inflation rates

There was little correlation between the overall performance of the economy and historic loss trends. It was therefore not possible to directly correlate macro economy expectations to adjustments within the ECL models.

The Bank however recognised that the inputs and models used for calculating ECLs may not always capture all characteristics and expectations of the market at the date of the financial statements. To reflect this, management adjustments or overlays are occasionally made based on judgements as temporary adjustments when such differences are significantly material.

h Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories and other non-financial assets. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed at inception and re-assessed on a periodic basis.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on independent valuations and other data provided by third parties.

i Collateral repossessed

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank's policy is for a repossessed asset to be sold. Assets to be sold are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date, in line with the Bank's policy.

In its normal course of business, should the Bank repossess properties or other assets in its retail portfolio, it sometimes engages external agents to assist in the sale of these assets to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the statement of financial position.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Summary of significant accounting policies *(continued)*

j Write-offs

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

k Impairment of financial assets (Policy applicable before October 1, 2017)

The Bank assesses, at each statement of financial position 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 present value of estimated future cash flows and discounted by the original effective interest rate of the loan. The provision made is the difference between the loan balance and the discounted value of the collateral. Individually insignificant loans with similar characteristics are assessed for impairment on a group basis.

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

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

ii Investment securities

The Bank individually assesses each investment security for objective evidence of impairment. If an impaired debt 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 declines in the fair value at subsequent reporting dates are recognised as impairments. Therefore, at each reporting period, for an equity security that is determined to be impaired based upon the Bank's impairment criteria, an impairment is recognised for the difference between the fair value and the original cost basis, less any previously recognised impairments.

Any subsequent increases in value of previously impaired securities are taken to OCI.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Summary of significant accounting policies *(continued)*

l 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.

m Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation.

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

Leasehold improvements and leased equipment are depreciated on a straight-line basis over the period of the lease. Depreciation other than on leasehold improvements and leased equipment is computed on a straight line basis 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	2%
Equipment, furniture and fittings	12.5% - 33.33%
Vehicles	20%

n Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Disclosures for significant assumptions (Note 3)
- Premises and equipment (Note 6)

The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Summary of significant accounting policies *(continued)*

n Impairment of non-financial assets *(continued)*

In assessing value in use, the estimated future cash flows available to shareholders are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount.

o 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 Plan every three years. Annually, the Bank's independent actuaries conduct a valuation exercise to measure the effect of the employee benefit plan.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to the statement of income in subsequent periods.

Past service costs are recognised in the statement of income on the earlier of:

a The date of the plan amendment or curtailment, and

b The date that the Bank recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Bank recognises the following changes in the net defined benefit obligation under 'operating expenses' in the statement of income:

a Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements

b Net interest expense or income

The defined benefit plan 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 plan which continue to be governed by the approved Trust Deed and Rules and remain under the full control of the appointed Trustees.

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

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Summary of significant accounting policies *(continued)*

o Employee benefits/obligations *(continued)*

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 plan. 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.

p 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 assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

q Statutory reserve

The Banking Act of Grenada (No. 45 of 2015), requires the Statutory reserve fund to be equal to the paid-up capital. This reserve is not available for distribution as dividends or for any other form of appropriation.

r 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.

s 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 at mid-exchange rates. Realised gains and losses on foreign currency positions are reported in the statement of income.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Summary of significant accounting policies *(continued)*

t Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Bank has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to credit risks.

The specific recognition criteria described below must also be met before revenue is recognised.

The effective interest rate method

Under both IFRS 9 and IAS 39, interest income and expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

Interest income and expense

The Bank calculates interest income and expense by applying the EIR to the gross carrying amount of financial assets and liabilities other than credit-impaired assets.

When a financial asset becomes credit-impaired (as set out in Note 2.5(g)(i)) and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in net trading income and Net gains/(losses) on financial assets at fair value through profit or loss, respectively.

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 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.

Dividends

Dividend income is recognised when the right to receive the payment is established.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Summary of significant accounting policies *(continued)*

u Fair value

The Bank measures financial instruments at fair value at each statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value, where fair values are disclosed, are shown in Note 20 to the financial statements.

Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

i In the principal market for the asset or liability, or

ii In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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.

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.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Summary of significant accounting policies *(continued)*

u Fair value *(continued)*

Level 3 *(continued)*

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.

Investments classified as 'at fair value through profit or loss' are actively traded in organised markets and fair value is determined by reference to the market price at year end or on the last trade date prior to year-end.

Financial instruments where carrying value is equal to fair value:- Due to their short-term maturity, the carrying value of certain financial instruments is assumed to approximate their fair values. These include cash and cash equivalents, investment interest receivable, customers' deposit accounts, other fund raising instruments, other assets and other liabilities.

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.

v 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 23(b) of these financial statements.

w Equity reserves

The reserves recorded in equity on the Bank's statement of financial position include:

Stated Capital – Ordinary stated capital is classified within equity and is recognised at the fair value of the consideration received by the Bank.

General contingency reserve – prior to October 1, 2017, the General Contingency reserve was used as an appropriation of retained earnings. From October 1, 2017, the balance on this reserve was transferred to retained earnings

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Summary of significant accounting policies *(continued)*

w Equity reserves *(continued)*

Net unrealised gains - prior to October 1, 2017, net unrealised gains comprised changes in fair value of available-for-sale investments.

Statutory reserve that qualify for treatment as equity are discussed in Note 2.5 (q).

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

Impairment losses on financial assets (Policy applicable under IFRS 9)

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The estimation of the amount and timing of future cash flows and collateral values when determining impairment losses
- The Bank's internal credit grading model, which assigns PDs to the individual grades for corporate facilities
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of the existence of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- The inclusion of overlay adjustments based on judgement and future expectations

Impairment losses and investment valuation (Policy applicable under IAS 39)

Under IAS 39, financial assets are determined 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.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS *(continued)*

Estimates and assumptions *(continued)*

Impairment losses on financial assets (Policy applicable under IFRS 9) *(continued)*

Collective impairment on advances (Note 4(d)(ii)

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

Valuation of investments (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.

Other assumptions

Employee benefits/obligations (Note 7)

In conducting valuation exercises to measure the effect of all employee benefit plans throughout the Bank, the Banks' independent actuaries use judgement and assumptions in determining discount rates, salary increases, NIS ceiling increases, pension increases and the rate of return on the assets of the Plans.

