In celebrating 175 years of service to the people of the region, we have taken a look back at our journey, at our successes and the steps we took to achieve them. Our path, like any other in the field, has been met with challenges and victories, each making us stronger in its own way. As the decades have passed, Republic Bank has come to the firm realisation that our solid foundation has remained as such through a steadfast commitment to the needs of our customers, staff, shareholders and communities.

And in looking toward the next 175 years, we stand fast and true in our belief that each individual has the ability to make a lasting contribution to the overall good of the Nation. Guided by this belief, we will move forward, even more focussed on those we serve locally and regionally, with the aim of building successful communities and having a positive impact on our societies.

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.

Table of Contents

Notice of Meeting

ANNUAL MEETING

NOTICE is hereby given that the twenty-ninth 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 13, 2012 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, 2012 and the Reports of the Directors and Auditors thereon.

2 To take note of the Dividends paid for the twelve-month period ended September 30, 2012.

3 To elect Directors.

4 To re-appoint Ernst & Young as Auditors, and to authorise the Directors to fix their remuneration.

5 Any other business.

By order of the Board

Kimberly G. Erriah
Corporate Secretary

November 13, 2012

NOTES

Persons Entitled To Notice

Pursuant to sections 108 and 110 of the Companies Act 1994 of the Laws of Grenada, the Directors of the Company have fixed November 13, 2012 as the Record Date for the determination of shareholders entitled to receive notice of the Annual Meeting. Only shareholders on record at the close of business on November 13, 2012 are therefore entitled to receive notice of the Annual Meeting. A list of such shareholders will be available for examination by shareholders at the Registered Office of the Company during usual business hours.

Proxies

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

Dividend

A final dividend of $1.70 declared for the financial year ended September 30, 2012, will be payable on December 6, 2012, to shareholders on record at the close of business on November 13, 2012.

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, *CM, FCIB, FIBAF, FCABFI, LLD*

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

Nigel M. Baptiste, *BSc (Hons.) (Econ.), MSc (Econ.), ACIB*

Margaret A. Blackburn, *LLB (Hons.)*

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

Ian R. De Souza, *Dip. (Mgmt.), BSc (Econ.), MBA, CMA*

Hugh D. Dolland, *CBE*

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

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

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

Corporate Secretary
Kimberly G. Erriah, *LLB (Hons.), LEC*

REGISTERED OFFICE

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

REGISTRAR

Eastern Caribbean Central Securities Registry
P.O. Box 94
Bird Rock
Basseterre
St. Kitts, 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, Finance
Edwin K. James, *FCCA, MAAT*

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

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

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

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) 444-8353
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)

	2012	2011	2010	2009	2008
Total assets	**717,307**	708,777	749,331	732,990	762,291
Customer deposits	**596,167**	597,055	620,471	618,701	635,593
Advances	**496,520**	497,173	472,974	447,097	412,555
Stated capital	**15,000**	15,000	15,000	15,000	15,000
Shareholders' equity	**97,496**	92,644	95,789	89,356	87,302
Number of shares	**1,500**	1,500	1,500	1,500	1,500
Profit after taxation	**8,712**	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	**1,350**	3,975	4,125	6,750	6,600
Earnings per share	**5.81**	1.26	6.19	5.79	10.54

Board of Directors

Ronald F. deC. Harford, *CM, FCIB, FIBAF, FCABFI, LLD*
Chairman, Republic Bank Limited

Keith A. Johnson, *BSc (Accountancy), MBA, AICB*
Managing Director, Republic Bank (Grenada) Limited

Nigel M. Baptiste, *BSc (Hons.) (Econ.), MSc (Econ.), ACIB*
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.

Ian R. De Souza, *Dip. (Mgmt.), BSc (Econ.), MBA, CMA*
General Manager, Corporate and Investment Banking,
Republic Bank Limited

Hugh D. Dolland, *CBE*
Chairman, Spice Basket Limited

Kimberly G. Erriah, *LLB (Hons.), LEC*
Corporate Secretary, Republic Bank (Grenada) Limited

Nigel A. John, *BSc (Civil Eng.), Cert. Proj. Mgmt., Acc. Dir.*
Consulting Engineer, Latitudes Consult

Isabelle S.V. Slinger, *BSc (Info. Systems and Computers), IAD*
Managing Director, Comserv

Graham K. Williams, *BA (Econ.)*
Managing Director/Chairman, Westerhall Estate Limited

Ronald F. deC
Harford

Keith A.
Johnson

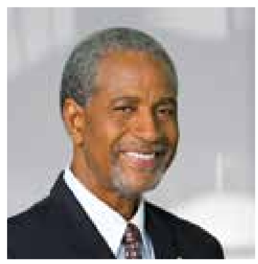
Leon D.
Charles

Nigel M.
Baptiste

Margaret A.
Blackburn

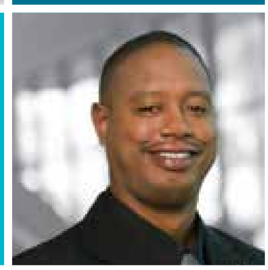
Ian R.
De Souza

Hugh D.
Dolland



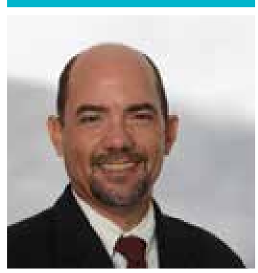
Kimberly G.
Erriah

Nigel A.
John



Isabelle S.V.
Slinger

Graham K.
Williams



Directors' Report

Your Directors have pleasure in submitting their Report for the year ended September 30, 2012.

FINANCIAL RESULTS AND DIVIDENDS

The Directors report that the Bank's profit after taxation for the year ended September 30, 2012 amounted to $8.712 million. The Directors have declared a dividend of $1.70 per share. A half year dividend of $0.65 per share was paid on May 16, 2012 making a total dividend on each share of $2.35 (2011: $0.90)

SUBSTANTIAL INTEREST IN SHARE CAPITAL AS AT SEPTEMBER 30, 2012.

	Ordinary Shares
Republic Bank Limited	764,700

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

DIRECTORS

In accordance with By-law No. 1, Paragraph 4.5.1., Graham K. Williams was appointed with effect from August 16, 2012, to fill the vacancy created by the retirement of Gregory Thomson.

In accordance with By-Law No.1, Paragraph 4.3.1., Ronald F. deC. Harford, Leon D. Charles, Nigel A. John, Isabelle S.V. Slinger and Keith A. Johnson, retire from the Board by rotation and being eligible, offer themselves for re-election for a term expiring at the close of the third annual meeting following this appointment.

In accordance with By-Law No.1, Paragraph 4.3.1., Graham K. Williams retires from the Board, and being eligible, offers himself for election for a term expiring at the close of the third annual meeting following this appointment.

DIRECTORS' INTEREST

Set out are the names of the Directors with an interest in the company at September 30, 2012 together with particulars of their holdings.

Director	Beneficial Interest	Non-Beneficial Interest
Nigel M. Baptiste	Nil	50
Margaret A. Blackburn	170	Nil
Leon D. Charles	200	Nil
Ian R. De Souza	Nil	50
Hugh D. Dolland	1,000	Nil
Ronald F. deC. Harford	Nil	50
Nigel A. John	Nil	50
Keith A. Johnson	50	Nil
Isabelle S. V. Slinger	Nil	50

Since the end of the Company's year, Mr Graham K. Williams 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
Corporate Secretary

Chairman's Review

Ronald F. deC. Harford

I am pleased to report that the Bank recorded net income after tax of $8.7 million for the financial year ended September 30, 2012, a welcome improvement over our 2011 result of $ 1.9 million. This improvement resulted primarily from a significant reduction in provisions for bad debt and impairment expense. Assets grew marginally by 1.20%, which is reflective of market conditions. Return on assets was 1.22 % and return on equity 9.16%.

Based on these results, and given our solid capital ratios, the Board has approved a final dividend of $1.70 to bring total dividends for the year to $2.35 (2011: $0.90).

World Economy

The challenges of the financial crisis, which is entering its fifth year, continue to affect the global economy, and a sustained, robust recovery is yet to be realised. The past year saw moderate improvement in the US housing market, accompanied by a drop in the jobless numbers. These are promising signs, but the trend needs to be maintained to have a meaningful impact. Europe, on the other hand, continues to face significant challenges. The economies of Greece, Spain, Italy, and Portugal are still under pressure. The UK, one of Grenada's main tourism markets, narrowly escaped a double-dip recession.

Of the BRIC countries, Brazil is the only one with sustained high economic growth, as it prepares to host the football World Cup and the Olympics in 2014 and 2016, respectively. China's red-hot growth has cooled. India's economy too has slowed, and while Russia continues to grow, levels there have tapered off. The fall-off in growth in these countries has tempered world demand.

The IMF has reported a deceleration in global growth and warned that substantial uncertainties and downside risks remain. Overall the global economy is expected to grow by 3.5% this year, down from 3.9% last year, and increase to 4% in 2013. According to the IMF the outlook is slowly improving but still very fragile.

