2013 Annual Report

above & beyond

Republic Bank (Grenada) Limited

above & beyond

Left to right:
Kwame Gittens
Hillary Mc Leish-Barclay
Sherman Douglas
Aysha Calliste
Rosalie Mangal
Kelon Thomas

When we go beyond what is expected of us, we discover within ourselves new abilities and qualities. We also contribute something new and better to the common goal of serving others. Thus, in celebrating those among us that have gone above & beyond the call of duty in our Bank, we are challenging ourselves to emulate them and to grow and discover our own unique gifts. As we celebrate the best among us, we are focusing on what's right, on what is good, on what is successful. This focus will lead us to a place of positive potential where we can create success that transcends common boundaries. We have recognised our individual and collective strengths as forces with which to be reckoned. Our power is in the commitment of each member of staff. In asserting this power, we are now better able to apply it in the service of others. In honouring our ability to perform, we are more inspired to set new precedents, to raise the bar, to ascend to new heights in service, productivity, job fulfilment and profitability. We are Republic Bank. We are an upward moving momentum that has only just begun to achieve goals beyond the ordinary.

Vision Mission Values

VISION

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

MISSION

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

VALUES

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

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Notice of Meeting

ANNUAL MEETING

NOTICE is hereby given that the thirtieth Annual Meeting of Republic Bank (Grenada) Limited will be held at the St. Andrew's Conference Room, Spice Island Beach Resort, Grand Anse, St. George, Grenada on Thursday December 12, 2013 at 10:30 a.m., for the following purposes:-

1 To receive the Audited Financial Statements of the Company, for the year ended September 30, 2013 and the Reports of the Directors and Auditors thereon.
2 To elect Directors.
3 To re-appoint Ernst & Young as Auditors, and to authorise the Directors to fix their remuneration.
4 Any other business.

By order of the Board

KIMBERLY G. ERRIAH-ALI
Corporate Secretary

November 12, 2013

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 12, 2013 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 12, 2013 are therefore entitled to receive notice of the Annual Meeting. A list of such shareholders will be available for examination by shareholders at the Registered Office of the Company during usual business hours.

Proxies

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

Dividend

No dividend has been declared for 2013 (2012: $2.35).

Documents Available For Inspection

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

Corporate Information

DIRECTORS

Chairman

Ronald F. deC. Harford, CMT, FCIB, FIBAF, FCABFI, LLD

Managing Director

Keith A. Johnson, BSc (Accountancy), MBA, AICB

Margaret A. Blackburn, LLB (Hons.)
Leon D. Charles, BSc (Agri. Mgmt.), MBA, Acc. Dir.
Derwin M. Howell, BSc (Hons.) (Elec. Eng.) (Hons.), MSc (Tele Systems), Executive MBA, MIET, MIEEE, C. Eng.
Nigel A. John, BSc (Civil Eng.), Cert. Proj. Mgmt., Acc. Dir.
Denis F. Paul, PhD (Chemistry)
Isabelle S. V. Slinger, BSc (Info. Systems and Computers), CA
Graham K. Williams, BA (Econ.)
Karen Yip Chuck, BSc (Hons.) (Econ.), MBA, ACIB, Certified Internal Auditor (CIA)

CORPORATE SECRETARY

Corporate Secretary

Kimberly G. Erriah-Ali, LLB (Hons.), LEC

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
Lucas Street
St. George's
Grenada, West Indies

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

AUDITORS

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

Bank Profile

HEAD OFFICE

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

EXECUTIVE MANAGEMENT

Managing Director
Keith A. Johnson, BSc (Accountancy), MBA, AICB

General Manager, Credit
Naomi E. De Allie, BSc (Fin. Ser. Mgmt.), ACIB

General Manager, Operations
Donna L. Y. Lander, MBA (HR Mgmt.), FICB

MANAGEMENT

Manager, Commercial Credit
Valentine S. Antoine, BSc (Mgmt. Studies), ACIB, MBA (Finance)

Manager, Information Technology Management Department
Clifford D. Bailey, BSc (Computing and Info. Systems), MSc (IT and Mgmt.)

Manager, Business Support Services
Hermilyn E. M. Charles

Manager, Human Resources, Training and Development
Mc Kie J. Griffith, BSc (Mgmt.)

Manager (Ag.), Finance
Elizabeth M. Richards, FCCA, MBA (Financial Services)

OTHER BANKING OFFICES

REPUBLIC HOUSE CLUSTER

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

Manager, Retail Services
Althea R. Roberts, AICB

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

Officer-in-Charge
Roger J. Patrice

ST. GEORGE'S CLUSTER

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

Manager, Retail Services
Garnet K. Ross

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

Operations Officer
Edmond Calliste, AICB

GRENVILLE CLUSTER

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

Manager, Retail Services
Devon M. Thornhill

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

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

Financial Summary

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

	2013	2012	2011	2010	2009	2008
Total assets	**738,855**	715,507	707,895	749,331	732,990	762,291
Customer Deposits	**624,141**	596,167	597,055	620,471	618,701	635,593
Advances	**492,276**	496,520	497,173	472,974	447,097	412,555
Stated Capital	**15,000**	15,000	15,000	15,000	15,000	15,000
Shareholders' Equity	**90,938**	95,696	91,762	95,789	89,356	87,302
Number of shares	**1,500**	1,500	1,500	1,500	1,500	1,500
Profit after taxation	**(5,918)**	7,794	1,896	9,283	8,679	15,810
Dividends based on results for the year	**–**	3,525	1,350	4,125	4,125	6,750
Dividends paid during the year	**2,550**	1,350	3,975	4,125	4,125	6,600
Earnings per share	**(3.95)**	5.20	1.26	6.19	5.79	10.54

Board of Directors

Ronald F. deC. Harford

CMT, FCIB, FIBAF, FCABFI, LLD

Chairman,
Republic Bank Limited

Keith A. Johnson

BSc (Accountancy), MBA, AICB

Managing Director,
Republic Bank (Grenada) Limited

Derwin M. Howell

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

Executive Director,
Republic Bank Limited

Margaret A. Blackburn

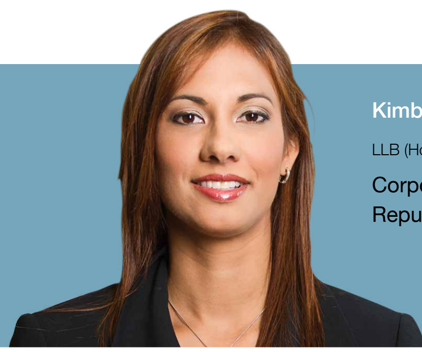
LLB (Hons.)

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

Leon D. Charles

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

Chief Executive Officer,
Charles and Associates Inc.



Kimberly G. Erriah-Ali

LLB (Hons.), LEC, MBA

Corporate Secretary,
Republic Bank (Grenada) Limited

Nigel A. John

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

Consulting Engineer,
Latitudes Consult

Dr Denis F. Paul

PhD

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

Isabelle S. V. Slinger

BSc (Info. Systems and Computers), CA

Managing Director,
Comserv Limited

Graham K. Williams

BA (Econ.)

Managing Director/Chairman,
Westerhall Estate Limited

Karen Yip Chuck

BSc (Hons.) (Econ.), MBA, ACIB
Certified Internal Auditor (CIA)

General Manager,
Trust and Asset Management Division
Republic Bank Limited

Directors' Report

Your Directors hereby submit their Report for the year ended September 30, 2013.

FINANCIAL RESULTS AND DIVIDENDS

The Directors report that the Bank has recorded a loss after taxation of $5.9 million for the year ended September 30, 2013. The Directors have not declared a dividend for the year (2012: $2.35)

SUBSTANTIAL INTEREST IN SHARE CAPITAL AS AT SEPTEMBER 30, 2013.

	Ordinary Shares
Republic Bank Limited	764,700

A substantial interest is a holding of 5% or more of the issued share capital of the Bank.

DIRECTORS

In accordance with By-Law No.1, Paragraph 4.51., Derwin M. Howell and Karen Yip Chuck were appointed with effect from April 18, 2013, to fill the vacancies created by the resignation of Nigel M. Baptiste, and Ian R. De Souza, respectively.

In accordance with By-Law No.1, Paragraph 4.5.1., Dr Denis F. Paul was appointed with effect from October 24, 2013, to fill the vacancy created by the resignation of Hugh D. Dolland. Hugh D. Dolland resigned from the Board with effect from May 20, 2013.

In accordance with By-Law No.1, Paragraph 4.3.1., Margaret A. Blackburn retires from the Board by rotation and, being eligible, offers herself 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., Derwin M. Howell and Karen Yip Chuck, retire from the Board, 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., Dr Denis F. Paul retires from the Board, and being eligible, offers himself for re-election for a term expiring at the close of the first annual meeting following this appointment.

DIRECTORS' INTEREST

Set out are the names of the Directors with an interest in the company at September 30, 2013 together with particulars of their holdings.

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

Since the end of the Company's year, Dr. Denis F. Paul has acquired a non-beneficial interest in 50 shares.

AUDITORS

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

By order of the Board

KIMBERLY G. ERRIAH-ALI
Corporate Secretary

For the year ended September 30, 2013, the Bank recorded a loss after tax of $5.9 million, after accounting for an impairment expense of $10.1 million on Government of Grenada bonds (comparative adjusted net profit after tax for 2012: $7.8 million). Based on these results, the Bank has not declared a dividend for the year (2012: $2.35). Given the depressed economic environment in which the Bank operated, its net profit before the impairment expense and taxes, of $4.5 million can be viewed against the comparative 2012 $7.3 million profit.

Global

The economic growth trends of recent years continued from 2012 into 2013, with developing countries on average recording noticeably higher growth rates than their developed counterparts. The International Monetary Fund (IMF) in its World Economic Outlook of October 2013 characterised global growth as being in low gear, as it averaged only 2.5% for the first half of 2013, a similar rate as the second half of 2012. This came about as the increased momentum by developed countries was dampened by slower activity in emerging countries, compared to the pace of recent years.

Global growth is now forecast at 2.9%for the year 2013, 0.3% lower than the June figure and lower than the 3.2% recorded for 2012. This lower forecast was a consequence of bottlenecks, weaker demand, geo-political tensions in some oil-producing countries and declines in some commodity prices. Early forecasts for 2014 show varying degrees of economic growth in the major economies. However, these forecasts may be tempered as there are significant downside risks over the short term. For example, following a period of relatively benign food price trends, global food price shocks could also be on the horizon.

Regional

Growth patterns of a slightly different nature remained in effect in the Caribbean region. Over the last year, countries with dominant commodities sectors, whether agriculture products, energy products or precious metals, have continued to benefit from buoyant global prices resulting in either healthy growth or steady recovery. Those economies driven primarily by tourism and financial services however, continue to struggle with high energy and food prices, and weaker demand for their primary services. While some states saw slight improvement in tourist arrivals early in 2013, the trend was not sustained and a combination of lower visitor spending and heavy discounting resulted in persistent weak revenues. This, combined with the already less favourable global investment climate saw a slowdown in tourism-related projects with negative consequences for construction sector activity in many states.

