We believe that every member of Republic Bank has a stake
in our success. As we interweave our individual contributions,
we seek out the most effective means of unlocking
the true potential of our people, our country and our region.
Each of us contributes to the evolution of our resources,
enhancement of customer service and the improvement
of the quality of life in the communities with which we share our future.

Over the course of almost 175 years, Republic Bank has formed
an interconnected Group, dedicated to local and regional progress.
Together with our employees, our customers and our shareholders,
we embrace a vision of building successful societies,
wherever the business of banking and financial services may take us.

Vision

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

Mission

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

Values

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

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Notice of Meeting

ANNUAL MEETING

NOTICE is hereby given that the twenty-eighth Annual Meeting of Republic Bank (Grenada) Limited will be held at the St. Andrew's Conference Room, Spice Island Beach Resort, Grand Anse, St. George on Thursday December 8, 2011 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, 2011 and the Reports of the Directors and Auditors thereon.

2 To take note of the dividends paid for the twelve-months period ended September 30, 2011.

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 8, 2011

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 8, 2011 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 8, 2011 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 $0.25 for the financial year ended September 30, 2011 will be payable on December 1, 2011 to shareholders on record at the close of business on November 8, 2011.

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*

Managing Director

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

NIGEL M. BAPTISTE, *BSc (Hons.) (Econ.), MSc. (Econ.), ACIB*

IAN R. DE SOUZA, *Dip. (Mgmt.), BSc (Econ.), MBA*

GREGORY I. THOMSON, *BSc (Math and Physics), MBA*

MARGARET A. BLACKBURN, *LLB (Hons.)*

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

HUGH D. DOLLAND, *CBE*

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

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

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

Look at the happy faces of these primary school students. Republic Bank continues to support efforts to nurture the new generation. In 2011, safer learning environments were created for two primary schools across Grenada. A retaining wall and fence were erected at the St. Joseph's R. C. School, Morne Jaloux, to control soil erosion and secure the school's compound, while a staircase with covering was installed at the St. Patrick's R.C. School to protect students from the elements.

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
ANTHONY P. S. CLERK, *Dip. (Banking), Dip. (Business Mgmt.), MBA*

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

MANAGEMENT
Manager, Finance
EDWIN K. JAMES, *FCCA, MAAT*

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

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

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

Manager, Business Support Services
HERMILYN 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 ROBERTS

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

PETITE MARTINIQUE AGENCY
Telephone: (473) 443-9005
Fax: (473) 443-9013

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 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 THORNHILL

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

Officer in Charge
TARRA A. FRANCIS

Financial Summary

All figures are in thousands of Eastern Caribbean Dollars

	2011	2010	2009	2008	2007
Total assets	**708,777**	749,331	732,990	762,291	681,973
Customer Deposits	**597,055**	620,471	618,701	635,593	583,513
Advances	**497,173**	472,974	447,097	412,555	364,048
Stated Capital	**15,000**	15,000	15,000	15,000	15,000
Shareholders' Equity	**92,644**	95,789	89,356	87,302	78,521
Number of shares	**1,500**	1,500	1,500	1,500	1,500
Profit after taxation	**1,896**	9,283	8,679	15,810	13,050
Dividends based on results for the year	**1,350**	4,125	4,125	6,750	6,450
Dividends paid during the year	**3,975**	4,125	6,750	6,600	6,000
Earnings per share	**1.26**	6.19	5.79	10.54	8.70

Board of Directors

1 RONALD F. deC. HARFORD
CM, FCIB, FIBAF, FCABFI
Chairman,
Republic Bank Limited

2 KEITH A. JOHNSON
BSc (Accountancy), MBA, AICB
Managing Director,
Republic Bank (Grenada) Limited

3 NIGEL M. BAPTISTE
BSc (Hons.) (Econ.), MSc (Econ.), ACIB
Executive Director,
Republic Bank Limited

4 MARGARET A. BLACKBURN
LLB (Hons.)
Senior Partner,
Renwick and Payne,
Attorneys-at-Law

5 LEON D. CHARLES
BSc (Agri. Mgmt.), MBA, Acc. Dir.
Chief Executive Officer,
Charles and Associates Inc.

6 IAN R. DE SOUZA
Dip. (Mgmt.), BSc (Econ.), MBA
General Manager,
Corporate and
Investment Banking,
Republic Bank Limited