Chairman's Review

Region

The OECS region continues to feel the impact of the downturn. In 2011, GDP declined (0.6%) for a third straight year, following negative growth of 5.7% and 2.2% in 2009 and 2010, respectively. Growth for 2012 is projected by the Eastern Caribbean Central Bank (ECCB) to be 2%, but stronger growth is required to reduce unemployment and poverty, given the already high debt-overhang.

In 2011, tourism improved marginally by 0.5%, while in the other major sector of construction, another year of decline (5.6%) was experienced. Foreign direct investment was conspicuously subdued, and prospects for robust inflows are slim in the short term, hampered as it is by depressed global conditions.

The fiscal position of many regional governments remains a concern, with debt at close to 100% of GDP. Earlier this year the St. Kitts government completed the restructuring of its debt, for which investors had to take a 50% haircut. Notwithstanding, concerns still remain about the country's debt servicing sustainability.

On the positive side, within the wider Caricom region, Guyana and Suriname have been consistently posting solid GDP growth, fuelled mainly by their mineral wealth.

Grenada

The ongoing global crisis continues to impact the fortunes of Grenada. The local economy is reported to have grown by 1.1% in 2011. Agriculture, which was responsible for much of the growth in 2011, is expected to continue its rebound in 2012 and beyond, led by increases in production of cocoa and nutmeg. Tourism, which had modest improvement in 2011, will be challenged given the reported decline in airlift in 2012. Foreign direct investment remains subdued. This has had a direct negative impact on the construction sector, which is yet to recover.

The St. George's University continues to play a major role in sustaining the economy. Student population, mainly from USA and Canada, continues to grow, at an estimated rate of 10% p.a. for the past two years. The University sustains many of the businesses in the south of the island particularly the distributive, entertainment, and accommodation sectors.

During the last few months of the reporting period, the Government was late in meeting some of its financial obligations, leading the ratings agency Standard and Poor's to lower the rating on Grenada's sovereign debt. This could make future government borrowing difficult.

Outlook

Economic growth in Grenada is expected to remain weak for the rest of 2012 and into the greater part of 2013. The economy is under strain due to slow growth, chronic unemployment and a current account deficit estimated at around 30% of GDP. Recently announced reduction in flights to Grenada by British Airways and LIAT is an unhappy development. On the other hand the construction industry which faced huge challenges during 2012, should improve in 2013, with the awarding of the feeder roads project valued at EC$43 million. Moreover Government has announced a list of capital projects to be undertaken, prominent among which are the new hospital and the athletic stadium. Should these materialise, the economy would receive a boost. The interest shown by a major, regional hotel brand in a local resort, including reported plans for major construction, could also compliment this improvement.

The Bank recorded satisfactory results for 2012, in what has been another challenging year. We are pleased to note the Bank's four awards at the ECCB annual conference in November 2011, the most gratifying of which is that of Best Corporate Citizen. Based on the results of an annual survey, we retained the number one position in Customer Service among local banks. The management and staff are commended for these accolades.

The coming year will be no less difficult than the past four years, but we are confident that, by remaining steadfast to our objectives, focused on our core operations, and committed to providing excellent service to our stakeholders, we shall successfully overcome the challenges that lie ahead.

During the year, Mr Gregory Thomson resigned from the Board after 12 years of invaluable service to the Bank as a Director, having retired from the Republic Group. In August 2012, Mr Graham Williams, BA (Econ.) was appointed to fill the vacancy. We wish Mr Thomson an enjoyable retirement, and welcome Mr Williams to the Board.

In closing, I express my appreciation to the management and staff for their unceasing commitment to the organisation; and to our customers and shareholders for their continued loyalty and support. I also thank the board for its wise counsel over the course of the year.

Managing Director's Discussion and Analysis

Keith A. Johnson

Introduction

Republic Bank (Grenada) Limited was incorporated on October 12, 1979. The Bank is a subsidiary of Republic Bank Limited and a member of the Republic Group. It 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 81 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:

	2012	2011
United States dollars	2.70	2.70
Canadian dollars	2.7569	2.5972
Pounds Sterling	4.3785	4.2499
Euro	3.4910	3.6234
Trinidad and Tobago dollars	0.4279	0.4306

The Grenada economy, while performing marginally better than its sister isles in the Organisation of Eastern Caribbean States (OECS), continued to be challenged by the effects of the global financial crisis, which is entering its fifth year. Grenada's GDP grew by roughly 1.1% in 2011, with estimates for 2012 of a similar level. Led by increases in production of cocoa and nutmeg, agriculture is beginning to rebound. Tourism experienced lukewarm growth, but spending was down. Foreign direct investment has been constrained by the world economic pressures, and this has had a negative impact on construction, which stuttered for yet another year.

Growth within the Banking sector has been flat over the past year, intensifying the competition among banks. The non-performing loans portfolio has, however, increased, which is a reflection of the difficult economic environment. Despite the challenges, the sector remains strong.

Summary Of Republic Bank (Grenada) Limited Operations

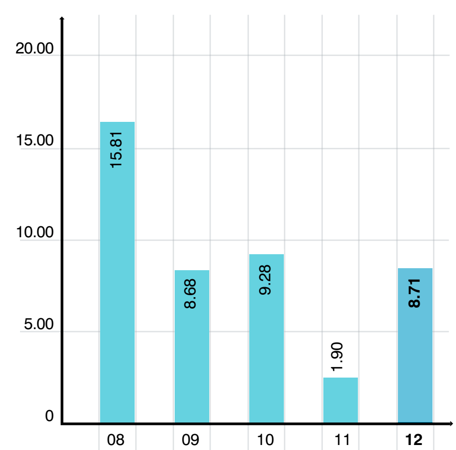
Figures are in EC$M	2012	2011	Change	% Change
Profitability				
Core profit before taxation and provisioning	9.3	6.6	2.7	41.0
Provision for loan losses	1.9	4.5	(2.6)	(56.9)
Profit before taxation	7.3	2.1	5.2	253.1
Profit after taxation	8.7	1.9	6.8	359.5
Balance Sheet				
Total assets	717.3	708.9	8.4	1.20
Total advances	496.5	497.2	(0.7)	(0.13)
Total deposits	596.2	597.1	(0.9)	(0.15)
Shareholders' equity	97.5	92.8	4.7	5.1

STATEMENT OF INCOME REVIEW

Financial Summary

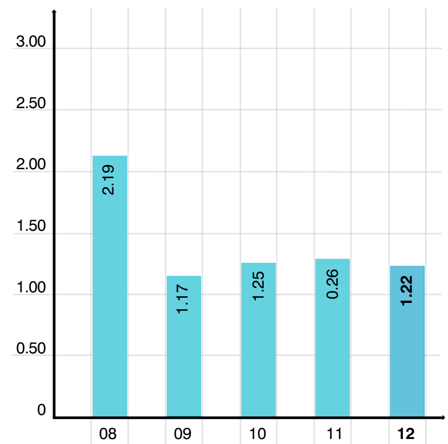
The Bank's profit after tax for 2012 of $8.7 million is 359.5% greater than the $1.9 million reported in 2011. This was primarily the result of a reduction in loan loss provisioning and impairment expense, compared to 2011, coupled with overall improved bad debt recovery.

Profit After Taxation ($ Millions)

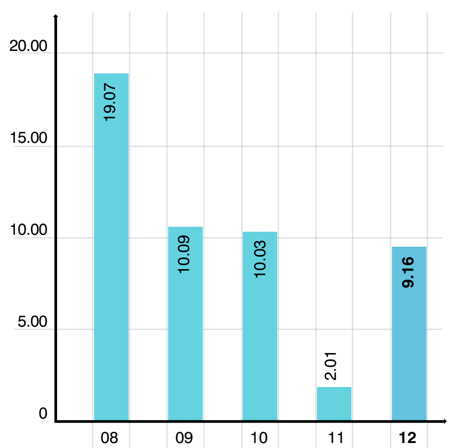


The Bank's return on assets and return on equity improved in line with the increase in profits.

Return on Assets (%)



Return on Equity (%)

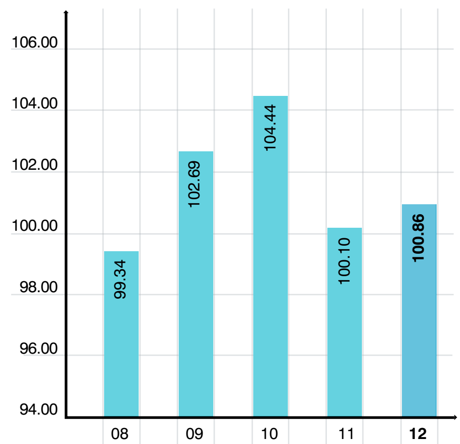


NET INTEREST AND OTHER INCOME

Net interest income fell by 1.66% or $0.6 million to $31.6 million (2011: $32.2 million). The loans portfolio, net of provisions, remained flat at $496.5 million compared to 2011 total of $497.2 million, and this is reflected in interest income on loans, which also remained steady at $41.0 million (2011: $40.9 million). Interest on investments fell by 15% or $1.1 million. High yielding investments which matured during the year, were reinvested at lower rates, while returns on liquid assets continued to fall.