The high debt levels carried by many Caribbean states, in addition to presenting serious financing challenges, limit their governments' ability to stimulate economic activity in the short term. They also present challenges for engaging in the economic restructuring needed for more sustainable medium and long term growth. Regional growth is expected to remain weak over the short term, dependent as it is on a strong growth momentum in leading economies and some moderation in commodity prices. The IMF forecasts Caribbean economic growth at 1.7% in 2013 and 2.9% in 2014. It should be noted that this forecast excludes Guyana, Suriname, Anguilla and Montserrat.

Grenada

The island's economy contracted by 0.8% in 2012, a reversal of the 1.0% growth of a year earlier. The decline was due largely to contraction in the construction and tourism sectors of 16% and 1.2% respectively, with agriculture being the only significant growth sector at 6%. Cruise ship visitors declined by almost 22%, year on year, while stay-over visitors decreased by 1.4%. Increases in US and Canadian tourists were not enough to offset lower numbers of UK visitors.

The general election of 2013 saw a change of Government as the New National Party led by Dr. Keith Mitchell won by a landslide against the incumbent National Democratic Congress, securing all of the 15 seats contested. The new administration came into office facing a daunting task, as the country's debt to GDP ratio stood at 108.2% in December, 2012, and unemployment was estimated to be over 40%. The banking sector continued to be challenged by the negative trends of the past four years, with loans contracting by 1.6% in the nine months to June 2013, while non-performing loans rose significantly over the same period.

In March 2013, after the Government failed to make its interest payment due on the US$193 million bond, the country's local and foreign currency credit ratings were downgraded to Selective Default (SD) from CCC+/C by Standard and Poor's. The new administration expressed its commitment to honour its financial obligations, but indicated that, given its fiscal challenges, it would approach creditors to restructure its debt.

An IMF team which visited recently highlighted some of the challenges facing the country. Economic activity has been constrained as the key tourism sector continued to struggle, while other sectors experienced contraction or modest growth. Economic growth in 2013 remains uncertain, as conditions continue to be challenging, and significant restructuring and adjustments will need to be made as the Government works with the IMF and its creditors.

On a positive note, there has been renewed interest by foreign investors in the tourism sector. Such investments can potentially boost economic activity in both the short and medium term, once they come to fruition.

We look forward to the speedy conclusion to the debt restructuring, increased economic activity from proposed new projects, and the eventual turnaround in the economy.

Acknowledgements

During the year, Hugh Dolland resigned from the Board after a number of years of invaluable service. Dr Denis F. Paul of the St George's University joined the Board of Directors in October, in his place. Nigel M. Baptiste and Ian De R. Souza, who assumed new responsibilities within the Group, were rotated by Derwin M. Howell and Karen Yip Chuck, both Senior Executives of Republic Bank Limited. We thank the outgoing Directors for their valuable contribution to the Bank and wish them continued success in the future. We welcome the new Directors to the Board and look forward to their contribution.

I commend the management and staff for their steadfast commitment; our customers and shareholders for their continued loyalty and support; and the members of the Board for their dedication and wise counsel.

INTRODUCTION

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

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

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

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

Keith A. Johnson

	2013	2012
United States Dollars	**2.70**	2.70
Canadian Dollars	**2.6203**	2.7569
Pounds Sterling	**4.3617**	4.3785
Euro	**3.6362**	3.4910
TT Dollars	**0.4277**	0.4279

The Operating Environment

The operating environment continued to reflect the characteristics of the previous four years, marked by weak loan demand, growing loan delinquency and a sharp rise in non-performing loans. Unemployment, said to be around 40%, remained stubborn. The economy continued to be affected by the global financial crisis, which is entering its sixth year. Tourism and construction again recorded declines, and the improvement in agriculture was not sufficient to offset the shortfall. Increase in deposits was fuelled largely by salary increases paid by Government.

Government's failure to make an interest payment due on one of its bonds in March 2013, and the subsequent downgrading of Government debt, has had a deleterious effect on the Bank's financial performance for 2013.

Summary of Republic Bank (Grenada) Limited Operations

All figures in EC$million

	2013	2012	Change	% change
Profitability				
Core (Loss)/profit before taxation and provisioning	**(4.0)**	9.3	(13.3)	(143.0%)
Provision for loan losses	**1.7**	1.9	(0.2)	(10.5%)
(Loss)/Profit before taxation	**(5.6)**	7.3	(12.9)	(176.7%)
(Loss)/Profit after taxation	**(5.9)**	7.8	(13.7)	(175.6%)
Balance Sheet				
Total assets	**738.9**	715.5	23.4	3.3%
Total advances	**492.3**	496.5	(4.2)	(0.8%)
Total deposits	**624.1**	596.2	27.9	4.7%
Shareholders' equity	**90.9**	95.7	(4.8)	(5.0%)

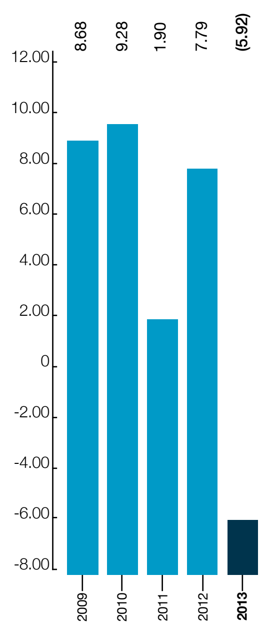
STATEMENT OF INCOME REVIEW

Financial Summary

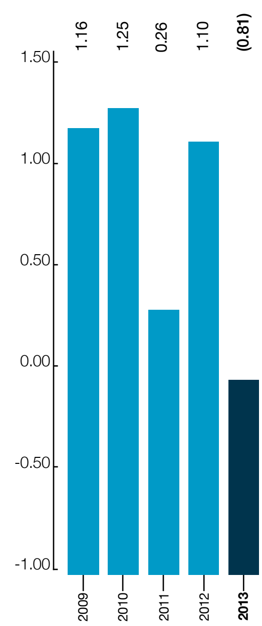
The Bank recorded a loss after tax of $5.9 million for 2013, compared with the restated $7.8 million profit reported in 2012. This was primarily the result of an expense of $10.1 million on the impairment of the Government of Grenada bonds in March 2013.

The Bank's return on average assets and return on average equity declined in line with the loss recorded.

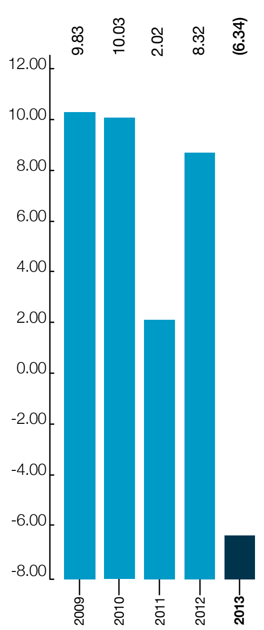
(Loss)/Profit After Tax ($ million)



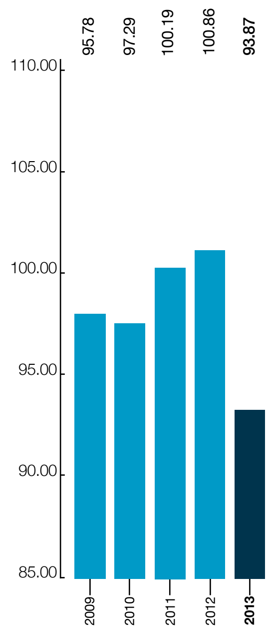
Return on Average Assets (%)



Return on Average Equity (%)



Interest Earnings Assets to Deposits (%)



Net Interest and Other Income

Net interest income fell by 5.1% or $1.6 million to $30.0 million (2012: $31.6 million). The loan portfolio, net of provisions, decreased by 0.85% or $4.2 million to $492.3 million (2012: 496.5 million). This decrease in portfolio, plus the growth in the non-performing segment, and pressure on interest rates, combined to produce the reduction in interest income on loans, which decreased by 4.4% or $1.8 million. Interest on investments fell by $1.2 million or 22%, due mainly to the impairment of the Government of Grenada Bonds, which are now classified as non-accrual. The reinvestment of high yielding investments into lower yielding instruments, as they matured, also affected overall return.

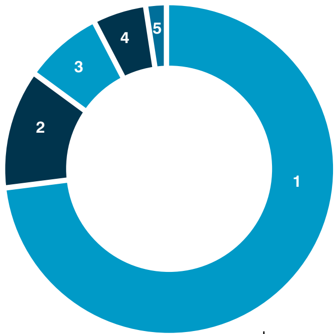
As a result of prudent interest rate and liability management, interest cost reduced by 8.5%, in contrast to a 4.7% increase in the deposits portfolio. The ratio of the Bank's interest-earning assets to customer deposits reduced to 93.87%. This reflects the challenges faced by the Bank by the weak loan environment and in sourcing worthwhile investments.

Other income of $9.6 million in 2013 was $2.2 million or 18.6% lower than the 2012 level of $11.8 million. The performance in 2012 was, however, boosted by the one-off recovery of a previously written-off debt of $2.6 million. The shortfall this year was reduced by an increase of $0.7 million (28.1%) in exchange earnings. Fees and commissions remained steady with a marginal increase of 1.97%. Consistent with IAS 18, commission on new loans is being recognised over the average life of the loan rather than being taken to income when the loan is granted.

Operating expenses increased by 27.5% or $9.4 million to $43.6 million (2012: $34.2 million). This was primarily as a result of the impairment expense of $10.1 million recorded on the Government of Grenada bonds.

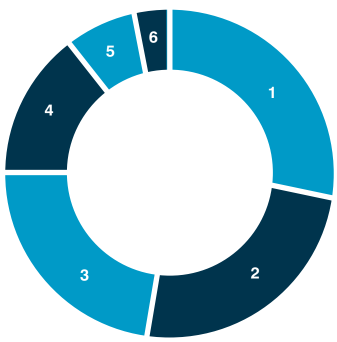
In accordance with IAS 39, the Bank conducts an impairment review of each of its impaired financial assets annually. In 2013, expenses relating to impaired assets amounted $11.8 million compared to $2.3 million in 2012.