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.

Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

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.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

4 ADVANCES

a Advances

September 30, 2018	Retail lending	Commercial and Corporate lending	Mortgages	Overdrafts	Total
Performing advances	38,456	39,825	361,100	18,894	458,275
Non-performing advances	677	3,283	14,247	–	18,207
	39,133	43,108	375,347	18,894	476,482
Unearned interest	(1)	–	–	–	(1)
Accrued interest	79	167	1,004	–	1,250
	39,211	43,275	376,351	18,894	477,731
Allowance for ECLs – Note 4(b)	(85)	(2,352)	(4,257)	(157)	(6,851)
	39,126	40,923	372,094	18,737	470,880
Unearned loan origination fees	(387)	(366)	(1,735)	–	(2,488)
Net advances					**468,392**

October 1, 2017	Retail lending	Commercial and Corporate lending	Mortgages	Overdrafts	Total
Performing advances	36,677	39,417	332,638	20,846	429,578
Non-performing advances	729	4,657	22,896	–	28,282
	37,406	44,074	355,534	20,846	457,860
Unearned interest	(2)	–	–	–	(2)
Accrued interest	69	157	777	–	1,003
	37,473	44,231	356,311	20,846	458,861
Allowance for ECLs – Note 4(b)	(225)	(2,972)	(10,206)	(149)	(13,552)
	37,248	41,259	346,105	20,697	445,309
Unearned loan origination fees	(433)	(341)	(1,689)	–	(2,463)
Net advances					**442,846**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

4 ADVANCES *(continued)*

b ECL allowance for advances to customers

The table below shows the staging of advances and the related ECLs based on the Bank's criteria as explained in Note 17.2.4 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 17.2.6.

September 30, 2018	Retail lending	Commercial and Corporate lending	Mortgages	Overdrafts	Total
Gross Loans	39,211	43,275	376,351	18,894	477,731
Stage 1: 12 Month ECL	(98)	(369)	(2,666)	(79)	(3,212)
Stage 2: Lifetime ECL	(2)	(100)	(359)	(78)	(539)
Stage 3: Credit Impaired Financial Assets					
- Lifetime ECL	15	(1,883)	(1,232)	–	(3,100)
	39,126	**40,923**	**372,094**	**18,737**	**470,880**

October 1, 2017	Retail lending	Commercial and Corporate lending	Mortgages	Overdrafts	Total
Gross Loans	37,473	44,231	356,311	20,846	458,861
Stage 1: 12 Month ECL	(173)	(328)	(2,509)	(80)	(3,090)
Stage 2: Lifetime ECL	(1)	(205)	(451)	(69)	(726)
Stage 3: Credit Impaired Financial Assets					
- Lifetime ECL	(51)	(2,439)	(7,246)	–	(9,736)
	37,248	**41,259**	**346,105**	**20,697**	**445,309**

Stage 1: 12 Month ECL					
ECL allowance as at October 1, 2017 under IFRS 9	173	329	2,509	80	3,091
ECL on new instruments issued during the year	34	170	277	–	481
Other Credit Loss movements, repayments etc.	(109)	(130)	(120)	(1)	(360)
At September 30, 2018	**98**	**369**	**2,666**	**79**	**3,212**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

4 ADVANCES *(continued)*

b ECL allowance for advances to customers *(continued)*

2017	Retail lending	Commercial and Corporate lending	Mortgages	Overdrafts	Total
Stage 2: Lifetime ECL					
ECL allowance as at October 1, 2017 under IFRS 9	1	205	451	69	726
ECL on new instruments issued during the year	–	39	13	–	52
Other Credit Loss movements, repayments etc.	1	(144)	(105)	9	(239)
At September 30, 2018	**2**	**100**	**359**	**78**	**539**
Stage 3: Credit Impaired Financial Assets					
- Lifetime ECL					
ECL allowance as at October 1, 2017 under IFRS 9	51	2,439	7,246	–	9,736
Charge-offs and write-offs	(191)	(531)	(6,243)	–	(6,965)
Credit Loss Expense	263	226	972	–	1,461
Recoveries	(138)	(251)	(743)	–	(1,132)
At September 30, 2018	**(15)**	**1,883**	**1,232**	**–**	**3,100**
Total	**85**	**2,352**	**4,257**	**157**	**6,851**

Of the Total ECL of $6.851 million, 54.75% was on a collective basis and 45.25% was on an individual basis.

c Restructured / Modified Loans

Within the retail portfolio, management will in the normal course of business modify the terms and conditions of facilities in the case of difficulties by the borrower. These modifications rarely result in an impairment loss and if it does, it is not material.

The Bank occasionally makes modifications to the original terms of large commercial and corporate loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. These modifications are made only when the Bank believes the borrower is likely to meet the modified terms and conditions. Indicators of financial difficulties include defaults on covenants, overdue payments or significant concerns raised by the Credit Risk Department. Once the terms have been renegotiated, any impairment is measured using the original Effective Interest Rate (EIR) as calculated before the modification of terms.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

4 ADVANCES *(continued)*

d Advances to customers as at September 30, 2017

i An analysis of Loans and advances under IAS 39 by class, for the year to September 30, 2017 is, as follows:

2017	Retail lending	Commercial and Corporate lending	Mortgages	Overdrafts	Total
Advances					
Performing advances	36,677	39,417	332,638	20,846	429,578
Non-performing advances	729	4,657	22,896	–	28,282
	37,406	44,074	355,534	20,846	457,860
Unearned interest	–	(2)	–	–	(2)
Accrued interest	69	157	777	–	1,003
	37,473	44,231	356,311	20,846	458,861
Allowance for impairment losses - Note 4(d)(ii)	(151)	(3,121)	(10,247)	–	(13,519)
	37,322	41,110	346,064	20,846	445,342
Unearned loan origination fees	(433)	(341)	(1,689)	–	(2,463)
Net advances					**442,879**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

4 ADVANCES *(continued)*

d Advances to customers as at September 30, 2017 *(continued)*

ii **An analysis of the allowance for impairment losses under IAS 39 for loans and advances, by class, for the year to September 30, 2017 is, as follows:**