7 HUGH D. DOLLAND
CBE
Chairman,
Spice Basket Limited

8 KIMBERLY G. ERRIAH
LLB (Hons.), LEC
Corporate Secretary,
Republic Bank (Grenada) Limited

9 NIGEL A. JOHN
BSc (Civil Eng.), Cert. Proj. Mgmt., Acc. Dir.
Consulting Engineer

10 ISABELLE S.V. SLINGER
BSc (Info. Systems and Computers), IAD
Managing Director,
Comserv

11 GREGORY I. THOMSON
BSc (Math and Physics), MBA
Deputy Managing Director,
Republic Bank Limited


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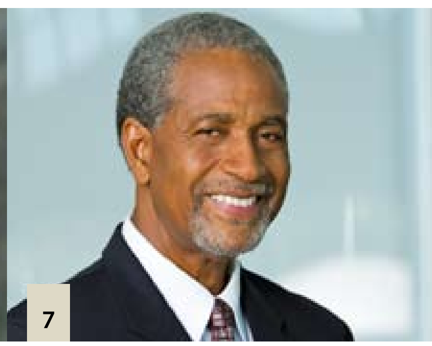
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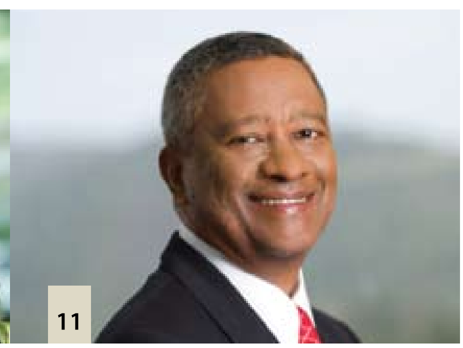
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Your Directors are pleased to submit their Report for the year ended September 30, 2011.

FINANCIAL RESULTS AND DIVIDENDS

The Directors report that the Bank's profit after taxation for the year ended September 30, 2011 amounted to $1.896 million. The Directors have declared a dividend of $0.25 per share. A half-year dividend of $0.65 per share was paid on May 18, 2011, making a total dividend on each share of $0.90 (2010: $2.75)

SUBSTANTIAL INTEREST IN SHARE CAPITAL AS AT SEPTEMBER 30, 2011.

	Ordinary Shares
Republic Bank Limited	764,700

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

DIRECTORS

In accordance with By-Law No.1, Paragraph 4.3.1 Gregory I. Thomson, Ian R. De Souza and Hugh D. Dolland 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.

DIRECTORS' INTEREST

Set out are the names of the Directors with an interest in the company at September 30, 2011 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
Gregory I. Thomson	Nil	50

There has been no change in these interests occurring between the end of the Company's year and one month prior to the date convening the Annual Meeting.

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

THE BANK RECORDED A NET INCOME AFTER TAX OF $1.9 million for the financial year ended September 30, 2011, a decrease of 80% over 2010. This result is due mainly to a diminution in the value of a regional government's bonds ($4.1 million), and to an increase in the provisioning for non-performing loans ($3.1 million). A positive note in our performance is the increase in Advances by 5.1% or $24.2 million.

Given our strong capital ratios and the prospect of some improvement in trading conditions next year, the Board has agreed to a final dividend of $0.25 to make our total dividends $0.90 for the year (2010: $2.75).

REGION

During the past year, the many challenges facing the region showed no signs of easing. According to the Eastern Caribbean Central Bank (ECCB), economic activity in the OECS fell by 2.7% in 2010, following a 5.6% contraction in the previous year. There was a slight recovery in tourism, with stay-over visitor arrivals growing by 3.3%, after a decline of 10.4 % in 2009. However, this increase was not reflected in visitor spend. Foreign direct investment flows receded further, and the impact was most visible in the construction sector, which has experienced three consecutive years of decline – decreasing by 20.4% in 2010. The import/export gap widened even further as oil and food import prices increased towards the end of 2010.

The fiscal position of many regional governments has worsened, and this has been compounded by rising debt levels, in many instances above 100% of GDP. Recently the St. Kitts Government, with one of the highest debt-to-GDP ratios in the world, announced plans to restructure its debt. This has had a disastrous impact on the value of that country's public debt which has impacted our Bank. Many are fearful that this could lead to contagion in the OECS and the broader region, given the close economic and financial ties that exist between the territories. Projection for overall GDP growth of 2.1% in the OECS for 2011 is now in doubt.