Sources of Revenue (%)



1 **73%** Advances
2 **10%** Fees and Commissions
3 **9%** Investment Securities
4 **6%** Exchange Earnings
5 **2%** Other Income

Revenue Distribution (%)



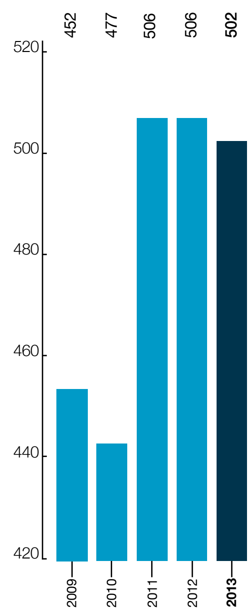
1 **28%** Staff Cost
2 **24%** Interest Expense
3 **22%** General Administration Expense
4 **17%** Impairment Expense
5 **6%** Depreciation
6 **3%** Other Expenses

Balance Sheet Review

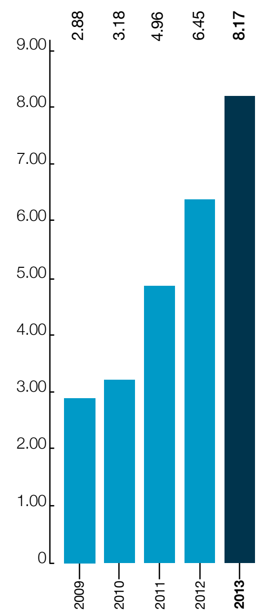
In 2013 total assets increased by 3.27% or $23.4 million to $738.9 million (restated 2012: $715.5 million). The gross loans portfolio decreased by 0.71% to $502.0 million (2012: $505.6 million) reflecting the economic and environmental challenges during the year. This is in line with the market, which recorded a similar decrease in the year to June 2013. Investments decreased by 11.3% or $11.2 million, primarily due to the reduction in market value of the Government of Grenada bonds which were impaired during the year and, to a lesser extent, a dearth of sound investment opportunities.

The Bank continued its efforts at maintaining the quality of the loans portfolio; however, the impact of the "great recession" of the past five years is seen in the increase in the ratio of non-performing loans to gross loans, from 6.45% in 2012 to 8.17% at the end of fiscal 2013. The ECCB's benchmark for this ratio is 5%. It should be noted though, that, while the Bank's ratio has increased, it is still comparatively better than the sector average of over 12% as at June 2013, which increased by some 50% year on year. The Bank continues to focus efforts on returning to pre-2011 levels over the next few years, taking account of the economic forecast for Grenada.

Gross Loans and Advances ($ million)

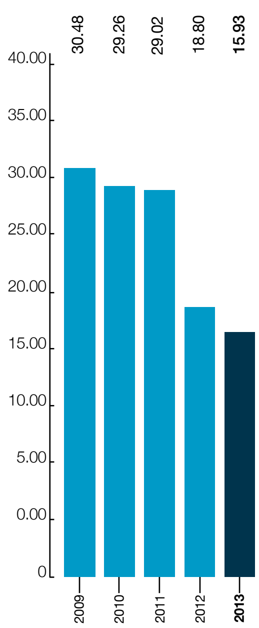


Non-Performing to Gross Loans (%)



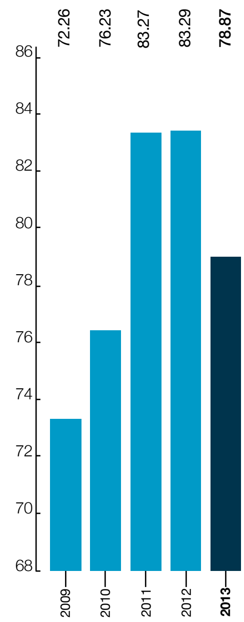
The ratio of specific provision for loan losses to non-performing loans moved from 18.8% in 2012 to 15.9% in 2013, reflecting the strong quality of the Bank's collateral, as well as a change in the provisioning policy, which came into effect at the end of fiscal 2013.

Specific Provisions to Non-Performing Loans (%)



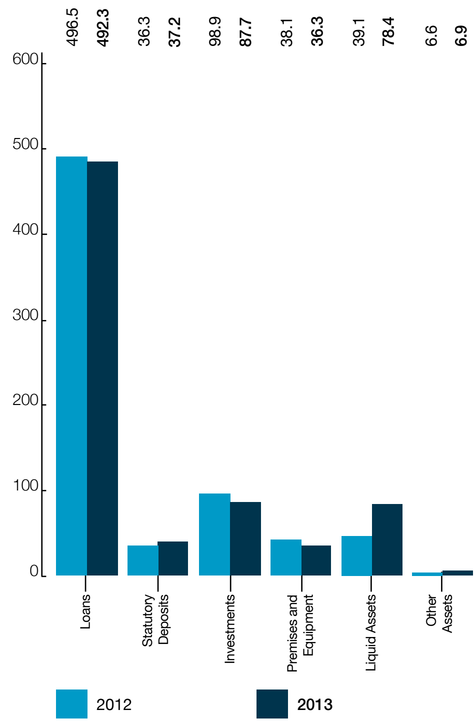
Following two steady years, the Loans to Deposits ratio reduced to 78.87% (2012: 83.3%) reflecting weak loan demand, compounded by the growth in deposits.

Loans to Deposit (%)



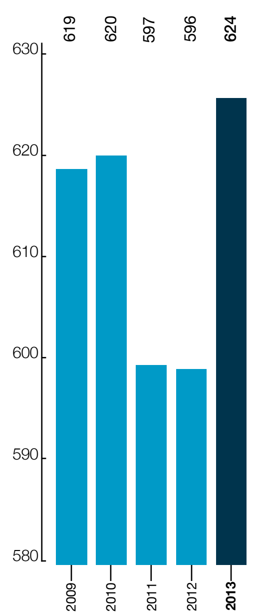
The composition of assets remained fairly constant from 2012 to 2013. Total assets increased by $23.4 million or 3.27%, the main contributor being liquid assets which grew by $39.4 million or 100.5%, fuelled mainly by the $27.9 million growth in deposits. This increase was off-set by a fall in investments of $11.2 million or 11.3% due primarily to the impairment of the Government of Grenada bonds.

Composition of Assets ($ million)



Customer deposits increased by $27.9 million or 4.7% to $624.1 million compared to $596.2 million in 2012. Deposit growth in the market was marginal.

Customer Deposits ($ million)



Management of Risk

Overview

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

Capital Structure

The Bank's policy is to maintain a prudent relationship between capital resources and the risks of its underlying business. Shareholders' equity stood at $90.9 million at the end of the year under review, declining from $95.7 million a year ago.

The Bank's dividend policy is to distribute 40% to 50% of its net earnings to shareholders. Based on the results for 2013, no dividend has been declared.

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

At September 30, 2013, the Bank exceeded the minimum levels required with Tier 1 capital to risk-weighted assets of 14.7% and total qualifying capital to risk-weighted assets of 16.0%. These ratios exceed the prudential guidelines, as well as the Bank's internal benchmark of 12%.

Corporate Social Responsibility

Nine years ago, we embarked on a journey, through our Power to Make a Difference programme, to empower the nation's youth, elderly and socially disadvantaged, through education, culture and sport. As we work within their communities to create opportunities to unlock their hidden potential, we sow seeds that would blossom into vibrant and successful futures. This commitment to our Corporate Social Responsibility is manifested in our scholarship and bursary programmes, enabling studies at the University of the West Indies. Our sponsorship of the annual Republic Bank RightStart Cup Youth Football tournament for Secondary Schools is the premiere and only one of its kind in our nation. Ongoing sponsorship of the Republic Bank Angel Harps Steel Orchestra provides a safe, healthy alternative for our youth to develop and grow, while preserving an important component of our culture. Our annual commitment to 11 charitable organisations has been expanded to include two more, thereby impacting a wider cross-section of the marginalised persons in our communities. By these and other initiatives, we create solutions for hope for a better future for our nation.

The ECCB continues to recognise the Bank for its role in the area of Corporate Social Responsibility, and in November 2012, we received their Good Corporate Citizen awards for “Environmental Awareness”, and “Financial Education and Empowerment”.

Customer Service

We are also committed to excellent customer service delivery, staff education and training and process improvement through technological enhancements. During the past year, to improve service delivery at our ATMs as well as comply with Visa/MasterCard requirements, we installed six new touchscreen ATM's which are PCI DSS (Payment Card Industry Data Security Standard) compliant, demonstrating our commitment to providing our customers with quality service. In our annual customer service survey conducted recently, the assessment revealed that courtesy, accuracy and professionalism were the stronger areas of service delivery.

Outlook

The immediate future is clouded by uncertainty, most critical of which is the form and conditions of the proposed restructuring of the Government debt. Government officials have been indicating that debt restructuring would be accompanied by fiscal adjustments and structural reform. The operating environment is expected to remain challenging with possible easing towards the latter half of 2014, as projected new investments begin to take shape. Economic growth in 2013 is uncertain, with expectations of marginal improvement in 2014.

Meanwhile, we continue to focus on our core operations, including the provision of excellent customer service, business continuity readiness, and cost control. In 2014, we also prepare for the implementation of the ECCB's Automated Clearing House (ACH) and the introduction of the Foreign Account Tax Compliance Act (FATCA) and other compliance requirements.

Notwithstanding the challenges and uncertainty, we are heartened by the renewed interest in Foreign Direct Investment. A couple of tourism-related projects are in the pipeline, and should these come to fruition, they would have a positive effect on the economy. The new Sandals resort is scheduled to be opened in December, and we look forward to the positive spin-off effects of this investment. There is a sense of guarded optimism of a turnaround in 2014.

The Bank has had to make some significant provisions this year, resulting in an after-tax loss; however, we expect to rebound to profitability in 2014.

Appreciation

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

Executive Management

Keith A. Johnson

Managing Director

Naomi E. De Allie

General Manager, Credit

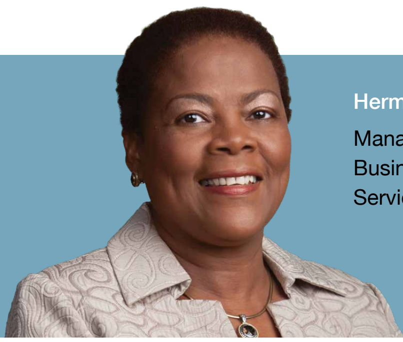
Donna L. Y. Lander

General Manager, Operations

Management

Valentine S. Antoine
Manager,
Commercial Credit

Clifford D. Bailey
Manager,
Information Technology
Management Department



Hermilyn E. M. Charles
Manager,
Business Support
Services

Mc Kie J. Griffith
Manager,
Human Resources,
Training and Development

Elizabeth Richards
Manager (Ag.),
Finance

Althea R. Roberts
Manager,
Retail Services,
Republic House Cluster

Garnet K. Ross
Manager,
Retail Services,
St. George's Cluster

Devon M. Thornhill
Manager,
Retail Services,
Grenville Cluster

Republic Bank believes that every human being is important and has a valuable contribution to make to his environment, as well as, to the national community. This belief was the inspiration for our ground-breaking social investment programme, the Power to Make a Difference, which was introduced in March 2004. The programme is the Bank's vehicle for encouraging positive change in our society, and is 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 programme aims to enhance the quality of life of disadvantaged persons; support healthcare programmes and disability awareness initiatives; provide opportunities for young people to realise their truest potential through sport, education and the arts; build community spirit and, in essence, help to correct some of society's ills. This one programme has provided a model for corporate social responsibility in Grenada, Carriacou and Petit Martinique and indeed in the wider English-speaking Caribbean.