As a result of prudent liquidity and interest rate management, interest cost reduced by 3.2%, in contrast to the 0.14% decline in the deposits portfolio. The ratio of the Bank's average interest earning assets to average customer deposits grew marginally to 100.9%, reflecting the Bank's objective to make optimum use of customers' deposits and its capital.

Interest Earning Assets to Deposits (%)



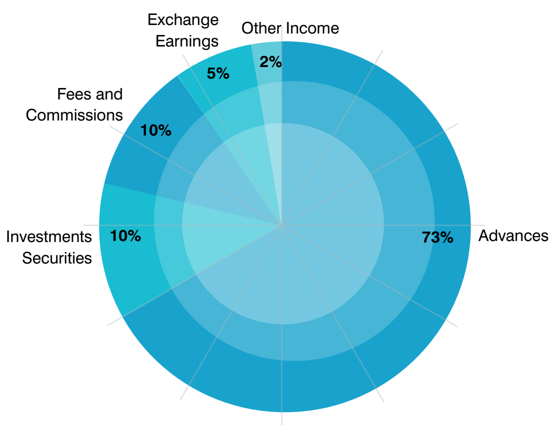
Other income of $11.8 million in 2012 was $3.2 million or 37.3% higher than the 2011 level of $8.6 million. The recovery of previously written-off debt was responsible for most of this increase. Exchange earnings were steady year-on-year, despite a further, but slight, weakening of the TT Dollar against the EC Dollar. 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.

Overall, total income increased by 3.84%.

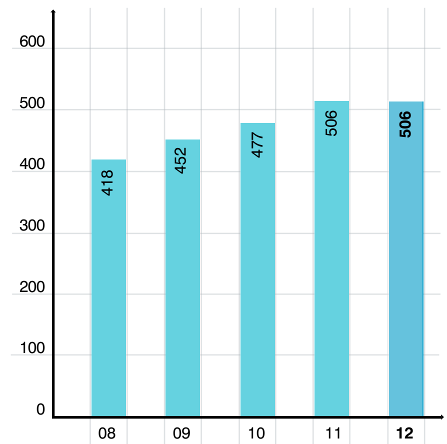
Operating expenses remained flat, as the reduction in impairment expense was off-set by increases in staff costs and other non-interest expenses.

In accordance with IAS 39, the Bank conducts an impairment review of each of its impaired financial assets annually. In 2012, expenses related to provisioning for impaired assets amounted to $4.8 million as against $8.6 million in 2011.

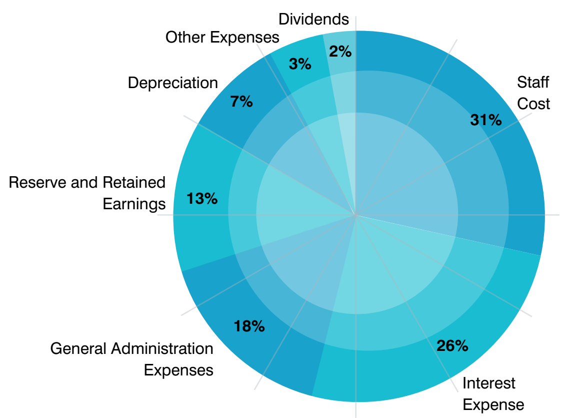
Sources of Revenue (%)



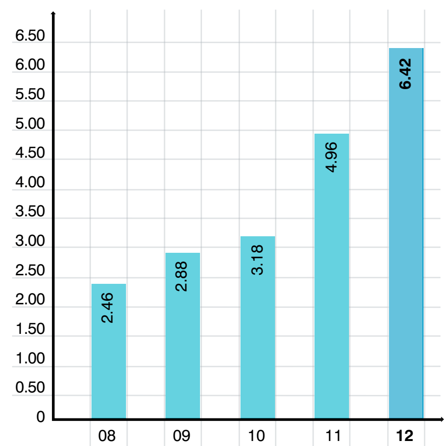
Gross Loans and Advances ($ Millions)



Revenue Distribution (%)



Non-Performing to Gross Loans (%)



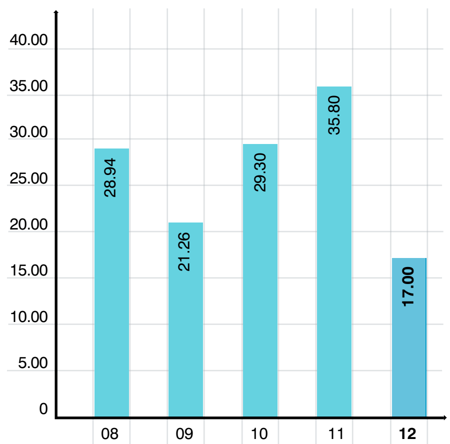
Balance Sheet Review

In 2012, total assets increased by 1.2% or $8.4 million. The gross loans portfolio remained flat at $505.6 million (2011: $506.1 million) reflecting the lack of growth in the economy during the year. This is in line with the market, which recorded flat growth in the year to June 2012. Investments increased by 3.9% or $3.8 million during the year.

The Bank continued to focus on maintaining the quality of the loans portfolio. However, despite its best efforts, the impact of the ongoing economic recession took its toll. As depicted graphically below, the ratio of non-performing loans to gross loans grew from 4.96% in 2011 to 6.42% at the end of fiscal 2012, above the ECCB's benchmark of 5%. It should be noted that the Bank has performed better than the sector average of over 8% for fiscal 2012. The Bank continues to focus efforts on returning to pre-2011 levels.

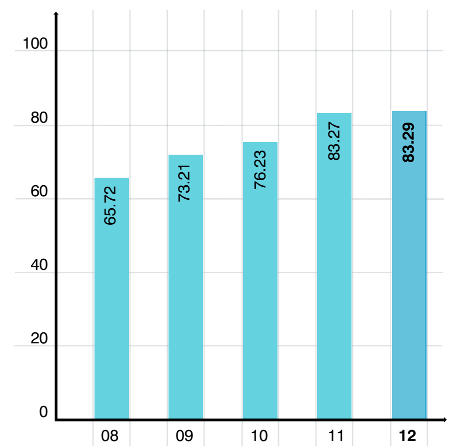
The ratio of specific provision for loan losses to non-performing loans moved from 35.8% in 2011 to 17% in 2012 reflecting the continued strong quality of the Bank's collateral.

Specific Provisions to Non-Performing Loans (%)



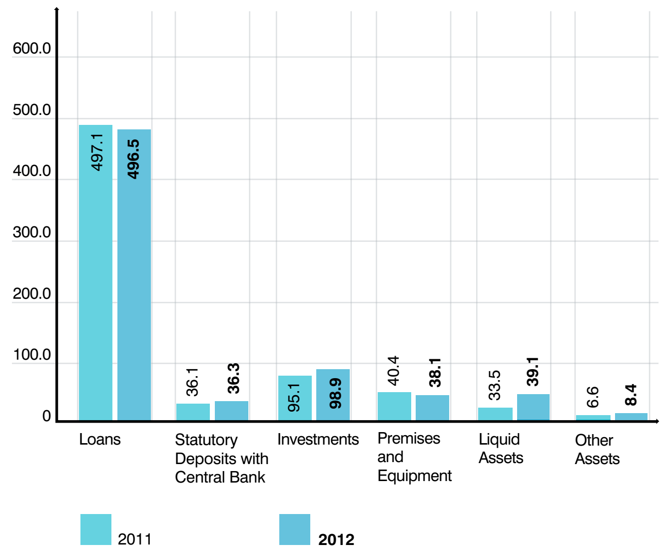
Our loans to deposits ratio remained constant at last year's level of 83.3%, following a steady upward trend over the past few years.

Loans to Deposits (%)



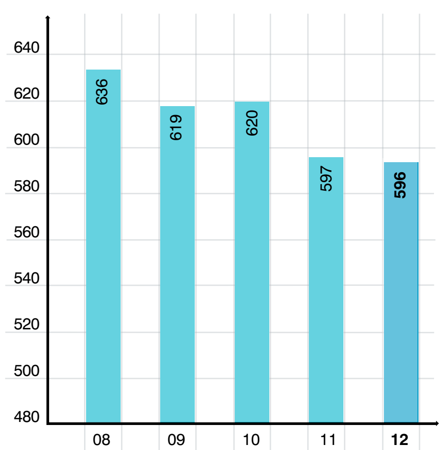
The composition of assets remained fairly constant from 2011 to 2012. Total assets increased by $8.4 million or 1.2%, the main contributors to which were investments and liquid assets, which grew by $3.8 million and $5.6 million, respectively.