GRENADA

Grenada has been hard-hit by the adverse impact of the global economic crisis, which is now in its fourth year. After shrinking by 5.6% (revised from 7.7% in earlier computations) in 2009, Grenada's GDP declined by a further 2% in 2010. Debt to GDP remained constant at 2009 level, but still high at just under 100%. The slowdown in economic activity in 2010 is reflected in a decline in tourism receipts, remittances, and construction financed by foreign direct investment, which are the main drivers of the economy. Unemployment is reported to be over 30%, and this has dampened domestic demand. On the positive side, growth was recorded in Agriculture (8.25%), Manufacturing (7.2%), and Other Services (5%), which was dominated by increased enrollment in St George's University. Additionally, the Banking and Insurance sector grew by 2.5%. Production of cocoa and nutmeg also continued to improve, as better prices and favourable weather conditions encouraged more cultivation of these crops.

The fiscal outlook for 2011 has the prospects for a modest turnaround in the economy. By mid-2011, GDP, which was originally expected to grow by 2% this year, is reported to have grown by just above 1%, with Agriculture and Manufacturing again being the main contributors. Tourism improved marginally from last year, boosted in part by the yachting industry, which appears to be withstanding the effects of the recession. Indications are that this level of GDP growth is likely to be maintained throughout the rest of the year, subject to certain construction projects being implemented. The Government's Greater Grenville project has already commenced, and initial preparatory works have begun on the financial complex.

OUTLOOK

The impact of the global economic crisis continues to be felt. The outlook for the next 12 months remains uncertain. Much will depend on the stability of the major developed economies, and the pace and sustainability of their own recovery efforts. The Government, for its part, will have to be steadfast in its strategy to stimulate the economy, reduce unemployment, and attract foreign investment. Reports are that cruise tourism will see a decline in the next year, with a reduction in the number of cruise passengers, which will add to the challenges, if alternative revenue generation initiatives are not found.

The Government recently announced that a number of significant projects will commence next year. Should these projects come to fruition as promised, they will go a long way in boosting the economic recovery efforts. Likewise, the granting of accreditation to the St. George's University of its veterinary medicine programme is expected to positively impact the economy through increased student intake.

Despite recording the lowest returns in the past six years, the Bank's core operations have performed creditably, given the economic environment in which it operates. Our financials are solid with a strong, clean balance sheet, backed by well-secured assets, and a stable income base. Our staff remains committed to the challenges ahead, and I wish to thank them for returning the Bank to the number one position in Customer Service among local banks. As we press forward, we will continue to focus on our core operations, consolidate our financial position, preserve asset value, and empower our staff to continue providing superior customer experience.

In closing, I would like to express my gratitude to my fellow directors for their invaluable contribution. As always, 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.

Spending time with the elderly can be rewarding for everyone. The staff of our Carriacou branch took time last Christmas to bring holiday cheer to the residents of the Top Hill Home for Senior Citizens. A scenic countryside tour, sumptuous dinner punctuated by carol singing and entertainment by staff and friends, where the highlights of the day's activities. For senior citizens, it was a time to socialise and enjoy memories with friends old and new.

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 and one agency office dispersed across the tri-island state.

The Bank maintains a leading market share position in Grenada for 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 28 to 76 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:

	2011	2010
United States dollars	**2.70**	2.70
Canadian dollars	**2.5972**	2.6304
Pounds Sterling	**4.2499**	4.3186
Euro	**3.6234**	3.5865
TT dollars	**0.4306**	0.4340

The economic environment in which the bank operated in fiscal 2011 was similar in many respects to that of the previous two years. The financial crisis which descended on the global economy three years ago intensified in 2011. The impact on the regional economies has been severe, and this is reflected in the Bank's performance.

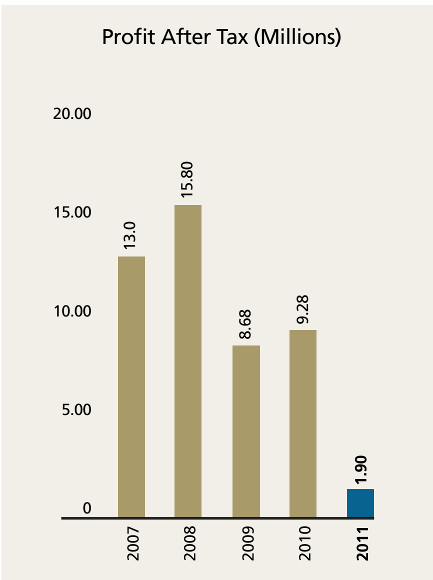
SUMMARY OF REPUBLIC BANK (GRENADA) LIMITED OPERATIONS

Figures are in EC$M	2011	2010	Change	% Change
Profitability				
Core profit before taxation and provisioning	**6.6**	10.5	(3.9)	(37.1)
Provision for loan losses	**4.5**	1.3	3.2	246.2
Profit before taxation	**2.1**	9.2	(7.1)	(77.2)
Profit after taxation	**1.9**	9.3	(7.4)	(79.6)
Balance Sheet				
Total assets	**708.8**	749.3	(40.5)	(5.4)
Total advances	**497.2**	473.0	24.2	5.1
Total deposits	**597.0**	620.4	(23.4)	(3.8)
Shareholders' equity	**92.6**	95.8	(3.2)	(3.3)