The Power to Make a Difference programme is administered in five-year horizons. Over the course of the programme, resilient bonds were formed with many charitable organisations. Communities were transformed and the potential of thousands of young people was unlocked and unleashed.

Our focus on differently-abled persons shone the national spotlight on this previously neglected group. While focus was placed on physical disabilities, greater energy was expended on "hidden disabilities", particularly those that affect learning. We also focused on the provision of physical facilities for differently-abled persons, as well as training opportunities to assist in their adaptation and general education and awareness of their special needs. These were targeted at the mainstream population to generate enhanced levels of understanding, tolerance and acceptance.

The Differently-Abled

From 2004, our projects included construction of additional wings to accommodate students at the St Andrew's School for Special Education, and residents at the Dorothy Hopkin Centre for the Disabled. A bathroom block was also constructed at the Victoria School for Special Education, which caters to children with disabilities in rural Grenada.

In seeking to mitigate the stigma attached to persons with disabilities, we also donated specialised equipment to the Resource Centre for the Blind, to assist persons coping with the daily challenges of living with visual impairment. In addition, we sponsor annually, the Grenada School for Special Education Sports meet. Ongoing donations are also made annually to the Grenada National Council of the Disabled and the Dorothy Hopkin Centre for the Disabled.

Educating and Inspiring a Nation

The Bank's focus on the development of young people through sport, education and the arts has continued apace, with the maintenance of the Republic Bank RightStart Cup Youth Football Tournament, Carriacou Domestic Cricket Tournament and Republic Bank Angel Harps Junior Steel Orchestra. We also give support to the National Disaster Management Authority's Disaster Awareness Quiz for Primary Schools, and the Grenada International "Tri de Spice" Triathlon. Upgrades were carried out at various schools across Grenada and Carriacou. Computer laboratories were outfitted at Westmorland Secondary

Clockwise
top to bottom:

Carriacou Domestic Cricket Finals 2012 Champions

Katie – Dorothy Hopkin Centre for the Disabled

St Andrew's School for Special Education

Girls' Football Finals 2011

School, Presentation Brothers College and Bishop's College. To create safer, more conducive learning environments, much needed enhancements were made to the Morne Jaloux R.C. School, St. Patrick's Catholic School and St. Mark's Secondary School.

Firmly asserting our role as a staunch supporter of national culture, Republic Bank continues to fund the Angel Harps Senior Steel Orchestra, and provides support to the Grenada Board of Tourism to host the Carriacou Maroon Festival. Commemoration of Emancipation is observed each year, at all branches across the Bank's network. A nation can only know where it is going when it knows from whence it has come. This year, the Bank has partnered with the Grenada National Museum to convert the European Invasion and Amerindian Heritage display rooms to a full social history gallery and resource centre for students and visitors alike. Our national heritage, in the form of our history and culture, are therefore important components of the Power to Make a Difference programme.

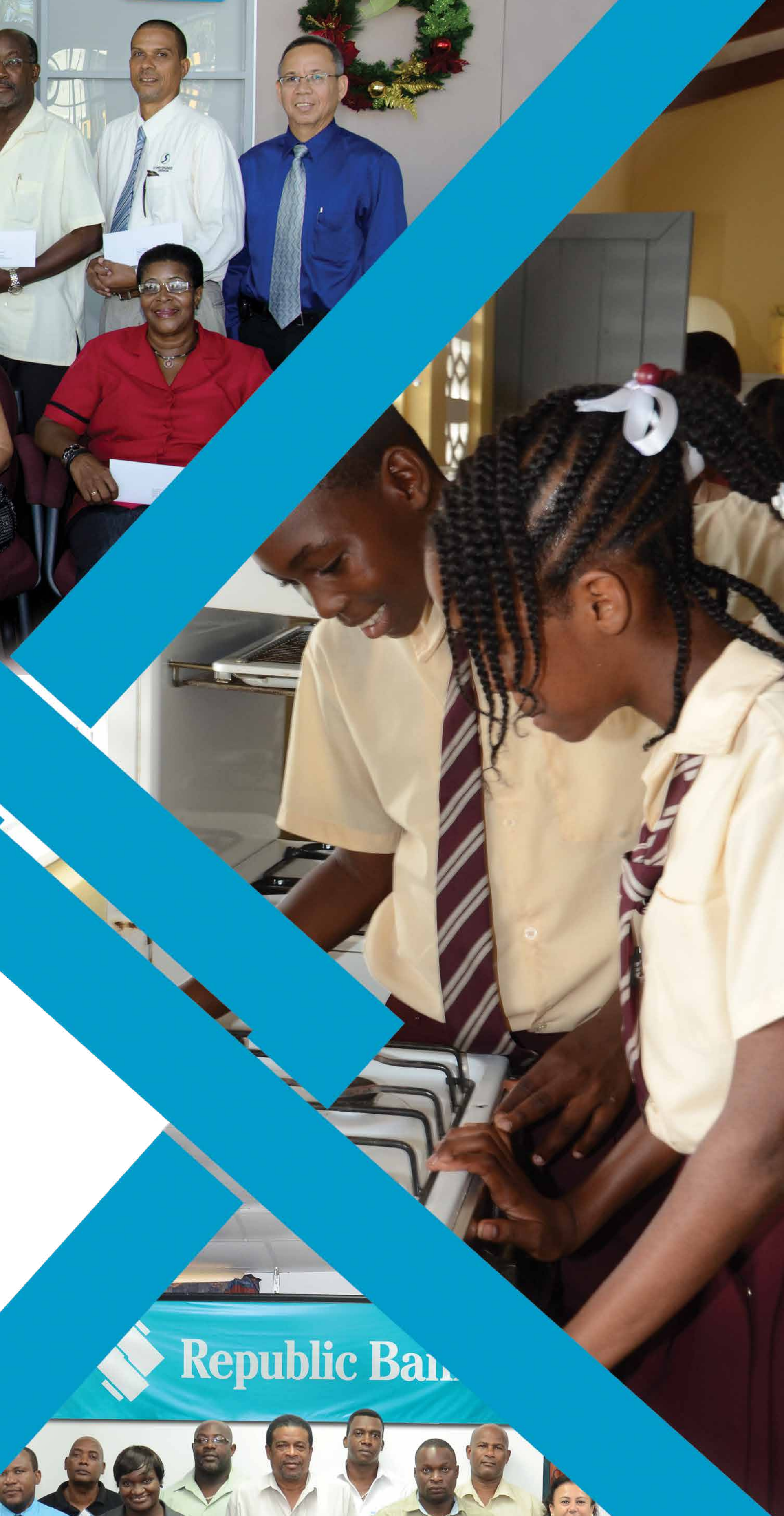
The Bank's support of the UWI – Scholarship and Bursary programmes has been a key component in the promotion of literacy. We also collaborate annually with the Eastern Caribbean Central Bank to plan and executive Financial Information Month, by promoting financial literacy and awareness throughout the month of October. This initiative includes presentations to schools, television discussions and open-house awareness on financial literacy.

The Poor, The Sick and The Marginalised

Echoing the sentiments of author, John Green that, "There is no Them. There are only facets of Us", we continued to focus on breaking the cycle of poverty, keeping our ongoing commitment to eleven (11) Charitable Organisations around Grenada. We constructed a wing at the Hillview Home, which provides geriatric care for senior citizens. We supported the Pink Ribbon Society, in its staging of the worldwide Globeathon Walk against Women's Cancer, as they support survivors and families of breast and other cancers in Grenada. This walk also sought to educate the population through the dissemination of information on the importance of early screening as a preventative and early treatment measure, to increase the number of cancer survivors.

Steadfast Resolve

After nine years, Republic Bank is more convinced than ever before, that as an organisation and as individuals, we have the Power to Make a Difference in the lives of our fellowmen. Every journey begins with a single step, and through this programme, Republic Bank joins this powerful movement to help, to care, to teach and to move others onto the road to success. A decade and an investment of $2.4 million later, small remote communities are growing, physically and mentally challenged children are getting a new lease on life, young people are learning that there are viable alternatives to guns and violence – and those alternatives lie in embracing their sporting talents, immersing themselves in our cultural heritage and grasping the opportunities for education that are available to them. There is much left to be done, but with our committed staff and selfless non-governmental organisation and community-based organisation partners, we shall continue this thrust in the interest of building a better Grenada.



Clockwise
top to bottom:

Some of the beneficiaries
of our annual contributions

Students at St. Mark's Secondary
School admire newly refurbished
Home Economics Laboratory

2013 Commercial Customer Business Programme

Republic Bank Angel Harps Steel Orchestra

Corporate Governance

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

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

The Board is responsible for:

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

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

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

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

At the Annual Meeting, eligible Directors retire by rotation, and may offer themselves for re-election. At the upcoming Annual meeting, Margaret A. Blackburn retires from the Board by rotation and being eligible, has offered herself for re-election. Derwin M. Howell and Karen Yip Chuck whose appointments became effective on April 18, 2013, and Dr Denis F. Paul, whose appointment became effective on October 24, 2013, to fill the vacancies created by the resignations of Nigel M. Baptiste, Ian R. De Souza and Hugh Dolland, respectively, in accordance with the Company's By-law, will also retire from the Board. Being eligible, they have offered themselves for election.