2017	Retail lending	Commercial and Corporate lending	Mortgages	Total
Balance brought forward	79	3,586	8,655	12,420
Charge-offs and write-offs	(137)	(260)	(363)	(760)
Loan impairment expense	271	941	2,965	4,177
Loan impairment recoveries	(162)	(1,146)	(1,010)	(2,318)
Balance carried forward	**151**	**3,121**	**10,247**	**13,519**
Individual impairment	51	2,439	7,246	9,736
Collective impairment	100	682	3,001	3,783
	151	**3,121**	**10,247**	**13,519**
Gross amount of loans individually determined to be impaired before deducting any allowance	**729**	**4,657**	**22,896**	**28,282**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

5 INVESTMENT SECURITIES

		2018	2017
a	**Available-for-sale**		
	Government securities	–	23,893
	State-owned company securities	–	20,517
	Corporate bonds	–	217,674
	Equities	–	547
		–	**262,631**
b	**Designated at fair value through profit or loss**		
	Equities	**547**	–
		547	**–**
c	**Debt instruments at amortised cost**		
	Government securities	**22,035**	–
	State-owned company securities	**17,661**	–
	Corporate bonds	**247,422**	–
		287,118	**–**
	Total gross investment securities	**287,665**	**262,631**

d Financial investment securities subject to impairment assessment

Debt instruments measured at amortised cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's credit rating system, aging and year- end stage classification.

September 30, 2018	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired Financial Assets –Lifetime ECL	Total
Gross exposure	267,203	9,990	19,027	296,220
ECL	(339)	(339)	(8,424)	(9,102)
Net Exposure	**266,864**	**9,651**	**10,603**	**287,118**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

5 INVESTMENT SECURITIES *(continued)*

d Financial investment securities subject to impairment assessment *(continued)*

Debt instruments measured at amortised cost (continued)

October 1, 2017	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired Financial Assets –Lifetime ECL	Total
Gross exposure	231,265	16,740	22,139	270,144
ECL	(311)	(711)	(10,327)	(11,349)
Net Exposure	**230,954**	**16,029**	**11,812**	**258,795**
ECL allowance as at October 1, 2017 under IFRS 9	311	711	10,327	11,349
ECL on new instruments issued during the year	54	–	–	54
Other Credit Loss movements, repayments and maturities	(26)	(372)	(1,903)	(2,301)
At September 30, 2018	**339**	**339**	**8,424**	**9,102**

e Designated at fair value through profit or loss

For equity securities, cost is determined by the appropriate estimate of fair value since insufficient recent information is available to measure fair value.

6 PREMISES AND EQUIPMENT

2018	Capital works in progress	Freehold premises	Leasehold premises	Vehicles, Equipment, furniture and fittings	Total
Cost					
At beginning of year	619	29,381	7,244	41,498	78,742
Additions at cost	1,543	–	–	619	2,162
Disposal of assets	(61)	–	–	(2,173)	(2,234)
Transfer of assets	(1,505)	–	–	1,505	–
	596	**29,381**	**7,244**	**41,449**	**78,670**
Accumulated depreciation					
At beginning of year	–	5,976	3,870	36,713	46,559
Charge for the year	–	577	41	2,343	2,961
Disposal of assets	–	–	–	(2,077)	(2,077)
	–	**6,553**	**3,911**	**36,979**	**47,443**
Net book value	**596**	**22,828**	**3,333**	**4,470**	**31,227**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

6 PREMISES AND EQUIPMENT *(continued)*

2017	Capital works in progress	Freehold premises	Leasehold premises	Vehicles, Equipment, furniture and fittings	Total
Cost					
At beginning of year	222	29,271	7,244	40,332	77,069
Additions at cost	1,452	–	–	934	2,386
Disposal of assets	–	–	–	(713)	(713)
Transfer of assets	(1,055)	110	–	945	–
	619	**29,381**	**7,244**	**41,498**	**78,742**
Accumulated depreciation					
At beginning of year	–	5,400	3,829	34,948	44,177
Charge for the year	–	576	41	2,435	3,052
Disposal of assets	–	–	–	(670)	(670)
	–	**5,976**	**3,870**	**36,713**	**46,559**
Net book value	**619**	**23,405**	**3,374**	**4,785**	**32,183**

Capital commitments

	2018	2017
Contracts for outstanding capital expenditure not provided for in the financial statements	**284**	1,350
Other capital expenditure authorised by the Directors but not yet contracted for	**5,976**	2,246

7 EMPLOYEE BENEFITS/OBLIGATIONS

	Defined benefit pension plan 2018	Defined benefit pension plan 2017	Post-retirement medical and group life obligations 2018	Post-retirement medical and group life obligations 2017
a The amounts recognised in the statement of financial position are as follows:				
Present value of defined benefit obligation	**(21,971)**	(21,324)	**(4,378)**	(4,136)
Fair value of plan assets	**29,294**	28,402	**–**	–
Net asset/(liability) recognised in the statement of financial position	**7,323**	**7,078**	**(4,378)**	**(4,136)**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

7 EMPLOYEE BENEFITS/OBLIGATIONS *(continued)*

	Defined benefit pension plan		Post-retirement medical and group life obligations	
	2018	2017	2018	2017
b Reconciliation of opening and closing statement of financial position entries:				
Opening defined benefit obligation	**7,078**	7,327	**(4,136)**	(3,852)
Net pension cost	**(71)**	(52)	**(457)**	(439)
Re-measurements recognised in other comprehensive income	**(806)**	(1,353)	**184**	130
Bank contributions	**1,122**	1,156	**–**	–
Premiums paid by the Bank	**–**	–	**31**	25
Closing defined benefit asset/(obligation)	**7,323**	**7,078**	**(4,378)**	**(4,136)**
c Changes in the present value of the defined benefit obligation are as follows:				
Opening defined benefit obligation	**(21,324)**	(20,597)	**(4,136)**	(3,852)
Current service cost	**(547)**	(545)	**(168)**	(170)
Interest cost	**(1,460)**	(1,394)	**(289)**	(269)
Members' contributions	**(106)**	(132)	**–**	–
Re-measurements:				
- Experience adjustments	**508**	(50)	**184**	130
Benefits paid	**958**	1,394	**–**	–
Premiums paid by the Bank	**–**	–	**31**	25
Closing defined benefit obligation	**(21,971)**	**(21,324)**	**(4,378)**	**(4,136)**

d Liability profile

	Defined benefit pension plan	Post-retirement medical	Group life obligations
The defined benefit obligation is allocated between the Plan's members as follows:			
- Active members	73.00%	84.00%	76.00%
- Deferred members	8.00%	0.00%	0.00%
- Pensioners	19.00%	16.00%	24.00%

Pension

The weighted average duration of the defined benefit obligation as at September 30, 2018 was 11.9 years.