Composition of Assets ($ Millions)



Customer deposits remained flat during the year, ending at $596.2 million compared to $597.1 million at the end of 2011. The market was, likewise, flat during the year.

Customer Deposits ($ Millions)



MANAGEMENT OF RISK

Overview

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

Capital Structure

The Bank's policy is to maintain a prudent relationship between capital resources and the risks of its underlying business. Shareholders' equity stood at $97.5 million over the year under review.

The Bank's dividend policy is to distribute 40% to 50% of its net earnings to shareholders. The total distribution based on the results for the financial year 2012 was $3.525 million, representing 40.5% of net profit for the year.

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

At September 30, 2012, the Bank exceeded the minimum levels required with Tier 1 capital to risk-weighted assets of 16.8% and total qualifying capital to risk-weighted assets of 17.5%. These ratios also exceeded the Bank's internal benchmark of 12%.

Corporate Social Responsibility

Our commitment to our Corporate Social Responsibility is evident from the various projects we undertake under our Power to Make a Difference programme, which impacts the vulnerable, the marginalised, the elderly and the youth in our communities. Our scholarship and bursary programmes enable studies at the University of the West Indies. We are the proud sponsors of the annual Republic Bank RightStart Cup Youth Football tournament and the Republic Bank Angel Harps Steel Orchestra, with whom we have been in partnership for the last 30 years. In 2012 the orchestra won the junior panorama competition for the second consecutive year. For our contribution in these and other areas we received the ECCB's award in November 2011 for overall Best Corporate Citizen, along with individual Good Corporate Citizen awards for Customer Service, Environmental Awareness and Sports.

Customer Service

We are also committed to a continued excellent quality of customer service, improving efficiency and delivery through technology, staff training and process improvement. During the past year, we upgraded our Internet Banking service, further demonstrating our commitment to providing our customers with quality products and services. In a survey conducted recently, we were adjudged the best Bank for Customer Service in Grenada.

Outlook

While the challenges of the past few years are not expected to abate any time soon, we are confident that our adherence to core banking, prudent management and strategies to meet those challenges will continue to add value for all our stakeholders.

Appreciation

Our achievement during this financial year would not have been possible without the continued support of our dedicated and loyal staff, to whom we express our appreciation. We are also grateful for the ongoing guidance, direction and counsel afforded by the Chairman and Directors of the Board.

Executive Management

Keith A.
Johnson

Naomi E.
De Allie

Donna L. Y.
Lander

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

Edwin K. James
Manager, Finance

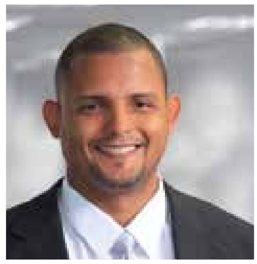
Althea R. Roberts
Manager, Retail Services, Republic House Cluster

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

Devon M. Thornhill
Manager, Retail Services, Grenville Cluster

Valentine S.
Antoine

Clifford D.
Bailey



Hermilyn E. M.
Charles

Mc Kie J.
Griffith

Edwin K.
James

Althea R.
Roberts

Garnet K.
Ross

Devon M.
Thornhill

The Power to Make a Difference

"Alone we can do so little; together we can do so much"

Helen Keller

This is a year of commemoration for Republic Bank, as we celebrate 175 years of service to the people of the region. Having been a key part of Grenada's financial, social and cultural history for decades, Republic Bank takes pride in being keenly attuned to the ever-changing needs of the Grenadian people, businesses and government.

Acting on the firm belief that we could help make a positive difference in the lives of the young, the elderly, the disenfranchised and differently-abled in our communities, we launched, in 2004, our groundbreaking Power to Make a Difference programme. In so doing, we changed the face of corporate social responsibility. Eight years later, we have seen and experienced the beneficial results of this decision, even as we continue the journey.

We believe in the value of every human life and in the ability of every individual to contribute to the development of our nation. This belief has guided the evolution of the Power to Make a Difference over the years, under the four pillars – the Power to Care, the Power to Learn, the Power to Succeed and the Power to Help.

Our hope is that, as we continue to fulfil the aims and beliefs of this initiative, many others would be motivated to take up and carry the torch of social responsibility, to the overall benefit of the nation and region.

Our history as one of the longest serving financial institutions in Grenada has been one of leadership and achievement. The partnerships we have forged throughout the years have catalysed our social investment efforts, and the success of these efforts has inspired us to keep moving forward with our vision.

Our relationships with various non-governmental organisations (NGOs) and community-based organisations (CBOs) have helped transform the shape and face of communities, while unlocking the potential of their members.

We believe that our nation's future lies in investing in our young people, and through the Power to Make a Difference, we have placed a major focus on empowering our youth, through sporting, educational and cultural programmes. We are pleased to be able to say that thousands of young people have come to employ their talents and realise their potential through our programmes. This includes our sponsorship of the Republic Bank RightStart Cup Youth Football Tournament and the Carriacou Domestic Cricket Tournament.

We also consider culture an important vehicle for youth development. With the aim of giving young people an understanding of the nation's history and culture, we have sponsored annually the Republic Bank Angel Harps Steel Orchestra and the Carriacou Regatta Festival. Our educational focus also extends to the University of the West Indies' Scholarship and Bursary Programmes.

In continuing our commitment to the needs of the differently-able, we have worked with Government and NGOs in their struggle to improve the quality of life of those with both visible and hidden disabilities. We have worked with the Resource Centre for the Blind to provide specialised equipment and stationery to assist students with blindness and low vision to better cope with the daily challenges of living with visual impairment. We have also constructed a restroom facility at the Victoria School for Special Education, to include one bathroom specially designed for the physically challenged. For Autism Awareness Month, the Bank participated in the "Light it Up Blue" campaign, to increase autism awareness, by lighting our Head Office building in blue.

We reaffirmed our commitment to 11 charitable organisations by making annual financial contributions in support of their various causes. These include: The CHORES Support Group in Grenada, GRENCODA Books and Uniform Programme, Dorothy Hopkin Centre for the Disabled, Grenada Heart Foundation, Grenada National Council of the Disabled, Grenada Cancer Society, Grenada Diabetes Foundation, Grenada National Patient Kidney Foundation, Grenada Foundation for Needy Students, Cadrona Home for the Aged and Rotary Club Grenada East – Vosh Eye Care Programme. The Power to Make a Difference also benefited the St. Mark's Secondary School which received assistance to refurbish its Home Economics Laboratory.

We have also extended our support to other initiatives, such as the Carriacou Maroon and Regional Stringband Festival, T.A. Marryshow Community College Award for Academic Excellence, the National Disaster Management Authority's Disaster Awareness Quiz for Primary Schools, Grenada School for Special Education annual Sports Meet and Grenada Olympic Committee's effort to secure Team Grenada's participation in the 2012 Olympics.

As a corporate citizen, Republic Bank believes that it is not enough to merely be aware of the needs of those around us – we must do what we can to fulfil those needs. However large or small the impact of our efforts may be, we stand firm in the knowledge that no effort is wasted. The differently-abled child who now has a wheel chair accessible bathroom; the low-vision student who can now function in a classroom of his peers; the young student who has received a university scholarship; the young footballer receiving the most valuable player award – their smiles, their well-being, their successes and their survival – these are the only reasons we need for continuing to embrace the Power to Make a Difference.

Republic Bank
Angel Harps
Steel Orchestra

Staff Children's
Christmas Party

Victoria School for
Special Education

Republic Bank
Managing Director,
Keith A. Johnson
with UWI Bursary
Recipients

The One for You for 175 Years

1979
The first
Republic Bank
Branch (then NCB),
Victoria Street,
Grenville

PROGRESS

1993
Launch of
Teller 24,
Automated
Banking Services

COMMUNITY

1996
Launch of
Youth Link
Apprenticeship
programme

VISION

2008
Modern Banking Facility, The New Melville Street Branch

EXCELLENCE

2008
ECSE Listing, Grenada's First Publicly Traded Financial Institution

SERVICE

2011
Family Business Succession Planning Seminar for Small and Medium businesses

1995
New Head Office Building

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

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

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

At the Annual Meeting, eligible Directors retire by rotation, and may offer themselves for re-election. At the upcoming Annual Meeting, Ronald F. deC. Harford, Leon D. Charles, Nigel A. John, Isabelle S. V. Slinger, and Keith A. Johnson retire from the Board by rotation and being eligible, have offered themselves for re-election. Graham K. Williams, whose appointment became effective on August 16, 2012, to fill the vacancy created by the retirement of Gregory I. Thomson, in accordance with the Company's By-law, will also retire from the Board. Being eligible, he has offered himself 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, 2012

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, 2012

Contents

Independent Auditors' Report

TO THE SHAREHOLDERS OF REPUBLIC BANK (GRENADA) LIMITED

We have audited the accompanying financial statements of Republic Bank (Grenada) Limited ('the Bank'), which comprise the statement of financial position as at September 30, 2012, statement of income, statement of comprehensive income, statement of changes in equity, 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, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