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

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

AUDIT COMMITTEE

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

The Committee comprises:

- Leon D. Charles – Chairman
- Ronald F. deC. Harford
- Margaret A. Blackburn
- Isabelle S. V. Slinger
- Nigel A. John

Signed on behalf of the Board

RONALD F. deC. HARFORD
Chairman

September 30, 2013

Financial Reporting Requirements

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

General responsibilities include:

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

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

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

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

Signed on behalf of the Board

RONALD F. deC. HARFORD
Chairman

September 30, 2013

Contents

Independent Auditor's Report

TO THE SHAREHOLDERS OF REPUBLIC BANK (GRENADA) LIMITED

We have audited the financial statements of Republic Bank (Grenada) Limited which comprise the statement of financial position as at September 30, 2013, statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of the Bank as at September 30, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

ERNST & YOUNG
Chartered Accountants
Bridgetown
Barbados

October 24, 2013

Statement of Financial Position

For the year ended September 30, 2013
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	Notes	2013	Restated 2012	Restated 2011
ASSETS				
Cash		**8,012**	8,442	6,862
Statutory deposit with Central Bank		**37,214**	36,356	36,098
Due from banks		**63,144**	23,070	18,815
Treasury Bills		**5,889**	5,889	5,897
Investment interest receivable		**1,330**	1,565	1,753
Advances	4	**492,276**	496,520	497,173
Investment securities	5	**87,701**	98,898	95,147
Premises and equipment	6	**36,349**	38,123	40,426
Employee benefits/obligations	7 (c)	**3,781**	3,134	2,530
Deferred tax assets	8 (a)	**1,711**	1,790	1,091
Other assets	9	**1,448**	1,720	2,103
TOTAL ASSETS		**738,855**	715,507	707,895
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		**8,931**	6,197	4,290
Customers' current, savings and deposit accounts	10	**624,141**	596,167	597,055
Provision for post-retirement medical and group life obligations	7 (c)	**3,736**	3,444	3,107
Taxation payable		**–**	48	–
Deferred tax liabilities	8 (b)	**2,778**	993	1,885
Accrued interest payable		**764**	1,459	1,844
Other liabilities	11	**7,567**	11,503	7,952
TOTAL LIABILITIES		**647,917**	619,811	616,133
EQUITY				
Stated capital	12	**15,000**	15,000	15,000
Statutory reserves	2 (j)	**15,000**	15,000	15,000
Other reserves	13	**4,531**	821	3,331
Retained earnings		**56,407**	64,875	58,431
TOTAL EQUITY		**90,938**	95,696	91,762
TOTAL LIABILITIES AND EQUITY		**738,855**	715,507	707,895

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

These financial statements were approved by the Board of Directors on October 24, 2013 and signed on its behalf by:

RONALD F. deC HARFORD
Chairman

KEITH A. JOHNSON
Managing Director

October 24, 2013

Statement of Income

For the year ended September 30, 2013
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	Notes	2013	Restated 2012
Interest income	14 (a)	**43,837**	46,822
Interest expense	14 (b)	**(13,882)**	(15,179)
Net interest income		**29,955**	31,643
Other income	14 (c)	**9,636**	11,782
		39,591	43,425
Operating expenses	14 (d)	**(43,552)**	(34,163)
Operating (loss)/profit		**(3,961)**	9,262
Loan impairment expense, net of recoveries	4 (b)	**(1,686)**	(1,935)
Net (loss)/profit before taxation		**(5,647)**	7,327
Taxation (expense)/credit	15	**(271)**	467
Net (loss)/profit after taxation		**(5,918)**	7,794
Earnings per share ($)			
Basic		**($3.95)**	$5.20
Number of shares ('000)			
Basic		**1,500**	1,500

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

Statement of Comprehensive Income

For the year ended September 30, 2013
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	2013	Restated 2012
Net (loss)/profit after taxation	**(5,918)**	**7,794**
Other comprehensive income/(loss):		
Revaluation of available-for-sale investment securities	**5,300**	(3,586)
Tax effect	**(1,590)**	1,076
Other comprehensive income/(loss) for the year, net of tax	**3,710**	(2,510)
Total comprehensive (loss)/income for the year, net of tax	**(2,208)**	**5,284**

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

Statement of Changes in Equity

For the year ended September 30, 2013

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

	Stated capital	Statutory reserves	Other reserves	Retained earnings	Total equity
Balance at October 1, 2010 as originally stated	**15,000**	**15,000**	**4,397**	**61,392**	**95,789**
Total comprehensive income for the year, as originally stated	–	–	(1,066)	1,896	830
Prior period adjustment (Note 8 (a))	–	–	–	(882)	(882)
Dividends	–	–	–	(3,975)	(3,975)
Balance at September 30, 2011 (Restated)	**15,000**	**15,000**	**3,331**	**58,431**	**91,762**
Balance at October 1, 2011 (Restated)	**15,000**	**15,000**	**3,331**	**58,431**	**91,762**
Total comprehensive income for the year, as originally stated	–	–	(2,510)	8,712	6,202
Prior period adjustment (Note 8 (a))	–	–	–	(918)	(918)
Dividends	–	–	–	(1,350)	(1,350)
Balance at September 30, 2012 (Restated)	**15,000**	**15,000**	**821**	**64,875**	**95,696**
Total comprehensive loss for the year	–	–	3,710	(5,918)	(2,208)
Dividends (Note 21)	–	–	–	(2,550)	(2,550)
Balance at September 30, 2013	**15,000**	**15,000**	**4,531**	**56,407**	**90,938**

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

Statement of Cash Flows

For the year ended September 30, 2013
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	Notes	2013	2012
Operating activities			
(Loss)/Profit before taxation		**(5,647)**	7,327
Adjustments for:			
Depreciation	14 (d)	**3,631**	4,229
Loan impairment expense, net of recoveries	4 (b)	**1,686**	1,935
Investment impairment expense	5 (b)	**10,089**	35
(Gain)/Loss on disposal of available -for-sale investments		**(40)**	100
Loss/(Gain) on sale of premises and equipment		**4**	(22)
Work-in-progress written-off		**219**	–
Increase in employee benefits and post-retirement medical and group life obligations		**(355)**	(267)
Decrease/(Increase) in advances		**2,558**	(1,282)
Increase/(Decrease) in customers' deposits and other fund raising instruments		**27,974**	(888)
Increase in statutory deposit with Central Bank		**(858)**	(258)
Decrease in other assets and investment interest receivable		**507**	571
(Decrease)/Increase in other liabilities and accrued interest payable		**(4,679)**	3,166
Cash provided by operating activities		**35,089**	**14,646**
Investing activities			
Purchase of investment securities		**(17,213)**	(37,676)
Redemption of investment securities		**23,680**	30,212
Additions to premises and equipment	6	**(2,157)**	(1,987)
Proceeds from sale of premises and equipment		**61**	83
Cash provided by/(used in) investing activities		**4,371**	**(9,368)**
Financing activities			
Increase in balances due to other banks		**2,734**	1,907
Dividends paid to shareholders		**(2,550)**	(1,350)
Cash provided by financing activities		**184**	557
Net increase in cash and cash equivalents		**39,644**	5,835
Cash and cash equivalents at beginning of year		**31,512**	25,677
Cash and cash equivalents at end of year		**71,156**	31,512
Cash and cash equivalents at end of year are represented by:			
Cash on hand		**8,012**	8,442
Due from banks		**63,144**	23,070
		71,156	**31,512**

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

1 CORPORATE INFORMATION

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

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

b) Changes in accounting policies

i) New accounting policies/improvements adopted

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended September 30, 2012 except for the adoption of new standards and interpretations noted below:

IAS 1 – Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 (effective July 1, 2012)

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income (OCI). Items that would be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendments do not change the nature of the items that are currently recognised in OCI, nor do they impact the determination of whether items in OCI are reclassified through profit or loss in future periods. The adoption of this standard had no effect on the financial position or performance of the Bank.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

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

IAS 12 – Income Taxes (Amendment)/Deferred taxes – Recovery of Underlying Assets (effective January 1, 2012)

The amendment clarifies the determination of deferred tax in investment property measured at fair value by introducing a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendment introduces the requirement to calculate deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 to always be measured on the sale basis of the asset. The adoption of this standard had no effect on the financial position or performance of the Bank.

ii) Standards in issue not yet effective

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

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

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

The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The more significant changes include the following:

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

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

IAS 36, Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 (effective January 1, 2014)
These amendments clarify the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets was originally changed as a consequence of IFRS 13, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair value less costs to sell. An unintended consequence of the amendments was that an entity would be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by the amendment.

In addition, the IASB added two disclosure requirements:

1 Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal.

2 Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendment harmonises disclosure requirements between value in use and fair value less costs of disposal.

IFRS 1 – Government Loans – Amendment to IFRS 1 (effective January 1, 2013)
The amendment has added an exception to the retrospective application of IFRS 9 Financial instruments (or IAS 39 Financial Instruments: Recognition and Measurement, as applicable) and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. These amendments require first-time adopters to apply the requirements of IAS 20 prospectively to government loans existing at the date of transition to IFRS. However, entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan.

IFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities (effective January 1, 2013)
These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set-off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with IAS 32.

IFRS 9 – Financial Instruments: Classification and Measurement
In July 2013, the IASB tentatively decided to defer the mandatory effective date of IFRS 9 until the issue date of the completed version of IFRS 9 is known.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

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

IFRS 9 – Financial Instruments: Classification and Measurement (continued)

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

IFRS 10 – Consolidated Financial Statements, IAS 27 Separate Financial Statements (effective January 1, 2013)

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – Special Purpose Entities resulting in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements. IFRS 10 does not change consolidation procedures (i.e., how to consolidate an entity). Rather, IFRS 10 changes whether an entity is consolidated by revising the definition of control.

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

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

IFRS 11 – Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures (effective January 1, 2013)

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. The reference to 'control' in 'joint control' refers to the definition of 'control' in IFRS 10.

IFRS 12 – Disclosure of Interests in Other Entities (effective January 1, 2013)

IFRS 12 applies to an entity that has an interest in subsidiaries, joint arrangements, associates and/or structured entities. Many of the disclosure requirements of IFRS 12 were previously included in IAS 27, IAS 31, and IAS 28, while others are new. The objective of the new disclosure requirements is to help the users of financial statements understand the effects of an entity's interests in other entities on its financial position, financial performance and cash flows and to understand the nature of, and the risks associated with the entity's interest in other entities.

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

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

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

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

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

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

The IASB's annual improvements process deals with non-urgent but necessary clarifications and amendments to IFRS. In the 2009-2011 annual improvements cycle, the IASB issued six amendments to five standards – IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34. The amendments are applicable to annual periods beginning on or after January 1, 2013. The amendments are to be applied retrospectively, in occordance with the requirements of IAS 8 for changes in accounting policy.

The following standards which are in issue but not yet effective are not applicable to the Bank

IAS 39, Novation of Derivatives and Continuation of Hedge Accountin – Amendments to IAS 39 (effective January 1, 2014)

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine (effective January 1, 2013)

IFRIC 21, Levies (effective January 1, 2014).

c) **Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents consist of highly liquid investments, cash at hand and at bank, Treasury Bills and bankers' acceptances the original maturities of three months or less.

d) **Statutory deposit with Central Bank**

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

e) **Financial instruments**

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

i) **Advances**

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

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

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

ii) **Investment securities**

- Available-for-sale (AFS)

Available-for-sale investments are securities intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. AFS financial instruments include equity investments and debt securities. Securities held as available-for-sale are initially recognised at fair value plus transaction costs and are continuously remeasured at fair value based on quoted market prices where available or discounted cash flow models. Unquoted equity instruments are recognised at cost, being the fair value of the consideration paid for the acquisition of the investment.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income net of applicable deferred tax. When the securities are disposed of, the related accumulated fair value adjustments are included in other income. When securities become impaired, the related accumulated fair value adjustments previously recognised in equity are included in the Statement of Income as an impairment expense on investment securities. Interest earned whilst holding AFS instruments is reported as interest income using the effective interest rate method.

iii) **Debt securities and other fund raising instruments**

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

f) **Impairment of financial assets**

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

i) **Advances**

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

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

Individually assessed allowances

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e) Financial instruments *(continued)*

i) Advances *(continued)*

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of specific impairment. Allowances are evaluated on each quarterly reporting date with each portfolio receiving a separate review. The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

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

ii) Investment securities

The Bank individually assesses each investment security for objective evidence of impairment. In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as Advances above. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income. If an impaired instrument has been renegotiated, interest continues to be accrued on the reduced carrying amount of the asset and is recorded as part of "interest income". If the fair value of the instrument increases in a subsequent year, the impairment loss is reversed through the Statement of Income.