27% of the defined benefit obligation is defined contribution in nature.

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

28% of the defined benefit obligation for active members is conditional on future salary increases.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

7 EMPLOYEE BENEFITS/OBLIGATIONS *(continued)*

d Liability profile *(continued)*

Medical

The weighted average duration of the defined benefit obligation as at September 30, 2018 was 24.8 years.

19% of the benefits for active members are vested.

Group Life

The weighted average duration of the defined benefit obligation as at September 30, 2018 was 18.5 years.

26% of the benefits for active members were vested.

33% 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 2018	Defined Benefit Pension Plan 2017
Fair value of plan asset at start of year	**28,402**	27,924
Interest Income	**1,996**	1,949
Return on plan assets, excluding interest income	**(1,314)**	(1,303)
Bank contribution	**1,122**	1,156
Members' contributions	**106**	132
Benefits paid	**(958)**	(1,394)
Administrative expenses allowance	**(60)**	(62)
Fair value of plan at end of year	**29,294**	**28,402**
Actual return on plan assets	**682**	**646**

f Plan asset allocation as at September 30

	Defined benefit pension plan			
	Fair value		% Allocation	
	2018	2017	2018	2017
Regional equity securities	**227**	293	**1%**	1%
Debt securities	**12,891**	13,078	**44%**	46%
Other short term securities	**2,105**	6,423	**7%**	23%
Money market instruments/cash and cash equivalents	**14,071**	8,608	**48%**	30%
Total	**29,294**	**28,402**	**100%**	**100%**

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.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

7 EMPLOYEE BENEFITS/OBLIGATIONS *(continued)*

f Plan asset allocation as at September 30 *(continued)*

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 8% of the Plan's bond portfolio is made up of a bond issued by the Government of Grenada which was substantially impaired in 2013 and restructured in 2016.

g The amounts recognised in the statement of income are:

	Defined benefit pension plan		Post-retirement medical and group life obligations	
	2018	2017	2018	2017
Current service cost	**(547)**	(545)	**(168)**	(170)
Net interest on net defined asset/(liability)	**536**	555	**(289)**	(269)
Administration expenses	**(60)**	(62)	**–**	–
Total included in staff costs	**(71)**	**(52)**	**(457)**	**(439)**

h Re-measurements recognised in other comprehensive income

Experience (losses)/gains	**(806)**	(1,353)	**184**	130
Total included in other comprehensive income	**(806)**	**(1,353)**	**184**	**130**

i Summary of principal actuarial assumptions as at September 30

	2018 %	2017 %
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, 2018 are as follows:

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

7 EMPLOYEE BENEFITS/OBLIGATIONS *(continued)*

i Summary of principal actuarial assumptions as at September 30 *(continued)*

	Defined benefit pension plan 2018	Defined benefit pension plan 2017	Post-retirement medical and group life obligations 2018	Post-retirement medical and group life obligations 2017
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

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, 2018 would have changed as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

	Defined benefit pension plan 1% p.a. increase $'000	Defined benefit pension plan 1% p.a. decrease $'000	Post-retirement medical and group life obligations 1% p.a. increase $'000	Post-retirement medical and group life obligations 1% p.a. decrease $'000
- Discount rate	(2,177)	2,754	(783)	1,086
- Future salary increases	2,735	(1,932)	151	(131)
- Medical cost increases	–	–	736	(551)

An increase of 1 year in the assumed life expectancies shown above would increase the defined benefit obligation at September 30, 2018 by $0.239 million and the post-retirement medical benefit by $0.088 million but decrease group life obligation by $0.109 million

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

k Funding

The Bank meets the balance of the 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 $1.2 million to the pension plan in the 2019 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 $0.034 million to the medical plan in the 2019 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 $0.032 million to the group life plan in the 2019 financial year.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

8 DEFERRED TAX ASSETS AND LIABILITIES

Components of deferred tax assets and liabilities

a Deferred tax assets

	Opening Balance 2017	Impact of IFRS9 (Note 2.2)	Credit/(Charge) Statement of Income 2018	Credit/(Charge) Other Comprehensive Income 2018	Closing Balance 2018
Post-retirement medical and group life obligation	1,238	–	**128**	**(55)**	**1,311**
Premises and equipment	458	–	**(23)**	**–**	**435**
Unearned loan origination fees	2	–	**(2)**	**–**	**–**
IFRS 9	–	1,145	**(20)**	–	**1,125**
	1,698	**1,145**	**83**	**(55)**	**2,871**

b Deferred tax liabilities

	Opening Balance 2017	Impact of IFRS9 (Note 2.2)	Credit/(Charge) Statement of Income 2018	Credit/(Charge) Other Comprehensive Income 2018	Closing Balance 2018
Pension asset	2,127	–	**316**	**(246)**	**2,197**
Unrealised reserve	677	(677)	–	–	**–**
	2,804	**(677)**	**316**	**(246)**	**2,197**

9 OTHER ASSETS

	2018	2017
Accounts receivable and prepayments	**5,106**	2,966

10 CUSTOMERS' CURRENT, SAVINGS AND DEPOSIT ACCOUNTS

Concentration of customers' current, savings and deposit accounts

	2018	2017
State	**93,207**	98,621
Corporate and commercial	**68,781**	68,674
Personal	**583,108**	571,781
Other financial institutions	**68,293**	56,248
	813,389	**795,324**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

11 OTHER LIABILITIES

	2018	2017
Accounts payable and accruals	**4,807**	2,725
Provision for profit sharing and salary increase	**1,478**	901
Other	**2,459**	2,218
	8,744	**5,844**

12 STATED CAPITAL

	Number of ordinary shares			
	2018 '000	2017 '000	2018 $'000	2017 $'000
Authorised				
An unlimited number of shares of no par value				
Issued and fully paid				
At beginning of year and end of year	**1,628**	**1,628**	**20,745**	**20,745**

13 OTHER RESERVES

	General contingency reserve	Net unrealised gain	Total
Balance at October 1, 2016	**702**	**2,318**	**3,020**
Revaluation of available-for-sale investments, net of tax	–	(731)	(731)
Balance at September 30, 2017	**702**	**1,587**	**2,289**
Reclassification of debt securities from available-for-sale to amortised cost	–	(1,587)	(1,587)
Transfer of general contingency reserves to retained earnings	(702)	–	(702)
Opening balance under IFRS 9 (October 1, 2017)	–	–	–
Balance at September 30, 2018	**–**	**–**	**–**

General contingency reserve

Prior to the adoption of IFRS 9, a general contingency reserve was created as a voluntary appropriation of retained earnings. With the adoption of IFRS 9 and the enhanced provisioning levels, the Bank has opted to clear the general contingency reserves held, and transfer the reserves to retained earnings in the statement of change of equity, under "Net Impact of Adopting IFRS 9".