Chartered Accountants
Bridgetown
Barbados

October 24, 2012

Statement of Financial Position

as at September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	Notes	2012	2011
ASSETS			
Cash		8,442	6,862
Statutory deposit with Central Bank		36,356	36,098
Due from banks		23,070	18,815
Treasury bills		5,889	5,897
Investment interest receivable		1,565	1,753
Advances	4	496,520	497,173
Investment securities	5	98,898	95,147
Premises and equipment	6	38,123	40,426
Pension assets	7	3,134	2,530
Deferred tax assets	8	3,590	1,973
Other assets	9	1,720	2,103
TOTAL ASSETS		717,307	708,777
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		6,197	4,290
Customers' current, savings and deposit accounts	10	596,167	597,055
Provision for post-retirement medical and group life obligations	7	3,444	3,107
Taxation payable		48	–
Deferred tax liabilities	8	993	1,885
Accrued interest payable		1,459	1,844
Other liabilities	11	11,503	7,952
TOTAL LIABILITIES		619,811	616,133
EQUITY			
Stated capital	12	15,000	15,000
Statutory reserves		15,000	15,000
Other reserves		821	3,331
Retained earnings		66,675	59,313
TOTAL EQUITY		97,496	92,644
TOTAL LIABILITIES AND EQUITY		717,307	708,777

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

These financial statements were approved by the Board of Directors on October 24, 2012 and signed on its behalf by:

Ronald F. deC Harford
Chairman

Keith A. Johnson
Managing Director

Statement of Income

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	Notes	2012	2011
Interest income	13 (a)	46,822	47,855
Interest expense	13 (b)	(15,179)	(15,677)
Net interest income		31,643	32,178
Other income	13 (c)	11,782	8,582
		43,425	40,760
Operating expenses	13 (d)	(34,163)	(34,192)
Operating profit		9,262	6,568
Loan impairment expense, net of recoveries	4 (b)	(1,935)	(4,493)
Net profit before taxation		7,327	2,075
Taxation credit/(expense)	14	1,385	(179)
Net profit after taxation		8,712	1,896
Earnings per share ($)			
Basic		5.81	1.26
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, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	2012	2011
Net profit after taxation	8,712	1,896
Other comprehensive income:		
Revaluation of available-for-sale investments	(3,586)	(1,523)
Tax effect	1,076	457
	(2,510)	(1,066)
Other comprehensive loss for the year, net of tax	(2,510)	(1,066)
Total comprehensive income for the year, net of tax	6,202	830

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

Statement of Changes in Equity

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	Stated capital	Statutory reserves	Other reserve	Retained earnings	Total equity
Balance at September 30, 2010	15,000	15,000	4,397	61,392	95,789
Total comprehensive income for the year	–	–	(1,066)	1,896	830
Dividends (Note 20)	–	–	–	(3,975)	(3,975)
Balance at September 30, 2011	15,000	15,000	3,331	59,313	92,644
Total comprehensive income for the year	–	–	(2,510)	8,712	6,202
Dividends (Note 20)	–	–	–	(1,350)	(1,350)
Balance at September 30, 2012	15,000	15,000	821	66,675	97,496

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

Statement of Cash Flows

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	2012	2011
Operating activities		
Profit before taxation	7,327	2,075
Adjustments for:		
Depreciation	4,229	3,764
Loan impairment expense, net of recoveries	1,935	4,493
Investment impairment expense	35	–
Loss on disposal of available –for-sale investments	100	–
Gain on sale of premises and equipment	(22)	(15)
(Increase)/decrease in employee benefits	(267)	247
Increase in advances	(1,282)	(28,692)
Decrease in customers' deposits and other fund raising instruments	(888)	(23,416)
(Increase)/decrease in statutory deposit with Central Bank	(258)	1,139
Decrease/(increase) in other assets and investment interest receivable	571	(268)
Increase/(decrease) in other liabilities and accrued interest payable	3,166	(2,289)
Cash provided by/(used in) operating activities	14,646	(42,962)
Investing activities		
Purchase of investment securities	(37,676)	(6,883)
Redemption of investment securities	30,212	34,139
Additions to premises and equipment	(1,987)	(3,020)
Proceeds from sale of premises and equipment	83	133
Cash (used in)/provided by investing activities	(9,368)	24,369
Financing activities		
Increase/(decrease) in balances due to other banks	1,907	(11,346)
Dividends paid to shareholders	(1,350)	(3,975)
Cash provided by/(used in) financing activities	557	(15,321)
Net increase/(decrease)in cash and cash equivalents	5,835	(33,914)
Cash and cash equivalents at beginning of year	25,677	59,591
Cash and cash equivalents at end of year	31,512	25,677
Cash and cash equivalents at end of year are represented by:		
Cash	8,442	6,862
Due from banks	23,070	18,815
	31,512	25,677

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

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

1 CORPORATE INFORMATION

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

The CL Financial Group holds through its various subsidiaries 51.4% of the shares of Republic Bank Limited.

On January 31, 2009, the Central Bank of Trinidad and Tobago (CBTT) issued a Notification pursuant to sections 44D and 44E of the Central Bank Act, Chap. 79:02 that the CBTT assumed control of the affairs of CLICO Investment Bank Limited (CIB). On February 13, 2009, the CBTT issued a Notification pursuant to sections 44D and 44E of the Central Bank Act, Chap. 79:02 that the CBTT assumed control of the affairs of Colonial Life Insurance Company (Trinidad) Limited (CLICO). These two companies are part of the CL Financial Group.

In accordance with the provisions of both Notifications, the CBTT has the power to deal with the assets of the Companies, including the Republic Bank Limited shares. The CBTT will not receive any benefit financial or otherwise from the exercise of its powers under the Central Bank Act. As at September 30, 2012, the combined shareholding of Republic Bank Limited for CLICO and CIB is 51.1%.

The Central Bank of Trinidad and Tobago acting in its capacity as regulator assumed control of CLICO and CIB as it was of the view that the interests of CLICO and CIB depositors, creditors and policy holders were threatened and that the financial system of Trinidad and Tobago was in danger of disruption, substantial damage, injury or impairment. The CBTT will not receive any benefit financial or otherwise from the exercise of its powers under the Central Bank Act.

For the purpose of these financial statements, the related party note has not been amended to reflect the Central Bank of Trinidad and Tobago's control and has been prepared in a manner consistent with previous publications.

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, 2011 except for the adoption of new standards, interpretations and amendments to the standards and interpretations noted on the following page:

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

i) New accounting policies/improvements adopted (continued)

IAS 1 - Presentation of Financial Statements (effective January 1, 2011)
The amendment clarifies that an entity will present an analysis of other comprehensive income (OCI) for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment is applied retrospectively, in accordance with the requirements of IAS 8 for changes in accounting policy.

IAS 24 - Related Party Disclosures (Revised) (effective January 1, 2011)
The amended standard clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Bank does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 34 - Interim Financial Reporting (effective January 1, 2011)
The amendment provides guidance to illustrate how to apply the disclosure principles in IAS 34 and requires additional disclosures of the circumstances likely to affect fair values of financial instruments and their classification; transfers of financial instruments between different levels of the fair value hierarchy; changes in classification of financial assets; and changes in contingent liabilities and assets.The amendment is applied retrospectively, in accordance with the requirements of IAS 8 for changes in accounting policy.

IFRS 7 - Financial Instruments: Disclosures (effective January 1, 2011)
The amendments emphasise the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments as follows:

- The amendments clarify that only financial assets with carrying amounts that do not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk;

- The amendments require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements, including the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk);

- The amendments remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired;

- The amendments remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired; and

- The amendments clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets held at the reporting date.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

i) New accounting policies/improvements adopted (continued)

IFRS 7 - Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements (effective July 1, 2011)
The amendment requires additional disclosures about financial assets that have been transferred, but not derecognised, to enable the user of the Bank's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of and risks associated with, the entity's continuing involvement in those derecognised assets. The adoption of this standard had no effect on the financial position or performance of the Bank.

IFRIC 14 - Prepayments of a minimum funding requirement (Amendments) (effective January 1, 2011)
The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The adoption of this standard had no impact on the financial statements of the Bank.

ii) New accounting policies not adopted
The Bank has not adopted the following new and revised IFRSs that have been issued as these standards do not apply to the activities of the Bank:

IFRS 1 - First-time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective July 1, 2011)
The amendment provides guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation.

IFRIC 13 - Customer Loyalty Programmes (effective January 1, 2011)
The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account. The amendment is applied retrospectively, in accordance with the requirements of IAS 8 for changes in accounting policy.

iii) Standards in issue not yet effective
The following is a list of 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 therefore not practical to quantify the effect at this time.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

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

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 de-recognition 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.

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

The amendment clarified 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.