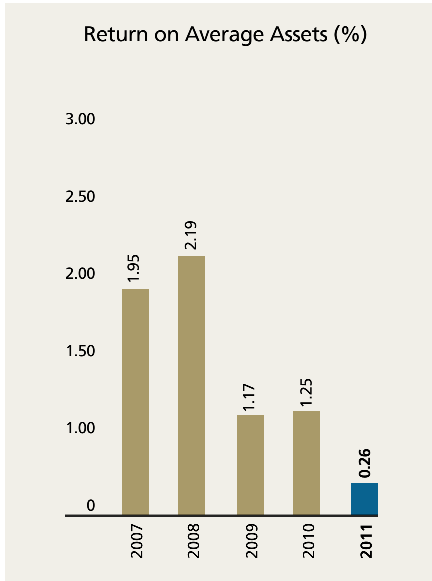
STATEMENT OF INCOME REVIEW

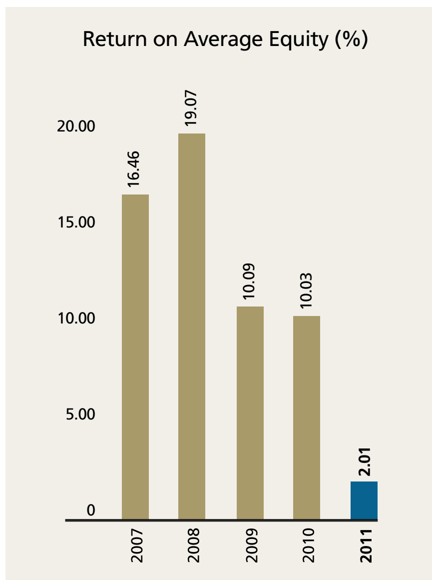
Financial Summary

The Bank's profit after tax for 2011 of $1.9 million is 80% less than the $9.3 million reported in 2010. The protracted global economic crisis has negatively impacted the fortunes of the Region. Impairment expense of $4.1 million on Government of St Kitts bonds and increase in Loan loss provisioning of $3.1 million due to the recessionary impact on Tourism, have been the main contributors to the reduced profitability.



The Bank's return on average total assets and return on average equity have declined in line with the reduction in net profits after tax.





Net Interest and Other Income

Net interest income fell by $0.7 million to $32.2 million. While the loan portfolio grew by 5.1% or $24.2 million (2010: $25.9 million) interest income on loans remained steady at $40.9 million (2010: $40.8 million), due to the increase in the non-performing segment of the portfolio. Interest on investments and liquid assets fell by 13% and 83%, respectively, as funds were utilised to finance the growth in loans and a reduction in the deposits portfolio. Declining interest rates on Investments and Liquid Assets also contributed to the reduction in income. Interest cost reduced by 5.4%, proportionately better than the 3.8% decline in the deposits portfolio.

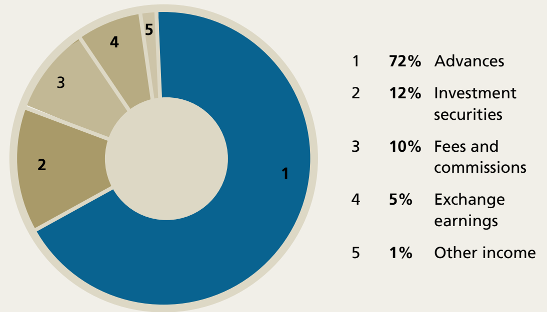
The ratio (100.1% in 2011) of the Bank's average interest earning assets to average customer deposits has been consistent over the past five years. This reflects the Bank's resolve to optimise use of customers' deposits, given its strong capital position.