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

14 OPERATING PROFIT

		2018	2017
a	**Interest income**		
	Advances	**33,131**	34,695
	Investment securities	**8,775**	7,545
	Liquid assets	**1,167**	915
		43,073	**43,155**
b	**Interest expense**		
	Customers' current, savings and deposit accounts	**9,831**	**9,493**
c	**Other income**		
	Other fees and commission income	**5,856**	5,245
	Net exchange trading income	**5,288**	3,983
	Dividends	**21**	21
	Gain from disposal of available-for-sale investments	**21**	–
	Gain from sales of premises and equipment	**80**	37
	Other operating income	**1,390**	1,355
		12,657	**10,641**
d	**Operating expenses**		
	Staff costs	**18,126**	17,521
	Staff profit sharing expense	**619**	470
	Employee benefits/obligations expense - Note 7(g)	**528**	491
	General administrative expenses	**11,206**	11,545
	Loss from sales of premises and equipment	**6**	7
	Loss from sale of available-for-sale investments	**–**	445
	Property related expenses	**752**	755
	Depreciation expense - Note 6	***2,961***	3,052
	Advertising and public relations expenses	**1,371**	1,089
	Impairment recovery on investment securities	**–**	(493)
	Directors' fees	**147**	146
		35,716	**35,028**

15 CREDIT LOSS EXPENSE

	Notes	2018	2017
Advances	4(b)	**290**	1,859
Debt instrument measured at amortised cost	5(d)	**(104)**	–
		186	**1,859**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

16 TAXATION EXPENSE

	2018	2017
Corporation tax	**1,888**	1,112
Deferred tax	**232**	158
	2,119	**1,270**

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:

	2018	2017
Net profit before taxation	**9,997**	7,416
Tax at applicable statutory tax rates - 30%	**2,999**	2,225
Tax effect of items that are adjustable in determining taxable profit:		
Tax exempt income	**(1,110)**	(1,134)
Items not allowable for tax purposes	**230**	213
Other	**–**	(34)
	2,119	**1,270**

17 RISK MANAGEMENT

17.1 General

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.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

17 RISK MANAGEMENT *(continued)*

17.1 General *(continued)*

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:

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 pre-set 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 debt securities within the Bank's investment security portfolio are exposed to credit risk and are managed by investment grading or country exposure with pre-set exposure limits as approved by the Board of Directors. The credit quality of each individual security is assessed based on the financial strength, reputation and market position of the issuing entity and the ability of that entity to service the debt.

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.

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.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

17.2.1 Analysis of risk concentration

The Bank's concentrations of risk are managed by client/counterparty, geographical region and industry sector. The table below shows the Bank's maximum exposure to any client or counterparty before taking into account collateral or other credit enhancements.

	Gross maximum exposure	
	2018	2017
Statutory deposits with Central Bank	**47,764**	48,466
Due from banks	**60,645**	84,345
Treasury Bills	**26,196**	23,896
Investment interest receivable	**3,093**	2,674
Advances	**468,392**	445,342
Investment securities, net of equities	**287,118**	262,085
Total	**893,208**	**866,808**
Undrawn commitments	**65,793**	84,715
Guarantees and Indemnities	**14,103**	13,118
Letters of credit	**8,632**	9,117
Total	**88,528**	**106,949**
Total credit risk exposure	**981,736**	**973,757**

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.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

17.2.1 Analysis of risk concentration *(continued)*

a Industry sectors

The following table shows the risk concentration by industry for the components of the statement of financial position. Additional disclosures for credit quality and the maximum exposure for credit risk per categories based on the Bank's internal credit rating system and year-end stage classification are further disclosed in Notes 4(b) and 5(d).

	2018	2017
Government and Central Government Bodies	**48,892**	48,531
Financial sector	**370,668**	360,026
Energy and mining	**15,161**	21,104
Agriculture	**5,036**	4,842
Electricity and water	**5,452**	8,238
Transport storage and communication	**9,608**	9,166
Distribution	**39,330**	43,367
Real estate	**–**	154
Manufacturing	**6,260**	7,220
Construction	**10,997**	12,294
Hotel and restaurant	**153,821**	144,467
Personal	**270,656**	272,452
Other services	**45,855**	41,896
	981,736	**973,757**

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".

b 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:

	2018	2017
Eastern Caribbean (excluding Grenada)	**79,958**	76,716
Barbados	**13,326**	13,620
Grenada	**531,999**	535,053
Trinidad and Tobago	**43,575**	81,601
United States	**121,823**	107,814
Other Countries	**191,055**	158,953
	981,736	**973,757**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

17.2.2 Impairment Assessment (Policy applicable from October 1, 2017)

Financial asset provisions are reviewed 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's impairment assessment and measurement approach is set out below.

17.2.3 Default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

17.2.4 The Bank's internal rating and PD estimation process

Commercial and corporate lending and mortgages

The Bank has an independent internal credit risk department. Risk ratings were selected as cohort for PD analyses. A vintage approach was applied looking at the movements of ratings over a period of time. Historical PDs were developed and there being no correlation between macroeconomic trends and historical default rates, management applied judgemental overlays based on expectations. As previously mentioned, LGD percentage estimates were developed based on historical loss trends for non-performing loans which are assessed on an individual level including estimating the present value of future cash flows. EAD equals the loan balance outstanding plus accrued interest.