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 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, Provisions, Contingent Liabilities and Contingent Assets.*

- 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 28 Investments in Associates and Joint Ventures (effective January 1, 2013)

As a consequence of the new *IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates* has been renamed *IAS 28 Investments in Associates and Joint Ventures and describes the application of the equity method to investments in joint ventures* in addition to associates. This standard is not applicable to the bank at present.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

iii) Standards in issue not yet effective (continued)

IAS 32 - Offsetting Financial Assets and Financial liabilities (effective January 1, 2014)
These amendments clarify the meaning of the phrase "currently has a legally enforceable right to set-off" by stating that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights of set-off must not be contingent on a future event. The amendments also clarify the application of the IAS 32 off-setting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

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 ((Phase 1) effective January 1, 2015)
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 11 - Joint Arrangements (effective January 1, 2013)
IFRS 11 replaces *IAS 31 Interests in Joint Ventures* and *SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers*. This standard is not applicable to the bank at present.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

iii) Standards in issue not yet effective (continued)

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

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

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

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine and is not applicable to the Bank.

Annual improvements May 2012 (effective January 1, 2013)

These improvements include:
IFRS 1 – First-time Adoption of International Financial Reporting Standards
IAS 1 – Presentation of Financial Statements
IAS 16 – Property, Plant and Equipment
IAS 32 – Financial Instruments, Presentation
IAS 34 – Interim Financial Reporting

c) Cash and cash equivalents

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

d) Statutory 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 to its deposit liabilities.

e) Financial instruments

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e) Financial instruments *(continued)*

i) Advances

Advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'Financial 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'.

ii) Investment securities

- At fair value through profit or loss

Financial assets are classified in this category if they are either acquired for the purpose of selling in the short term or if so designated by management. Securities held as financial assets at fair value through profit or loss are initially recognised at fair value plus transaction costs and are continuously measured at fair value based on quoted market prices where available, or discounted cash flow models. All gains realised and unrealised from trading securities and those designated at fair value through profit or loss are reported in other income whilst losses are reported operating expenses. Interest and dividends earned whilst holding trading securities and those designated at fair value through profit or loss are reported in interest income.

- Available-for-sale

Available-for-sale investments are securities intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

f) Impairment of financial assets *(continued)*

i) Advances

All non-performing and individually significant advances are individually reviewed and specific provisions made for the impaired portion based on the realisable value of the collateral and discounted by the original effective interest rate of the advance. The provision made is the difference between the advance balance and the discounted value of the collateral. 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. Interest continues to be accrued at the effective interest rate and is recorded in “interest income”. Individually insignificant loans with similar characteristics are assessed for impairment on a group basis.

Inherent provisions 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 advance balances, the average advance default rates and adjusting this balance for current economic factors that affect advance 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.

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

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

ii) Investment securities

The Bank individually assesses each investment security for objective evidence of impairment. If an impaired instrument has been renegotiated, interest continues to be accrued 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g) Premises and equipment *(continued)*

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 at rates expected to apportion the cost of the assets over their estimated useful lives.

The depreciation rates used are as follows:

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

h) Employee benefits

i) Pension obligations

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

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

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 continues to be governed by the approved Trust Deed and Rules and remain under the full control of the appointed Trustees.

ii) Other post-retirement obligations

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

iii) Profit sharing scheme

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Taxation

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

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

Income tax payable on profits 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 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. Asset management fees related to investment funds are recognised over the period the service is provided.

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

These represent the Bank's potential liability, for which there are equal and off-setting 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 21(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.

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

p) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean dollars at rates of exchange prevailing at the date of the financial statements and non-monetary assets and liabilities are translated at historical 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.

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.

Inherent provisions on advances (note 4b)

Inherent provisions 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.

Net pension asset/liability (note 7)

In conducting valuation exercises to measure the effect of the 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.

4 ADVANCES

a)

	2012			
	Retail lending	Commercial and Corporate lending	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 - Note 4 (b)	(1,017)	(4,809)	(3,235)	(9,061)
Net advances	69,711	144,575	282,234	496,520

	2011			
	Retail lending	Commercial and Corporate lending	Mortgages	Total
Performing advances	69,126	138,561	272,229	479,916
Non-performing advances	5,185	8,414	11,425	25,024
	74,311	146,975	283,654	504,940
Unearned interest	(138)	(5)	–	(143)
Accrued interest	220	320	795	1,335
	74,393	147,290	284,449	506,132
Allowance for impairment losses	(1,387)	(5,429)	(2,143)	(8,959)
Net advances	73,006	141,861	282,306	497,173

4 ADVANCES *(continued)*

b) Allowance for impairment losses

(i) Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

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

4 ADVANCES *(continued)*

b) Allowance for impairment losses

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

	2012			
	Retail lending	Commercial and Corporate lending	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

	2011			
	Retail lending	Commercial and Corporate lending	Mortgages	Total
Balance brought forward	1,209	2,768	1,220	5,197
Charge-offs and write-offs	(387)	(338)	(6)	(731)
Loan impairment expense	1,048	4,745	1,820	7,613
Loan impairment recoveries	(483)	(1,746)	(891)	(3,120)
Balance carried forward	1,387	5,429	2,143	8,959
Individual impairment	1,226	5,188	849	7,263
Collective impairment	161	241	1,294	1,696
	1,387	5,429	2,143	8,959
Gross amount of loans individually determined to be impaired, before deducting any allowance	5,185	8,414	11,425	25,024

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

5 INVESTMENT SECURITIES

	2012	2011
Available-for-sale		
Government securities	18,296	41,696
State owned company securities	27,562	30,363
Corporate bonds/debentures	51,765	22,094
Equities and mutual funds	1,275	994
	98,898	95,147

6 PREMISES AND EQUIPMENT

	Capital works in progress	Freehold premises	Leasehold premises	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	–	–	–	(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

6 PREMISES AND EQUIPMENT *(continued)*

	Capital works in progress	Freehold premises	Leasehold premises	Equipment, furniture and fittings	Total
2011					
Cost					
At beginning of year	2,011	28,663	7,289	31,302	69,265
Additions at cost	1,635	57	–	1,328	3,020
Disposal	–	–	–	(439)	(439)
Transfer of assets	(3,190)	–	–	3,190	–
	456	28,720	7,289	35,381	71,846
Accumulated depreciation					
At beginning of year	(45)	1,979	3,582	22,461	27,977
Charge for the year	–	569	54	3,141	3,764
Disposal of assets	–	–	–	(321)	(321)
	(45)	2,548	3,636	25,281	31,420
Net book value	501	26,172	3,653	10,100	40,426

Capital commitments

	2012	2011
Contracts for outstanding capital expenditure not provided for in the financial statements	474	194
Other capital expenditure authorised by the Directors but not yet contracted for	2,391	339

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

7 EMPLOYEE BENEFITS

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

	Defined benefit pension plan		Post-retirement medical benefits	
	2012	2011	2012	2011
Opening defined benefit obligation	20,662	19,353	2,768	2,591
Current service cost	830	794	165	153
Interest cost	1,438	1,337	193	181
Members' contributions	136	153	–	–
Actuarial gains on obligations	(1,742)	(406)	(167)	(128)
Benefits paid	(255)	(511)	–	–
Expense allowance	(61)	(58)	–	–
Premiums paid by the Bank	–	–	(11)	(29)
Closing defined benefit obligation	21,008	20,662	2,948	2,768

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

	Defined benefit pension plan	
	2012	2011
Opening fair value of plan assets	24,489	22,435
Expected return	1,747	1,593
Actuarial losses	(1,481)	(209)
Contributions by employer	1,125	1,086
Members' contributions	136	153
Benefits paid	(255)	(511)
Expense allowance	(61)	(58)
Closing fair value of plan assets	25,700	24,489

7 EMPLOYEE BENEFITS *(continued)*

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

	Defined benefit pension plan		Post-retirement medical benefits	
	2012	2011	**2012**	2011
Defined benefit obligation	(21,008)	(20,662)	(2,948)	(2,768)
Fair value of plan assets	25,700	24,489	–	–
	4,692	3,827	(2,948)	(2,768)
Unrecognised actuarial gain	(1,558)	(1,297)	(496)	(339)
Net asset/(liability) recognised in the statement of financial position	3,134	2,530	(3,444)	(3,107)

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

	Defined benefit pension plan		Post-retirement medical benefits	
	2012	2011	**2012**	2011
Current service cost	830	794	165	153
Interest on defined benefit obligation	1,438	1,337	193	181
Expected return on plan assets	(1,747)	(1,593)	–	–
Amortised net gain	–	–	(10)	(4)
Total included in staff costs	521	538	348	330

e) Actual return on plan assets

	Defined benefit pension plan	
	2012	2011
Expected return on plan assets	1,747	1,593
Actuarial loss on plan assets	(1,481)	(209)
Actual return on plan assets	266	1,384

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

7. EMPLOYEE BENEFITS *(continued)*

f) Experience history

	Defined benefit pension plan				
	2012	2011	2010	2009	2008
Defined benefit obligation	(21,008)	(20,662)	(19,353)	(19,272)	(16,901)
Plan assets	25,700	24,489	22,435	20,259	18,517
Surplus	4,692	3,827	3,082	987	1,616
Experience adjustments on plan liabilities	(1,742)	(406)	(1,886)	707	(373)
Experience adjustments on plan assets	(1,481)	(209)	(140)	(200)	433

	Post-retirement medical benefits				
	2012	2011	2010	2009	2008
Defined benefit obligation	3,025	2,768	(2,591)	(2,359)	(2,122)
Experience adjustments on plan liabilities	(167)	(128)	(78)	(53)	(71)

g) The Bank expects to contribute $1.121 million (2012: $1.143) to the plans in the 2013 financial year.

h) The principal actuarial assumptions used were as follows:

	2012 %	2011 %
Discount rate	7.00	7.00
Rate of salary increase	6.00	6.00
Medical expenses increases	6.00	6.00
Expected return on plan assets	7.00	7.00
NIS ceiling rates	4.00	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.