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

If an available-for-sale equity security is impaired based upon the Bank's qualitative or quantitative impairment criteria, any further 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.

g) Premises and equipment

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g) Premises and equipment *(continued)*

The depreciation rates used are as follows:

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

h) Employee benefits/obligations

i) Pension assets

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

Annually, the Bank's independent actuaries conduct a valuation exercise to measure the effect of the employee benefit plan. For this defined benefit plan, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the Statement of Income so as to spread regular costs over the service lives of employees in accordance with the advice of qualified actuaries. Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses exceed 10% of the defined benefit obligation and the fair value of plan assets. These gains or losses are recognised by amortising them over the average remaining working lifetime of employees.

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

ii) Other post-retirement obligation

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

iii) Profit sharing scheme

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

i) Taxation

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Taxation *(continued)*

Income tax payable on profits 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.

j) Statutory reserves

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

k) Earnings per share

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

l) Interest income and expense

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

m) Fee and commission income

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

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

These represent the Bank's potential liability, for which there are equal and offsetting claims against its customers in the event of a call on these commitments. These amounts are not recorded on the Bank's Statement of Financial Position but are detailed in Note 22(b) of these financial statements.

o) Comparative Information

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

p) Foreign currency translation

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

q) Leases

Finance Leases

Finance charges on leased assets are taken into income using the amortisation method. This basis reflects a constant periodic rate of return on the lessor's net investment in the finance lease. Finance leases net of unearned finance income are included in the consolidated 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 consolidated statement of income on a straight-line basis over the period of the lease. Renewal of operating leases is based on mutual agreement between parties prior to the expiration date.

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

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

Impairment of financial assets

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

Collective impairment on advances (Note 4b)

Collective impairment on advances are calculated on an estimate of impairment incurred but not reported, existing in assets as at the reporting date. Estimated impairment incurred is determined by applying 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.

Employee benefits/obligations (Note 7)

In conducting valuation exercises to measure the effect of all employee benefit plan 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 plan.

Deferred taxes (Note 8)

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

Premises and equipment (Note 6)

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

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

4 ADVANCES

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

	2012 Retail	Commercial and Corporate	Mortgages	Total
Performing advances	64,805	140,558	265,989	471,352
Non-performing advances	5,799	8,383	18,300	32,482
	70,604	148,941	284,289	503,834
Unearned interest	(38)	–	–	(38)
Accrued interest	162	443	1,180	1,785
	70,728	149,384	285,469	505,581
Allowance for impairment losses	(1,017)	(4,809)	(3,235)	(9,061)
Net advances	**69,711**	**144,575**	**282,234**	**496,520**

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

4 **ADVANCES** *(continued)*

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

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

	2012			
	Retail	Commercial and Corporate	Mortgages	Total
Balance brought forward	1,387	5,429	2,143	8,959
Charge-offs and write-offs	(299)	(1,352)	(182)	(1,833)
Loan impairment expense	691	3,790	2,671	7,152
Loan impairment recoveries	(762)	(3,058)	(1,397)	(5,217)
Balance carried forward	1,017	4,809	3,235	9,061
Individual impairment	838	4,386	881	6,105
Collective impairment	179	423	2,354	2,956
	1,017	4,809	3,235	9,061
Gross amount of loans individually determined to be impaired, before deducting any allowance	**5,799**	**8,383**	**18,300**	**32,482**

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

5 INVESTMENT SECURITIES

	2013	2012
a) Available-for-sale		
Government securities	**9,745**	18,296
State owned company securities	**23,965**	27,562
Corporate bonds/debentures	**52,386**	51,765
Equities	**1,605**	1,275
	87,701	**98,898**

	2013	2012
b) Investment impairment		
Quoted	**5,734**	–
Unquoted	**4,355**	35
	10,089	**35**

6 PREMISES AND EQUIPMENT

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

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

6 PREMISES AND EQUIPMENT *(continued)*

	Capital works in progress	Freehold premises	Leasehold premises	Vehicles, equipment, furniture and fittings	Total
2012					
Cost					
At beginning of year	456	28,720	7,289	35,381	71,846
Reclassification adjustments	–	224	–	(224)	–
Additions at cost	1,895	39	–	53	1,987
Disposal of assets	–	–	–	(361)	(361)
Transfer of assets	(1,729)	(39)	–	1,729	(39)
	622	28,944	7,289	36,578	73,433
Accumulated depreciation					
At beginning of year	45	2,548	3,636	25,281	31,420
Charge for the year	–	570	46	3,613	4,229
Disposal of assets	–	–	–	(339)	(339)
	45	**3,118**	**3,682**	**28,555**	**35,310**
Net book value	**667**	**25,826**	**3,607**	**8,023**	**38,123**

Capital commitments

	2013	2012
Contracts for outstanding capital expenditure not provided for in the financial statements	**616**	474
Other capital expenditure authorised by the Directors but not yet contracted for	**6,645**	2,391

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

7 EMPLOYEE BENEFITS/OBLIGATIONS

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

	Defined benefit pension plan		Post-retirement medical and group life obligations	
	2013	2012	2013	2012
Opening defined benefit obligation	**21,008**	20,662	**2,948**	2,768
Current service cost	**870**	830	**167**	165
Interest cost	**1,456**	1,438	**204**	193
Members' contributions	**136**	136	**–**	–
Actuarial gains on obligations	**(4,502)**	(1,742)	**125**	(167)
Benefits paid	**(420)**	(255)	**–**	–
Expense allowance	**(61)**	(61)	**–**	–
Premiums paid by the Bank	**–**	–	**(64)**	(11)
Closing defined benefit obligation	**18,487**	**21,008**	**3,380**	**2,948**

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

	Defined benefit pension plan	
	2013	2012
Opening fair value of plan assets	**25,700**	24,489
Expected return	**1,827**	1,747
Actuarial losses	**(3,321)**	(1,481)
Contributions by employer	**1,146**	1,125
Members' contributions	**136**	136
Benefits paid	**(420)**	(255)
Expense allowance	**(61)**	(61)
Closing fair value of plan assets	**25,007**	**25,700**

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

7 **EMPLOYEE BENEFITS/OBLIGATIONS** *(continued)*

c) The amounts recognised in the Statement of Financial Position are as follows:

	Defined benefit pension plan		Post-retirement medical and group life obligations	
	2013	**2012**	**2013**	**2012**
Defined benefit obligation	**(18,487)**	(21,008)	**(3,380)**	(2,948)
Fair value of plan assets	**25,007**	25,700	**–**	–
	6,520	4,692	**(3,380)**	(2,948)
Unrecognised actuarial gain	**(2,739)**	(1,558)	**(356)**	(496)
Net asset/(liability) recognised in the Statement of Financial Position	**3,781**	**3,134**	**(3,736)**	**(3,444)**

d) The amounts recognised in the Statement of Income are as follows:

	Defined benefit pension plan		Post-retirement medical and group life obligations	
	2013	**2012**	**2013**	**2012**
Current service cost	**870**	830	**167**	165
Interest on defined benefit obligation	**1,456**	1,438	**204**	193
Expected return on plan assets	**(1,827)**	(1,747)	**–**	–
Amortised net gain/(loss)	**–**	–	**(15)**	(10)
Total included in staff costs	**499**	**521**	**356**	**348**

e) Actual return on plan assets

	Defined benefit pension plan	
	2013	**2012**
Expected return on plan assets	**1,827**	1,747
Actuarial loss on plan assets	**(3,321)**	(1,481)
Actual (loss)/return on plan assets	**(1,494)**	266

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

7 EMPLOYEE BENEFITS/OBLIGATIONS *(continued)*

f) Experience history

	Defined benefit pension plan				
	2013	2012	2011	2010	2009
Defined benefit obligation	**(18,487)**	(21,008)	(20,662)	(19,353)	(19,272)
Plan assets	**25,007**	25,700	24,489	22,435	20,259
Surplus	**6,520**	**4,692**	**3,827**	**3,082**	**987**
Experience adjustments on plan liabilities	**(97)**	(1,742)	(406)	(1,886)	707
Experience adjustments on plan assets	**(3,321)**	(1,481)	(209)	(140)	(200)

	Post-retirement medical and group life obligations				
	2013	2012	2011	2010	2009
Defined benefit obligation	**3,380**	2,948	2,768	(2,591)	(2,359)
Experience adjustments on plan liabilities	**(109)**	(167)	(128)	(78)	(53)

g) The Bank expects to contribute $1.189 million (2013: $1.121 million) to the plan in the 2014 financial year.

h) The principal actuarial assumptions used were as follows:

	2013 %	2012 %
Discount rate	**7.00**	7.00
Rate of salary increase	**4.00**	6.00
Medical expenses increases	**6.00**	6.00
Expected return on plan assets	**n/a**	7.00
NIS ceiling rates	**3.00**	4.00

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

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

7 EMPLOYEE BENEFITS/OBLIGATIONS *(continued)*

i) Plan asset allocation as at September 30

	Defined benefit pension plan 2013	2012
Equity securities	**1.70%**	2.50%
Debt securities	**8.90%**	16.40%
Fixed deposits	**47.40%**	51.50%
Cash	**32.50%**	21.50%
Other	**9.50%**	8.10%
Total	**100.0%**	100.0%

The Plan's equity holdings include approximately 2.5% of shares in East Caribbean Financial Holdings a related party.

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

	Aggregate service and interest costs	Year end defined benefit obligation
Medical expense increase by 1% pa	75	615
Medical expense decrease by 1% pa	(55)	(458)

8 DEFERRED TAX ASSETS AND LIABILITIES

Prior period restatement

During the year the Bank undertook a comprehensive review of the elements attributed to its deferred tax assets and determined that the deferred tax assets arising on unearned loan origination fees and general provisions were overstated. This error was corrected retrospectively and as a result the deferred tax asset was reduced by $1,800 and $882 as at September 30, 2012 and 2011 respectively and retained earnings as at October 1, 2011 was reduced by $882. Taxation expense increased by $918 and basic and diluted earnings per share decreased by 61 cents for the year ended September 30, 2012.