Retail lending and mortgages

Product types were selected as cohort for PD analyses for retail lending and retail mortgages. A vintage approach was applied looking at the number of defaults by segment over a period of time. Historical PDs were developed and there being no correlation between macroeconomic trends, management applied judgemental overlays based on expectations. LGD percentage estimates were developed based on historical loss trends for non-performing loans which are assessed on both an individual and collective level. EAD equals the loan balance outstanding plus accrued interest.

Overdrafts

Many corporate customers are extended overdraft facilities and the PDs developed for the Corporate portfolio were applied. LGDs for the Corporate portfolio was also utilised for overdrafts. EADs were developed based on historical trends in utilisation of overdraft limits. ECL percentages for the Retail portfolio were utilised for retail overdrafts.

Management judgementally applied overlays as required as there was no noted correlation between macroeconomic trends and historical default rates.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

17.2.4 The Bank's internal rating and PD estimation process *(continued)*

Investment securities

PD's and LGD's for traded instruments were based on the global credit ratings assigned to the instrument. PD's and LGD's for non traded instruments were based on one notch below the credit rating of the sovereign in which the instrument is issued or on company ratings where they existed. Management applied judgemental overlays based local debt instruments. EAD equals the amortised security balance plus accrued interest.

Internal rating

The Bank's internal credit rating are correlated to stages as follows:

Rating	Stage
Superior/Desirable < 30 days	1
Watch list 31>89 days	2
Credit Impaired/ Non-performing loans > 90 days	3

A description of the internal credit ratings are noted below:

Superior/Desirable:	These counterparties have a good financial position. Facilities are well secured or reasonably well secured and underlying business is performing well.
Watch list:	These counterparties are of average risk with a fair financial position. Business or industry may be subject to more volatility and facilities typically have lower levels of security.
Credit Impaired/ Non-performing loans:	Past due or individually impaired.

17.2.5 Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 17.2.6), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

17.2.6 Grouping financial assets measured on a collective basis

As explained in Note 2.5(g)(i) dependant on the factors below, the Bank calculates ECLs either on a collective or an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets
- The Commercial and corporate lending and overdraft portfolio
- The Mortgage portfolio
- The Retail lending portfolio

Asset classes where the Bank calculates ECL on a collective basis include:

- The retail overdraft portfolio
- Past due not yet relegated credit facilities

17.2.7 Analysis of Gross Carrying Amount and corresponding ECLs are as follows:

Advances

	2018 %	2017 %
Stage 1	**94.2%**	90.1%
Stage 2	**2.6%**	5.8%
Stage 3	**3.2%**	4.2%
	100.0%	**100.0%**

September 30, 2018	Retail lending	Commercial and Corporate lending	Mortgages	Overdrafts	Total
Stage 1					
Gross Loans	38,233	51,009	342,221	15,467	446,930
ECL	(98)	(369)	(2,666)	(79)	(3,212)
	38,135	**50,640**	**339,555**	**15,388**	**443,718**
ECL as a % of Gross Loans	0.3%	0.7%	0.8%	0.5%	0.7%

October 1, 2017	Retail lending	Commercial and Corporate lending	Mortgages	Overdrafts	Total
Stage 1					
Gross Loans	36,496	32,727	317,824	17,068	404,115
ECL	(173)	(328)	(2,509)	(80)	(3,090)
	36,323	**32,399**	**315,315**	**16,988**	**401,025**
ECL as a % of Gross Loans	0.5%	1.0%	0.8%	0.5%	0.8%

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

17.2.7 Analysis of Gross Carrying Amount and corresponding ECLs are as follows: *(continued)*

Advances *(continued)*

The increase in ECLs of Stage 1 portfolios was driven by a 10.59% increase in the gross size of the portfolio and movements between stages as a result of increases in credit risk.

September 30, 2018	Retail lending	Commercial and Corporate lending	Mortgages	Overdrafts	Total
Stage 2					
Gross Loans	299	1,782	7,087	3,425	12,593
ECL	(2)	(100)	(359)	(78)	(539)
	297	**1,682**	**6,728**	**3,347**	**12,054**
ECL as a % of Gross Loans	0.7%	5.6%	5.1%	2.3%	4.3%

October 1, 2017	Retail lending	Commercial and Corporate lending	Mortgages	Overdrafts	Total
Stage 2					
Gross Loans	247	6,847	15,590	3,781	26,465
ECL	(1)	(205)	(451)	(69)	(726)
	246	**6,642**	**15,139**	**3,712**	**25,739**
ECL as a % of Gross Loans	0.4%	3.0%	2.9%	1.8%	2.7%

The decrease in ECLs of Stage 2 portfolios was driven by a 52.41% decrease in the gross size of the portfolio, movements between stages as a result of decreases in credit risk and improved economic conditions.

September 30, 2018	Retail lending	Commercial and Corporate lending	Mortgages	Overdrafts	Total
Stage 3					
Gross Loans	678	3,280	14,249	–	18,207
ECL	15	(1,883)	(1,232)	–	(3,100)
	693	**1,397**	**13,017**	**–**	**15,107**
ECL as a % of Gross Loans	(2.2%)	57.4%	8.6%	–	17.0%

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

17.2.7 Analysis of Gross Carrying Amount and corresponding ECLs are as follows: *(continued)*

Advances *(continued)*

October 1, 2017	Retail lending	Commercial and Corporate lending	Mortgages	Overdrafts	Total
Stage 3					
Gross Loans	729	4,657	22,896	–	28,282
ECL	(51)	(2,439)	(7,246)	–	(9,736)
	678	**2,218**	**15,650**	**–**	**18,546**
ECL as a % of Gross Loans	7.0%	52.4%	31.6%	–	34.4%

The decrease in ECLs of Stage 3 portfolios was driven by a 35.63% decrease in the gross size of the portfolio, movements between stages as a result of decreases in credit risk and an improvement in economic conditions.