7. EMPLOYEE BENEFITS *(continued)*

i) Plan asset allocation as at September 30

	Defined benefit pension plan	
	2012	2011
Equity securities	**2.5%**	2.9%
Debt securities	**16.4%**	35.0%
Other	**81.1%**	62.1%
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	73	543
Medical expense decrease by 1% pa	(53)	(403)

8. DEFERRED TAX ASSETS AND LIABILITIES

Components of deferred tax assets and liabilities

a) Deferred tax assets

	Opening Balance	(Expense)/Credit Statement of Income	(Expense)/Credit Other Comprehensive Income	Closing Balance
	2011			**2012**
Post retirement medical liability	932	101	–	**1,033**
Premises and equipment	107	609	–	**716**
General Provision	–	887	–	**887**
Unearned loan origination fees	934	20	–	**954**
	1,973	1,617	–	**3,590**

The bank has not recognised a deferred tax asset of $370K arising on unutilised tax losses as at September 30, 2012.

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)*

Components of deferred tax assets and liabilities *(continued)*

b) Deferred tax liabilities

	Opening Balance	(Expense)/Credit Statement of Income	(Expense)/Credit Other Comprehensive Income	Closing Balance
	2011			2012
Pension asset	759	184	–	943
Unrealised reserve	1,126	–	(1,076)	50
	1,885	184	(1,076)	993

9 OTHER ASSETS

	2012	2011
Accounts receivable and prepayments	1,720	2,103

10 CUSTOMERS' CURRENT, SAVINGS AND DEPOSIT ACCOUNTS

Concentration of customers' current, savings and deposit accounts

	2012	2011
State	19,963	25,983
Corporate and commercial	47,656	33,088
Personal	513,069	524,658
Other financial institutions	15,479	13,326
	596,167	597,055

11 OTHER LIABILITIES

	2012	2011
Accounts payable and accruals	5,872	1,966
Provision for profit sharing and salary increase	796	–
Unearned loan origination fees	3,178	3,121
Other	1,657	2,865
	11,503	7,952

12 STATED CAPITAL

	2012	2011	2012	2011
	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	1,500	1,500	15,000	15,000
At end of year	1,500	1,500	15,000	15,000

13 OPERATING PROFIT

	2012	2011
a) Interest income		
Advances	40,998	40,878
Investment securities	5,737	6,843
Liquid assets	87	134
	46,822	47,855
b) Interest expense		
Customers' current, savings and deposit accounts	(15,178)	(15,667)
Other interest bearing liabilities	(1)	(10)
	(15,179)	(15,677)

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

13 OPERATING PROFIT *(continued)*

	2012	2011
c) Other income		
Other fees and commission income	5,432	5,565
Net exchange trading income	2,572	2,610
Dividends	61	3
(Loss)/gain from disposal of available-for-sale investments	(100)	–
Gain from sale of premises and equipment	–	95
Other operating income	3,817	309
	11,782	8,582
d) Operating expenses		
Staff costs	16,484	15,559
Staff profit sharing	446	–
Employee benefits expenses - Note 7(d)	869	538
General administrative expenses	10,523	9,866
Property related expenses	823	618
Depreciation expense	4,229	3,764
Advertising and public relations expenses	656	713
Impairment expense	35	3,036
Directors' fees	98	98
	34,163	34,192

14 TAXATION CREDIT (EXPENSE)

	2012	2011
Corporation tax	(48)	–
Deferred tax	(1,433)	179
	(1,385)	179

14 TAXATION EXPENSE *(continued)*

Reconciliation between taxation expense and accounting profit

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

	2012	2011
Accounting profit	7,327	2,075
Tax at applicable statutory tax rate - 30.0%	2,198	622
Tax exempt income	(1,542)	(1,937)
Items not allowable for tax purpose	324	642
Loss (utilised)/incurred	(638)	1,113
Effect of deferred fee income	(17)	(54)
Tax refund	(589)	–
Under provision of prior year tax	(1,121)	(207)
	(1,385)	179

15 RELATED PARTIES

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

	2012	2011
Advances, investments and other assets (net of provisions)		
CL Financial Group	1,013	1,302
Parent Company	14,549	14,260
Directors and key management personnel	3,840	3,154
Other related parties	14,642	6,356
	34,044	25,072

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

15 RELATED PARTIES *(continued)*

	2012	2011
Deposits and other liabilities		
CL Financial Group	3,093	3,097
Parent Company	492	501
Directors and key management personnel	388	531
Other related parties	7,171	4,958
	11,144	9,087
Interest and other income		
CL Financial Group	107	75
Parent Company	10	10
Directors and key management personnel	248	266
Other related parties	290	429
	655	780
Interest and other expense		
CL Financial Group	52	59
Directors and key management personnel	111	106
Other related parties	1	1
	164	166

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

Key management compensation

	2012	2011
Short-term benefits	557	659
Post employment benefits	20	14
	577	673

16 RISK MANAGEMENT

16.1 Introduction

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

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

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

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

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

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

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

16.2 Credit risk

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

The Bank's credit risk management process operates on the basis of a hierarchy of discretionary authorities. 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.

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

16 RISK MANAGEMENT *(continued)*

16.2 Credit risk

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.

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

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

	Gross maximum exposure	
	2012	2011
Statutory deposit with Central Bank	36,356	36,098
Due from banks	23,070	18,815
Treasury bills	5,889	5,897
Investment interest receivable	1,565	1,753
Advances	496,520	497,173
Investment securities	97,623	94,153
Total	661,023	653,889
Undrawn commitments	26,547	39,330
Guarantees and indemnities	7,914	7,617
Total	34,461	46,947
Total credit risk exposure	695,484	700,836

16 RISK MANAGEMENT *(continued)*

16.2 Credit risk *(continued)*

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

Where financial instruments are recorded at fair value, the amounts shown 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, inventory and trade receivables and mortgages over residential properties and chattels. The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

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

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use. As at September 30, 2012, $8.968 million (2011 - $6.934 million) in repossessed properties are still in the process of being disposed of.

16.2.2 Risk concentrations of the maximum exposure to credit risk

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

a) Geographical sectors

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

	2012	2011
Eastern Caribbean	50,611	51,039
Barbados	17,230	19,452
Grenada	497,850	513,115
Trinidad and Tobago	42,327	55,546
United States	46,298	37,810
Other Countries	41,169	23,874
	695,484	700,836

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

16 RISK MANAGEMENT *(continued)*

16.2 Credit risk *(continued)*

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

b) Industry sectors

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

	2012	2011
Government and Central Government Bodies	41,226	60,606
Financial sector	113,941	80,301
Energy and mining	3,887	5,777
Agriculture	4,601	4,962
Electricity and water	24,527	25,615
Transport storage and communication	10,309	11,774
Distribution	58,612	57,578
Real estate	1,714	2,040
Manufacturing	7,100	7,809
Construction	10,746	12,140
Hotel and restaurant	81,331	77,062
Personal	301,934	315,441
Other services	35,556	39,731
	695,484	700,836

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

16.2.3 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
- Financial investment securities

16 RISK MANAGEMENT *(continued)*

16.2 Credit risk *(continued)*

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

Treasury bills and Statutory deposit with Central Bank

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

Balances due from banks

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

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

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

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

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

	Superior	Desirable	Acceptable	Total
2012	22,183	887	–	23,070
2011	18,187	628	–	18,815

Loans and advances - Commercial and Corporate

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

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

16 RISK MANAGEMENT *(continued)*

16.2 Credit risk *(continued)*

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

Loans and advances - Commercial and Corporate (continued)

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

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

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

Sub-standard: Past due or individually impaired.