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

8 DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

a) Deferred tax assets *(continued)*

	Closing balance as originally stated 2012	Prior period Adjustment	Restated opening Balance 2012	(Expense)/Credit Statement of Income	(Expense)/Credit Other comprehensive income	Closing Balance 2013
Post retirement medical and group life liability	1,033	_	1,033	88	_	**1,121**
Premises and equipment	716	_	716	(157)	_	**559**
General provision	887	(887)	_	_	_	**–**
Unearned loan origination fees	954	(913)	41	(10)	_	**31**
	3,590	**(1,800)**	**1,790**	**(79)**	_	**1,711**

	Closing balance as originally stated 2011	Prior period Adjustment	Restated opening Balance 2011	(Expense)/Credit Statement of Income	(Expense)/Credit Other comprehensive income	Closing Balance 2012
Post retirement medical and group life liability	932	_	932	101	_	1,033
Premises and equipment	107	_	107	609	_	716
Unearned loan origination fees	934	(882)	52	(11)	_	41
	1,973	**(882)**	**1,091**	**699**	**–**	**1,790**

Cumulative prior period adjustment – 2012	(1,800)
Cumulative Prior period adjustment – 2011	(882)
Change per statement of changes in equity – 2012	**(918)**

The Bank has not recognised the deferred tax asset of $2,589 arising on unutilised tax losses as at September 30, 2013 (2012: $370). These losses expire as at September 30, 2015.

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

8 DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

b) Deferred tax liabilities

	Opening Balance 2012	(Expense)/ Credit Statement of Income	Other Comprehensive Income	Closing Balance 2013
Pension asset	943	194	–	**1,137**
Unrealised reserve	50	–	1,591	**1,641**
	993	**194**	**1,591**	**2,778**

9 OTHER ASSETS

	2013	2012
Accounts receivable and prepayments	**1,448**	1,720

10 CUSTOMERS' CURRENT, SAVINGS AND DEPOSIT ACCOUNTS

Concentration of customers' current, savings and deposit accounts

	2013	2012
State	**25,201**	19,963
Corporate and commercial	**58,606**	47,656
Personal	**525,506**	513,069
Other financial institutions	**14,828**	15,479
	624,141	596,167

11 OTHER LIABILITIES

	2013	2012
Accounts payable and accruals	**2,494**	5,872
Provision for profit sharing and salary increase	**100**	796
Unearned loan origination fees	**3,127**	3,178
Other	**1,846**	1,657
	7,567	11,503

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

12 STATED CAPITAL

	2013	2012	2013	2012
	Number of ordinary shares ('000)		$'000	$'000
Authorised				
2,500 shares of no par value	**2,500**	2,500	**15,000**	15,000
Issued and fully paid				
At beginning of year and end of year	**1,500**	**1,500**	**15,000**	**15,000**

13 OTHER RESERVES

	Net unrealised gains/(losses)	General Contingency Reserve	Total Other Reserves
Balance as at September 30, 2011	**2,629**	**702**	**3,331**
Revaluation of available-for-sale investment securities, net of tax	(2,510)	–	(2,510)
Balance as at September 30, 2012	**119**	**702**	**821**
Revaluation of available-for-sale investment securities, net of tax	3,710	–	3,710
Balance as at September 30, 2013	**3,829**	**702**	**4,531**

General Contingency Reserve

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

A General Contingency Reserve is created as an appropriation of retained earnings, for 2% of the difference between the specific provision and non performing advances. The General Contingency Reserve serves to enhance the Bank's non-distributable capital base. As at September 30, 2013 the balance in the General Contingency Reserve of $0.702 million is part of Other Reserves which totals $4.531 million.

14 OPERATING PROFIT

	2013	2012
a) Interest income		
Advances	**39,202**	40,998
Investment securities	**4,164**	5,315
Liquid assets	**471**	509
	43,837	46,822

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

14 OPERATING PROFIT *(continued)*

b) Interest expense

	2013	2012
Customers' current, savings and deposit accounts	**(13,871)**	(15,178)
Other interest bearing liabilities	**(11)**	(1)
	(13,882)	**(15,179)**
c) Other income		
Other fees and commission income	**5,539**	5,432
Net exchange trading income	**3,296**	2,572
Dividends	**4**	61
Gain/(Loss) disposal of available-for-sale investments	**40**	(100)
Gain from sales of premises and equipment	**22**	–
Other operating income	**735**	3,817
	9,636	**11,782**
d) Operating expenses		
Staff costs	**15,947**	16,484
Staff profit sharing expense	**–**	446
Employee benefits/obligations expense - Note 7 (d)	**855**	869
General administrative expenses	**11,185**	10,523
Property related expenses	**909**	823
Depreciation expense	**3,631**	4,229
Advertising and public relations expenses	**825**	656
Impairment expense on investment securities	**10,089**	35
Directors' fees	**111**	98
	43,552	**34,163**

15 TAXATION EXPENSE/(CREDIT)

	2013	Restated 2012
Corporation tax	**–**	48
Deferred tax	**271**	(515)
	271	(467)

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

15 TAXATION EXPENSE/(CREDIT) *(continued)*

Reconciliation between taxation expense and accounting profit

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

	2013	2012
Net (loss)/profit before taxation	**(5,647)**	7,327
Tax at applicable statutory tax rates – 30%	**(1,694)**	2,198
Tax exempt income	**(1,092)**	(1,542)
Items not allowable for tax purposes	**447**	324
Loss incurred/(utilised)	**2,589**	(655)
Tax refund	**–**	(589)
Under/(over) provision of prior year tax	**21**	(203)
	271	**(467)**

16 RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. A number of banking transactions are entered into with related parties in the normal course of business. These transactions are both secured and unsecured and were carried out on commercial terms and conditions, at market rates. As at September 30, 2013 and 2012 there were no allowances for impairment loss against related party loans.

	2013	2012
Advances, investments and other assets (net of provisions)		
CL Financial Group	**–**	1,013
Parent Company	**49,579**	14,549
Directors and key management personnel	**2,528**	3,840
Other related parties	**819**	13,409
	52,926	**32,811**
Deposits and other liabilities		
CL Financial Group	**–**	3,093
Parent Company	**215**	492
Directors and key management personnel	**389**	388
Other related parties	**8,285**	5,544
	8,889	**9,517**

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

16 RELATED PARTIES *(continued)*

	2013	2012
Interest and other income		
CL Financial Group	–	107
Parent Company	15	10
Directors and key management personnel	188	248
Other related parties	82	238
	285	603
Interest and other expense		
CL Financial Group	–	52
Directors and key management personnel	118	111
Other related parties	2	1
	120	164

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

	2013	2012
Key management compensation		
Short-term benefit	678	603
Post employment benefits	30	20
	708	623

17 RISK MANAGEMENT

17.1 Introduction

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

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

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

17 RISK MANAGEMENT *(continued)*

17.1 Introduction *(continued)*

The Board of Directors has ultimate responsibility for the management of risk within the Bank. Acting with authority delegated by the Board, the Credit, Audit, Asset/Liability Committee and Other Risks Committees, review specific risk areas.

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

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

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

17.2 Credit risk

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

The Bank's credit risk management process operates on the basis of a hierarchy of discretionary authorities. A Board Credit Committee, chaired by the Chairman of the Board and including Executive and Non-Executive Directors, is in place, with the authority to exercise the powers of the Board on all risk management decisions.

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

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

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

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

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

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

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

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

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

	Gross maximum exposure 2013	2012
Statutory deposit with Central Bank	**37,214**	36,356
Due from banks	**63,144**	23,070
Treasury Bills	**5,889**	5,889
Investment interest receivable	**1,330**	1,565
Advances	**492,276**	496,520
Investment securities, net of equities	**86,096**	97,623
Total	**685,949**	**661,023**
Undrawn commitments	**57,923**	26,547
Guarantees and indemnities	**10,233**	7,914
Total	**68,156**	**34,461**
Total credit risk exposure	**754,105**	**695,484**

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

Collateral and other credit enhancements

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

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

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

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use. As at September 30, 2013, carrying value $12.090 million (2012 – $8.968 million) in repossessed properties are still in the process of being disposed of.

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

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

17.2.2 Risk concentrations of the maximum exposure to credit risk

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

a) Geographical sectors

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

	2013	2012
Eastern Caribbean	**55,968**	50,610
Barbados	**8,162**	17,230
Grenada	**524,359**	497,850
Trinidad and Tobago	**74,482**	42,327
United States	**52,420**	46,298
Other Countries	**38,714**	41,169
	754,105	695,484

b) Industry sectors

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

	2013	2012
Government and Central Government Bodies	**29,934**	41,226
Financial sector	**155,856**	113,941
Energy and mining	**2,010**	3,887
Agriculture	**5,102**	4,601
Electricity and water	**22,975**	24,527
Transport storage and communication	**9,462**	10,309
Distribution	**59,563**	58,612
Real estate	**1,395**	1,714
Manufacturing	**5,656**	7,100
Construction	**8,951**	10,746
Hotel and restaurant	**113,425**	81,331
Personal	**303,555**	301,934
Other services	**36,221**	35,556
	754,105	695,484

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

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

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

b) Industry sectors *(continued)*

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

17.2.3 Credit quality per category of financial assets

The Bank has determined that credit risk exposure arises from the following Statement of Financial Position lines:

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

Treasury Bills and Statutory deposits with Central Bank

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

Balances due from banks

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

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

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

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

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

	Superior	Desirable	Acceptable	Total
2013	**61,702**	**1,442**	**–**	**63,144**
2012	22,183	887	–	23,070

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

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

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

Loans and advances – Commercial and Corporate

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

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

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

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

Sub-standard: Past due or individually impaired.

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

	Neither past due nor impaired				
	Superior	Desirable	Acceptable	Sub-standard	Total
2013	**–**	**2,043**	**97,977**	**15,206**	**115,226**
2012	–	20,295	116,143	8,137	144,575

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

	Less than 30 days	31 to 60 days	More than 91 days	Impaired	Total
2013	**913**	**–**	**2,704**	**11,589**	**15,206**
2012	–	–	4,140	3,997	8,137

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

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

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

Loans and advances – Retail loans and Mortgages

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

	Current	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Impaired	Total
2013	**317,049**	**24,465**	**5,586**	**4,659**	**2,494**	**22,797**	**377,050**
2012	319,097	948	4,784	4,736	–	22,380	351,945

Investment securities

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

Superior: Government and Government Guaranteed securities, securities secured by a Letter of comfort from the Government and securities placed with institutions that have been accorded the highest rating by an international rating agency. These securities are considered risk free.

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

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

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

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

	Superior	Desirable	Acceptable	Sub-standard	Total
Investments securities					
– Available-for-sale					
2013	**66,386**	**8,660**	**5,457**	**5,593**	**86,096**
Total	66,386	8,660	5,457	5,593	86,096

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

17 RISK MANAGEMENT *(continued)*

17.2 Credit risk *(continued)*

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

Investment securities *(continued)*

	Superior	Desirable	Acceptable	Sub-standard	Total
Investments securities					
– Available-for-sale					
2012	67,654	8,879	14,936	6,154	97,623
Total	67,654	8,879	14,936	6,154	97,623

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.

17.3.1 Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at September 30, based on contractual undiscounted repayment obligations, over the remaining life of those liabilities. These balances include interest to be paid over the remaining life of the liabilities and will therefore be greater than the carrying amounts on the Statement of Financial Position. See Note 20 for a maturity analysis of assets and liabilities.