Investment Securities

	2018 %	2017 %
Stage 1	**92.9%**	91.6%
Stage 2	**3.4%**	3.9%
Stage 3	**3.7%**	4.5%
	100.0%	**100.0%**

September 30, 2018	Stage 1	Stage 2	Stage 3	Total
Gross Balance	267,203	9,990	19,027	296,220
ECL	(339)	(339)	(8,424)	(9,102)
	266,864	**9,651**	**10,603**	**287,118**
ECL as a % of Gross Balance	0.13%	3.39%	44.27%	3.07%

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

17.2.7 Analysis of Gross Carrying Amount and corresponding ECLs are as follows: *(continued)*

Advances *(continued)*

October 1, 2017	Stage 1	Stage 2	Stage 3	Total
Gross Balance	240,390	10,806	22,237	273,433
ECL	(311)	(711)	(10,327)	(11,349)
	240,079	**10,095**	**11,910**	**262,084**
ECL as a % of Gross Balance	0.13%	6.58%	46.44%	4.15%

The decrease in ECLs was driven by the second principal reduction on the Government of Grenada restructured bonds, repayments and decrease in credit risk due to improved economic conditions.

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.

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.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

17 RISK MANAGEMENT *(continued)*

17.3 Liquidity risk *(continued)*

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 21 for a maturity analysis of assets and liabilities.

Financial liabilities - on Statement of Financial Position

2018	On demand	Up to one year	1 to 5 years	Over 5 years	Total
Customers' current, savings and deposit accounts	184,986	628,143	437	–	813,566
Due to banks	8,261	3	–	–	8,264
Other liabilities	8,721	–	–	23	8,744
Total undiscounted financial liabilities 2018	**201,968**	**628,146**	**437**	**23**	**830,574**

Financial liabilities - on Statement of Financial Position

2017	On demand	Up to one year	1 to 5 years	Over 5 years	Total
Customers' current, savings and deposit accounts	171,929	621,959	1,572	–	795,460
Due to banks	5,440	–	–	–	5,440
Other liabilities	5,821	–	–	23	5,844
Total undiscounted financial liabilities 2017	**183,190**	**621,959**	**1,572**	**23**	**806,744**

Financial liabilities - off Statement of Financial Position

2018	On demand	Up to one year	1 to 5 years	Over 5 years	Total
Guarantees and indemnities	8,518	3,249	2,336	–	14,103
Letter of Credit	–	8,632	–	–	8,632
Total	**8,518**	**11,881**	**2,336**	**–**	**22,735**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

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

2017	On demand	Up to one year	1 to 5 years	Over 5 years	Total
Guarantees and indemnities	8,415	333	3,020	1,350	13,118
Letter of Credit	–	9,117	–	–	9,117
Total	**8,415**	**9,450**	**3,020**	**1,350**	**22,235**

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 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. This impact is illustrated on the following table:

		Impact on net profit			
		2018		2017	
	Increase/ decrease in in basis points	Increase in basis points	Decrease in basis points	Increase in basis points	Decrease in basis points
US$ Instruments	+/- 50	(40)	40	(90)	91

Notes to the Financial Statements

For the year ended September 30, 2018. 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

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 currency 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.

2018	ECD	USD	TTD	OTHER	Total
FINANCIAL ASSETS					
Cash	9,929	1,241	–	583	11,753
Statutory deposits with Central Bank	47,764	–	–	–	47,764
Due from banks	3,608	54,068	2,454	515	60,645
Treasury Bills	26,196	–	–	–	26,196
Investment interest receivable	396	2,495	202	–	3,093
Advances	395,960	72,432	–	–	468,392
Investment securities	5,277	277,513	4,875	–	287,665
TOTAL FINANCIAL ASSETS	**489,130**	**407,749**	**7,531**	**1,098**	**905,508**
FINANCIAL LIABILITIES					
Due to banks	8,261	3	–	–	8,264
Customers' current, savings and deposit accounts	760,263	52,486	–	640	813,389
Interest payable	176	1	–	–	177
TOTAL FINANCIAL LIABILITIES	**768,700**	**52,490**	**–**	**640**	**821,830**
NET CURRENCY RISK EXPOSURE		**355,259**	**7,531**	**458**	
Reasonably possible change in currency rate (%)		**1%**	**1%**	**1%**	
Effect on profit before tax		**3,553**	**75**	**5**	

Notes to the Financial Statements

For the year ended September 30, 2018. 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)*

2017	ECD	USD	TTD	OTHER	Total
FINANCIAL ASSETS					
Cash	12,113	1,333	–	509	13,955
Deposits with Central Bank	48,466	–	–	–	48,466
Due from banks	7,697	75,245	970	433	84,345
Treasury Bills	23,896	–	–	–	23,896
Investment interest receivable	486	1,930	258	–	2,674
Advances	381,930	63,412	–	-	445,342
Investment securities	7,070	248,241	7,320	–	262,631
TOTAL FINANCIAL ASSETS	**481,658**	**390,161**	**8,548**	**942**	**881,309**
FINANCIAL LIABILITIES					
Due to banks	5,439	1	–	–	5,440
Customers' current, savings and deposit accounts	740,382	54,280	–	662	795,324
Interest payable	135	1	–	–	136
TOTAL FINANCIAL LIABILITIES	**745,956**	**54,282**	**–**	**662**	**800,900**
NET CURRENCY RISK EXPOSURE		**335,879**	**8,548**	**280**	
Reasonably possible change in currency rate (%)		**1%**	**1%**	**1%**	
Effect on profit before tax		**3,359**	**85**	**3**	

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.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

18 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, 2018 and 2017, there were no allowances for impairment against related parties.

	2018	2017
Advances, investments and other assets		
Directors and key management personnel	**660**	1,180
Other related parties	**30,508**	65,977
	31,168	**67,157**
Deposits and other liabilities		
Directors and key management personnel	**1,799**	2,671
Other related parties	**22,353**	25,308
	24,152	**27,979**
Interest and other income		
Directors and key management personnel	**52**	77
Other related parties	**367**	345
	419	**422**
Interest and other expense		
Directors and key management personnel	**185**	204
Other related parties	**466**	499
	651	**703**

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

Key management compensation

	2018	2017
Short-term benefit	**831**	755
Post employment benefits	**32**	32
	863	**787**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

19 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 increased by $5.947 million to $114.110 million during the year under review. This was mainly due to net profit after tax of $7.878 million for fiscal 2018, partly off set by $1.495 million due to the impact of IFRS 9 and a reduction in defined benefit reserve.

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

	2018	2017
Tier 1 Capital	**14.41%**	13.75%
Tier 2 Capital	**14.85%**	14.57%

At September 30, 2018, the Bank exceeded the minimum levels required for adequately capitalised institutions.