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
2012	–	20,295	116,143	8,137	144,575
2011	101	19,499	114,139	8,122	141,861

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

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Impaired	Total
2012	–	–	–	4,140	3,997	8,137
2011	–	–	1,354	3,542	3,226	8,122

16 RISK MANAGEMENT *(continued)*

16.2 Credit risk *(continued)*

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

Loans and advances - Retail loans and Mortgages

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

	Current	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Impaired	Total
2012	**319,097**	**948**	**4,784**	**4,736**	**–**	**22,380**	**351,945**
2011	325,973	789	7,343	4,067	2,605	14,535	355,312

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 and Government and Government Guaranteed securities where the country has been recently downgraded by an international rating agency. Issuing institution 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
Financial investments- 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

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

16 RISK MANAGEMENT *(continued)*

16.2 Credit risk *(continued)*

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

Investment securities *(continued)*

	Superior	Desirable	Acceptable	Sub-standard	Total
Financial investments-Available-for-sale					
2011	62,634	24,571	–	6,948	94,153
Total	62,634	24,571	–	6,948	94,153

16.3 Liquidity risk

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

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

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.

16 RISK MANAGEMENT *(continued)*

16.3 Liquidity risk *(continued)*

16.3.1 Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities as 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 19 for a maturity analysis of assets and liabilities.

Financial liabilities - on Statement of Financial position	On demand	Up to one year	1 to 5 years	Over 5 years	Total
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	615,328

Financial liabilities - on Statement of Financial position	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2011					
Customers' current, savings and deposit accounts	485,348	106,217	5,490	–	597,055
Due to banks	4,290	–	–	–	4,290
Other liabilities	1,990	2,841	–	3,121	7,952
Total undiscounted financial liabilities 2011	491,628	109,058	5,490	3,121	609,297

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

16 RISK MANAGEMENT *(continued)*

16.3 Liquidity risk *(continued)*

16.3.1 Analysis of financial liabilities by remaining contractual maturities

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
2011					
Guarantees and indemnities	526	1,247	5,844	–	7,617
Total	526	1,247	5,844	–	7,617

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

16.4 Market risk

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

16.4.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Bank has an Asset/Liability Committee which reviews on a monthly basis the non-credit and non-operational risk 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.

16 RISK MANAGEMENT *(continued)*

16.4 Market risk *(continued)*

16.4.1 Interest rate risk *(continued)*

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 on the following table.

		Impact on net profit			
		2012		2011	
	Increase/decrease in basis points	Increase in basis points	Decrease in basis points	Increase in basis points	Decrease in basis points
TT$ Instruments	+/- 50	–	–	–	–
US$ Instruments	+/- 50	(1)	1	(2)	2
EC$ Instruments	+/- 25	–	–	–	–
BDS$ Instruments	+/- 50	–	–	–	–

		Impact on equity			
		2012		2011	
	Increase/decrease in basis points	Increase in basis points	Decrease in basis points	Increase in basis points	Decrease in basis points
TT$ Instruments	+/- 50	(378)	390	(486)	504
US$ Instruments	+/- 50	(975)	1,004	(674)	703
EC$ Instruments	+/- 25	(90)	92	(18)	18
BDS$ Instruments	+/- 50	–	–	(24)	23

16.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank's exposure to the effects of fluctuations in foreign currency exchange rates arises mainly from its investments and overseas subsidiaries 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.

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

16 RISK MANAGEMENT *(continued)*

16.4 Market risk *(continued)*

16.4.2 Currency risk *(continued)*

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 reasonable possible movement of each currency rate against the Eastern Caribbean dollar, with all other variables held constant.

2012	ECD	USD	TTD	OTHER	Total
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	6,487	
Reasonably possible change in currency rate (%)		1%	1%	1%	
Effect on profit before tax		672	208	65	

16 RISK MANAGEMENT *(continued)*

16.4 Market risk *(continued)*

16.4.2 Currency risk *(continued)*

2011	ECD	USD	TTD	OTHER	Total
FINANCIAL ASSETS					
Cash	5,761	696	–	405	6,862
Statutory deposit with Central Bank	36,098	–	–	–	36,098
Due from banks	(3,525)	17,611	575	4,154	18,815
Treasury bills	5,897	–	–	–	5,897
Investment interest receivable	476	524	753	–	1,753
Advances	471,257	25,916	–	–	497,173
Investment securities	16,868	35,185	38,228	4,866	95,147
TOTAL FINANCIAL ASSETS	532,832	79,932	39,556	9,425	661,745
FINANCIAL LIABILITIES					
Due to banks	2,922	1,368	–	–	4,290
Customers' current, savings and deposit accounts	553,213	40,731	–	3,111	597,055
Interest payable	1,833	11	–	–	1,844
TOTAL FINANCIAL LIABILITIES	557,968	42,110	–	3,111	603,189
NET CURRENCY RISK EXPOSURE		37,822	39,556	6,314	
Reasonably possible change in currency rate (%)		1%	1%	1%	
Effect on profit before tax		378	396	63	

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

16 RISK MANAGEMENT *(continued)*

16.5 Operational risk

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

The Bank 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.

17 CAPITAL MANAGEMENT

The Bank's policy is to diversify its sources of capital, to allocate capital within the Bank efficiently and to maintain a prudent relationship between capital resources and the risk of its underlying business. Equity increased by $4.852 million to $97.496 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

	2012	2011
Tier 1 Capital	16.80%	16.00%
Tier 2 Capital	17.50%	16.40%

At September 30, 2012 the Bank exceeded the minimum levels required for adequately capitalised institutions.

18 FAIR VALUE

In accordance with International Financial Reporting Standard No. 7 "Financial Instruments: Disclosures", the Bank calculates the estimated fair value of all financial instruments at the reporting 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.

18 FAIR VALUE *(continued)*

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

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

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

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

18.1 Carrying values and fair values

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

		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

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

18 FAIR VALUE *(continued)*

18.1 Carrying values and fair values

	Carrying value	2011 Fair value	Unrecognised gain/(loss)
Financial assets			
Cash, due from banks and Treasury bills	31,574	31,574	–
Investment interest receivable	1,753	1,753	–
Advances	497,173	497,717	544
Investment securities	95,147	95,147	–
Financial liabilities			
Customers' current, savings and deposit accounts	597,055	597,048	7
Accrued interest payable	1,844	1,844	–
Total unrecognised change in unrealised fair value			551

18.2 Fair value and fair value hierarchies

18.2.1 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.

18 FAIR VALUE *(continued)*

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

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

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.

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

		2011		
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial investments -				
available-for-sale	24,460	70,687	–	95,147

18.2.2 Transfers between Level 1 and 2

For the year ended September 30, 2012, no assets were transferred between Level 1 and Level 2.

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

For the year ended September 30, 2012 and 2011, no assets were classified as Level 3 investments. There was therefore no movement in Level 3 financial instruments between 2011 and 2012.

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

19 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 16.3 - "Liquidity risk" - for an analysis of the financial liabilities based on contractual undiscounted repayment obligations.

2012	Within 12 months	After 12 months	Total
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
Net pension asset	–	3,134	3,134
Deferred tax assets	–	3,590	3,590
Other assets	1,720	–	1,720
	154,836	562,471	717,307
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

19 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

2011	Within 12 months	After 12 months	Total
ASSETS			
Cash	6,862	–	6,862
Statutory deposit with Central Bank	36,098	–	36,098
Due from banks	18,815	–	18,815
Treasury bills	5,897	–	5,897
Investment interest receivable	1,753	–	1,753
Advances	57,515	439,658	497,173
Investment securities	24,022	71,125	95,147
Premises and equipment	–	40,426	40,426
Net pension asset	–	2,530	2,530
Deferred tax assets	–	1,973	1,973
Other assets	2,103	–	2,103
	153,065	555,712	708,777
LIABILITIES			
Due to banks	4,290	–	4,290
Customers' current, savings and deposit accounts	485,348	111,707	597,055
Provision for post-retirement medical benefits	–	3,107	3,107
Deferred tax liabilities	–	1,885	1,885
Accrued interest payable	1,844	–	1,844
Other liabilities	5,957	1,995	7,952
	497,439	118,694	616,133

for the year ended September 30, 2012
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

20 DIVIDENDS PAID AND PROPOSED

	2012	2011
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2011: $0.25 (2010: $2.00)	375	3,000
First dividend for 2012: $0.65 (2011: $0.65)	975	975
Total dividends paid	1,350	3,975
Proposed for approval at Annual General meeting (not recognized as a liability as at September 30)		
Equity dividends on ordinary shares:		
Final dividend for 2012: $1.70 (2011: $0.25)	2,550	375

21 CONTINGENT LIABILITIES

a) Litigation

As at September 30, 2012 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

	2012	2011
Guarantees and indemnities	7,914	7,617

c) Sectoral information

	2012	2011
Corporate and commercial	7,891	7,617
Personal	23	–
	7,914	7,617

22 SEGMENT REPORTING

The Bank's primary reporting format comprises geographical segments reflecting its management structure and the secondary segment is by class of business. As at September 30, 2012 and 2011, the Bank's entire operations are in the retail and commercial banking class of business in Grenada.