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

Financial liabilities – on Statement of Financial Position	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2013					
Customers' current, savings and deposit accounts	76,150	546,701	2,054	–	624,905
Due to banks	8,931	–	–	–	8,931
Other liabilities	–	4,440	–	3,127	7,567
Total undiscounted financial liabilities 2013	**85,081**	**551,141**	**2,054**	**3,127**	**641,403**

Financial liabilities – on Statement of Financial Position	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2012					
Customers' current, savings and deposit accounts	65,179	529,528	2,919	–	597,626
Due to banks	6,197	–	–	–	6,197
Other liabilities	–	8,325	–	3,178	11,503
Total undiscounted financial liabilities 2012	**71,376**	**537,853**	**2,919**	**3,178**	**615,326**

Financial liabilities – off Statement of Financial Position	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2013					
Guarantees and indemnities	4,144	5,227	862	–	10,233
Total	**4,144**	**5,227**	**862**	**–**	**10,233**

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	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2012					
Guarantees and indemnities	1,181	2,025	4,708	–	7,914
Total	**1,181**	**2,025**	**4,708**	**–**	**7,914**

The Bank expects that not more than 50% of the contingent liabilities or commitments will be drawn before expiry of the commitments.

17.4 Market risk

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

17.4.1 Interest rate risk

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

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

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

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

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

17 RISK MANAGEMENT *(continued)*

17.4 Market risk *(continued)*

17.4.1 Interest rate risk *(continued)*

		Impact on net profit			
	Increase/ decrease in basis points	2013 Increase in basis points	2013 Decrease in basis points	2012 Increase in basis points	2012 Decrease in basis points
TT$ Instruments	+/- 50	–	–	–	–
US$ Instruments	+/- 50	**(1)**	**1**	(1)	1
EC$ Instruments	+/- 25	–	–	–	–
BDS$ Instruments	+/- 50	–	–	–	–

		Impact on equity			
	Increase/ decrease in basis points	2013 Increase in basis points	2013 Decrease in basis points	2012 Increase in basis points	2012 Decrease in basis points
TT$ Instruments	+/- 50	**(302)**	**310**	(378)	390
US$ Instruments	+/- 50	**(847)**	**867**	(957)	1,004
EC$ Instruments	+/- 25	**(37)**	**38**	(90)	92
BDS$ Instruments	+/- 50	–	–	–	–

17.4.2 Currency risk

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

Changes in foreign exchange rates affect the Bank's earnings and equity through differences on the re-translation of the net assets.

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)*

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.

	ECD	USD	TTD	Other	Total
2013					
FINANCIAL ASSETS					
Cash	7,012	603	–	397	8,012
Statutory deposit with Central Bank	37,214	–	–	–	37,214
Due from banks	9,313	51,125	628	2,078	63,144
Treasury Bills	5,889	–	–	–	5,889
Investment interest receivable	311	503	513	3	1,330
Advances	460,482	31,794	–	–	492,276
Investment securities	6,291	64,526	16,884	–	87,701
TOTAL FINANCIAL ASSETS	**526,512**	**148,551**	**18,025**	**2,478**	**695,566**
FINANCIAL LIABILITIES					
Due to banks	5,139	3,792	–	–	8,931
Customers' current, savings and deposit accounts	569,340	52,955	–	1,846	624,141
Interest payable	762	2	–	–	764
TOTAL FINANCIAL LIABILITIES	**575,241**	**56,749**	**–**	**1,846**	**633,836**
NET CURRENCY RISK EXPOSURE		**91,802**	**18,025**	**632**	
Reasonably possible change in currency rate (%)		1%	1%	1%	
Effect on profit before tax		**918**	**180**	**6**	

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

17 RISK MANAGEMENT *(continued)*

17.4 Market risk *(continued)*

17.4.2 Currency risk *(continued)*

	ECD	USD	TTD	Other	Total
2012					
FINANCIAL ASSETS					
Cash	7,493	559	–	390	8,442
Statutory deposit with Central Bank	36,356	–	–	–	36,356
Due from banks	(1,537)	15,291	918	8,398	23,070
Treasury Bills	5,889	–	–	–	5,889
Investment interest receivable	370	604	585	6	1,565
Advances	471,295	25,225	–	–	496,520
Investment securities	11,235	68,398	19,265	–	98,898
TOTAL FINANCIAL ASSETS	**531,101**	**110,077**	**20,768**	**8,794**	**670,740**
FINANCIAL LIABILITIES					
Due to banks	4,649	1,548	–	–	6,197
Customers' current, savings and deposit accounts	552,520	41,341	–	2,306	596,167
Interest payable	1,451	8	–	–	1,459
TOTAL FINANCIAL LIABILITIES	**558,620**	**42,897**	**–**	**2,306**	**603,823**
NET CURRENCY RISK EXPOSURE		67,180	20,768	6,488	
Reasonably possible change in currency rate (%)		1%	1%	1%	
Effect on profit before tax		**672**	**208**	**65**	

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

17 RISK MANAGEMENT *(continued)*

17.5 Operational risk

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

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

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

18 CAPITAL MANAGEMENT

For the purpose of the Bank's capital management, capital includes issued shared capital and other equity reserves. The Bank's policy is to diversify its sources of capital, to allocate capital within the Bank efficiently and to maintain a prudent relationship between capital resources and the risk of its underlying business. Equity decreased by $4.758 million to $90.938 million during the year under review.

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

Capital adequacy ratio

	2013	2012
Tier 1 Capital	**14.67%**	16.28%
Tier 2 Capital	**15.99%**	16.92%

At September 30, 2013 the Bank exceeded the minimum levels required for adequately capitalised institutions.

19 FAIR VALUE

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

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

Due to their short-term maturity, the carrying value of certain financial instruments is assumed to approximate their fair values. These include cash and cash equivalents, investment interest receivables, customers' deposit accounts (except for certificate of deposits with a two year maturity) other fund raising instruments, other assets and liabilities.

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

19 FAIR VALUE *(continued)*

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.

19.1 Carrying values and fair values

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

		2013	
	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets			
Cash, due from banks and Treasury Bills	77,045	77,045	–
Investment interest receivable	1,330	1,330	–
Advances	492,276	494,871	2,595
Investment securities	87,701	87,701	–
Financial liabilities			
Customers' current, savings and deposit accounts	624,141	624,140	1
Accrued interest payable	764	764	–
Total unrecognised change in unrealised fair value			**2,596**

		2012	
	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets			
Cash, due from banks and Treasury Bills	37,401	37,401	–
Investment interest receivable	1,565	1,565	–
Advances	496,520	496,855	335
Investment securities	98,898	98,898	–
Financial liabilities			
Customers' current, savings and deposit accounts	596,167	596,165	2
Accrued interest payable	1,459	1,459	–
Total unrecognised change in unrealised fair value			**337**

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

19 FAIR VALUE *(continued)*

19.2 Fair value and fair value hierarchies

19.2.1 Determination of fair value and fair value hierarchies

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

Level 1

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

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.

The following table shows an analysis of financial instruments recorded at fair value categorised by hierarchy level.

	2013			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial investments – available-for-sale	57,155	30,546	–	87,701

	2012			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial investments – available-for-sale	55,033	43,865	–	98,898

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

19 FAIR VALUE *(continued)*

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

19.2.2 Transfers between Level 1 and 2

For the year ended September 30, 2013, no assets were transferred between Level 1 and Level 2.

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

For the year ended September 30, 2013 and 2012, no assets were classified as Level 3 investment. There was therefore no movement in Level 3 financial instruments between 2013 and 2012.

20 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	Within 12 months	After 12 months	Total
2013			
ASSETS			
Cash	8,012	–	8,012
Statutory deposit with Central Bank	37,214	–	37,214
Due from banks	63,144	–	63,144
Treasury Bills	5,889	–	5,889
Investment interest receivable	1,330	–	1,330
Advances	57,993	434,283	492,276
Investment securities	1,519	86,182	87,701
Premises and equipment	297	36,052	36,349
Pension assets	–	3,781	3,781
Deferred tax assets	–	1,711	1,711
Other assets	1,448	–	1,448
	176,549	**562,306**	**738,855**
LIABILITIES			
Due to banks	8,931	–	8,931
Customers' current, savings and deposit accounts	622,107	2,034	624,141
Provision for post-retirement medical benefits	–	3,736	3,736
Taxation payable	–	–	–
Deferred tax liabilities	–	2,778	2,778
Accrued interest payable	764	–	764
Other liabilities	4,440	3,127	7,567
	636,242	**11,675**	**647,917**

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

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

	Within 12 months	After 12 months	Restated total
2012			
ASSETS			
Cash	8,442	–	8,442
Statutory deposit with Central Bank	36,356	–	36,356
Due from banks	23,070	–	23,070
Treasury Bills	5,889	–	5,889
Investment interest receivable	1,565	–	1,565
Advances	57,764	438,756	496,520
Investment securities	19,290	79,608	98,898
Premises and equipment	740	37,383	38,123
Pension assets	–	3,134	3,134
Deferred tax assets	–	1,790	1,790
Other assets	1,720	–	1,720
	154,836	**560,671**	**715,507**
LIABILITIES			
Due to banks	6,197	–	6,197
Customers' current, savings and deposit accounts	593,302	2,865	596,167
Provision for post-retirement medical benefits	–	3,444	3,444
Taxation payable	48	–	48
Deferred tax liabilities	–	993	993
Accrued interest payable	1,405	54	1,459
Other liabilities	8,325	3,178	11,503
	609,277	**10,534**	**619,811**

21 DIVIDENDS PAID AND PROPOSED

	2013	2012
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2012: $1.70 (2011: $0.25)	**2,550**	375
First dividend for 2013: $0.00 (2012: $0.65)	**–**	975
Total dividends paid	**2,550**	**1,350**

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

21 DIVIDENDS PAID AND PROPOSED *(continued)*

	2013	2012
Proposed for approval at Annual General meeting		
Equity dividends on ordinary shares:		
Final dividend for 2013: $0.00 (2012: $1.70)	**–**	**2,550**

22 CONTINGENT LIABLITIES, COMMITMENT AND LEASING ARRANGEMENTS

a) Litigation

As at September 30, 2013 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

	2013	2012
Guarantees and indemnities	**10,233**	7,914
	10,233	**7,914**

c) Sectoral information

	2013	2012
Corporate and commercial	**10,099**	7,891
Personal	**134**	23
	10,233	**7,914**

d) Leasing arrangment

	2013	2012
Lease payments recognised as expense in period	**604**	606

The future minimum lease payments under the contracts, divided into the following buckets

	2013	2012
a. Less than one year	**600**	598
b. Between one to five years	**878**	1,484
	1,478	**2,082**

23 SEGMENT REPORTING

As at September 30, 2013 and 2012, the Bank's entire operations are in the retail and commercial banking class of business in Grenada.