20 FAIR VALUE

20.1 Carrying values and fair values

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

	2018		
	Carrying value	Fair value	Unrecognised (loss)/gain
Financial assets			
Cash, due from banks and Treasury Bills	98,594	98,594	–
Investment interest receivable	3,093	3,093	–
Advances	468,392	468,079	(313)
Investment securities	287,665	285,398	(2,267)
Financial liabilities			
Customers' current, savings and deposit accounts	813,389	813,389	–
Accrued interest payable	177	177	–
Total unrecognised change in unrealised fair value			**(2,580)**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

20 FAIR VALUE *(continued)*

20.1 Carrying values and fair values *(continued)*

2017	Carrying value	Fair value	Unrecognised gain
Financial assets			
Cash, due from banks and Treasury Bills	122,196	122,196	–
Investment interest receivable	2,674	2,674	–
Advances	445,342	444,218	(1,124)
Investment securities	262,631	262,631	–
Financial liabilities			
Customers' current, savings and deposit accounts	795,324	795,323	1
Accrued interest payable	136	136	–
Total unrecognised change in unrealised fair value			**(1,123)**

20.2 Fair value and fair value hierarchies

20.2.1 Determination of fair value and fair value hierarchies

The following table shows the fair value measurement hierarchy of the Bank's assets and liabilities:

2018	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Investments securities	–	–	547	547
Financial assets for which fair value is disclosed				
Advances	–	–	468,079	468,079
Debt instruments at amortised cost	235,956	38,292	10,603	284,851
Financial liabilities for which fair value is disclosed				
Customers' current, savings and deposit accounts	–	–	813,389	813,389
	235,956	**38,292**	**1,292,618**	**1,566,866**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

20 FAIR VALUE *(continued)*

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

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

2017	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Investments securities	210,110	40,611	11,910	262,631
Financial assets for which fair value is disclosed				
Advances	–	–	444,218	444,218
Financial liabilities for which fair value is disclosed				
Customers' current, savings and deposit accounts	–	–	795,323	795,323
	210,110	**40,611**	**1,251,451**	**1,502,172**

20.2.2 Transfers between Level 1 and 2

For the year ended September 30, 2018, no assets were transferred between Level 1 and Level 2.

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

	Balance at beginning of year $	Net Disposals $	Balance at end of year $
Financial assets where fair value is disclosed			
Investment securities	11,910	(1,307)	10,603

Included in the Level 3 category are financial assets that are not quoted as there is 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.

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

20 FAIR VALUE *(continued)*

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

20.2.4 Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy as at September 30, 2018 are as shown below:

	Valuation technique	Significant unobservable inputs	Range (weighted average)
Advances	Discounted Cash Flow Method	Growth rate for cash flows for subsequent years	**4.00% - 14.00%**
Customers' current, savings and deposit accounts	Discounted Cash Flow Method	Growth rate for cash flows for subsequent years	**0.00% - 3.0%**

21 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.

2018	Within 12 months	After 12 months	Total
ASSETS			
Cash	11,753	–	11,753
Statutory deposits with Central Bank	47,764	–	47,764
Due from banks	60,645	–	60,645
Treasury Bills	26,196	–	26,196
Investment interest receivable	3,093	–	3,093
Advances	52,522	415,870	468,392
Investment securities	70,536	217,129	287,665
Premises and equipment	1,002	30,225	31,227
Employee benefits	–	7,323	7,323
Deferred tax assets	–	2,871	2,871
Other assets	5,106	–	5,106
	278,617	**673,418**	**952,035**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

21 MATURITY ANALYSIS OF ASSETS AND LIABILITIES *(continued)*

2018	Within 12 months	After 12 months	Total
LIABILITIES			
Due to banks	8,264	–	8,264
Customers' current, savings and deposit accounts	812,953	436	813,389
Employee obligations	–	4,378	4,378
Taxation payable	776	–	776
Deferred tax liabilities	–	2,197	2,197
Accrued interest payable	177	–	177
Other liabilities	8,721	23	8,744
	830,891	**7,034**	**837,925**

2017	Within 12 months	After 12 months	Total
ASSETS			
Cash	13,955	–	13,955
Statutory deposits with Central Bank	48,466	–	48,466
Due from banks	84,345	–	84,345
Treasury Bills	23,896	–	23,896
Investment interest receivable	2,674	–	2,674
Advances	35,826	407,053	442,879
Investment securities	36,752	225,879	262,631
Premises and equipment	1,006	31,177	32,183
Employee benefits	–	7,078	7,078
Deferred tax assets	–	1,698	1,698
Other assets	2,966	–	2,966
	249,886	**672,885**	**922,771**
LIABILITIES			
Due to banks	5,440	–	5,440
Customers' current, savings and deposit accounts	793,756	1,568	795,324
Employee obligations	–	4,136	4,136
Taxation payable	925	–	925
Deferred tax liabilities	–	2,804	2,804
Accrued interest payable	136	–	136
Other liabilities	5,821	23	5,844
	806,078	**8,532**	**814,609**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

22 DIVIDENDS PAID AND PROPOSED

	2018	2017
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2017: $0.00 (2016: $0.00)	**–**	–
First dividend for 2018: $0.00 (2017: $0.00)	**–**	–
Total dividends paid	**–**	**–**

Proposed and approved by the Board of Directors (not recognised as a liability as at September 30)

	2018	2017
Equity dividends on ordinary shares:		
Final dividend for 2018: $1.50 (2017: Nil)	**2,442**	**–**

23 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

a Litigation

As at September 30, 2018, 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

	2018	2017
Guarantees and indemnities	**14,103**	13,118
Letter of credit	**8,632**	9,117
	22,735	**22,235**

c Sectoral information

Corporate and commercial	**22,669**	22,169
Personal	**66**	66
	22,735	**22,235**

Notes to the Financial Statements

For the year ended September 30, 2018. Expressed in thousands of Eastern Caribbean dollars ($'000) except where otherwise stated

23 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS *(continued)*

		2018	2017
d	**Leasing arrangement**		
	Lease payments recognised as expense in period	**748**	669
	The future minimum lease payments under the contracts, divided into the following buckets		
	a Less than one year	**638**	527
	b Between one to five years	**680**	1,107
		1,318	**1,634**

24 SEGMENTAL INFORMATION

As at September 30, 2018 and 2017, the Bank's entire operations are in the retail and commercial banking class of business in Grenada.