Interest Earning Assets to Deposits

Other income of $8.6 million in 2011 remained on par with the 2010 level of $8.5 million. Exchange earnings decreased by 14.9%, due in part to lower trading in Foreign exchange as well as the weakening of the TT Dollar against the EC Dollar. Improvement in other avenues of fee income made up for that shortfall. 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 fell by 2.6%, reflecting the challenging economic environment in the country and in the region.

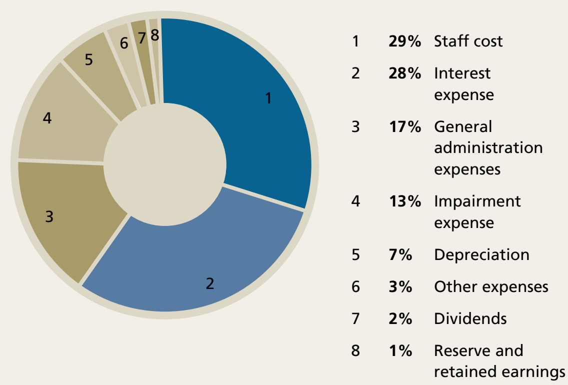
Sources of Revenue (%)



Operating expenses increased by $3.3 million to $34.2 million due to the impairment expense of $4.1 million on Government of St. Kitts bonds.

In accordance with IAS 39, the Bank conducts an impairment review of its impaired financial assets annually. In 2011, expenses related to provisioning for impaired assets amounted to $7.6 million as against $2.9 million in 2010.

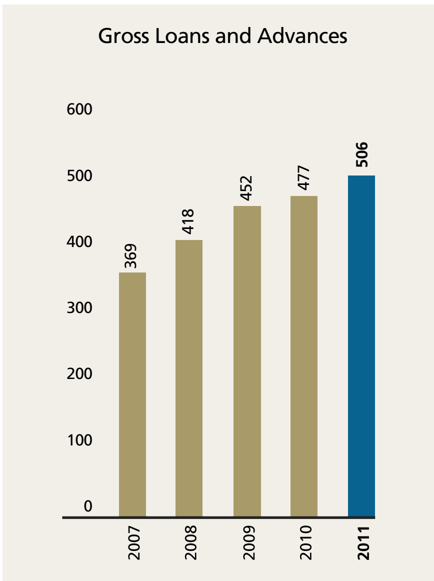
Revenue Distribution (%)



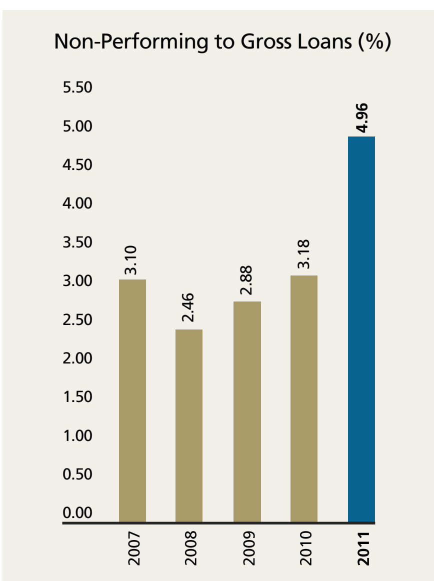
BALANCE SHEET REVIEW

In 2011 total assets decreased by 5.4% or $40.5 million. On the positive side, however, the loans portfolio increased by 5.1% or $24.2 million, a demonstration of the Bank's continued confidence in the future. This growth is consistent with the trend of the previous four years, and actually outstripped the market, which recorded flat growth in 2011. This increase was primarily in the

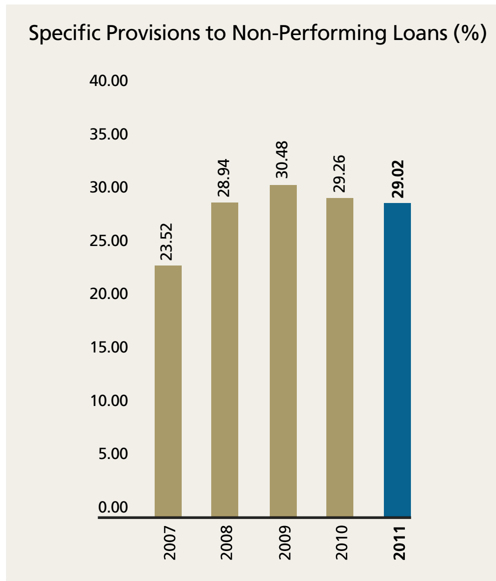
Corporate sector, and was financed mainly through a reduction in low yielding investments, which decreased by 15.4% or $17.3 million during the year.



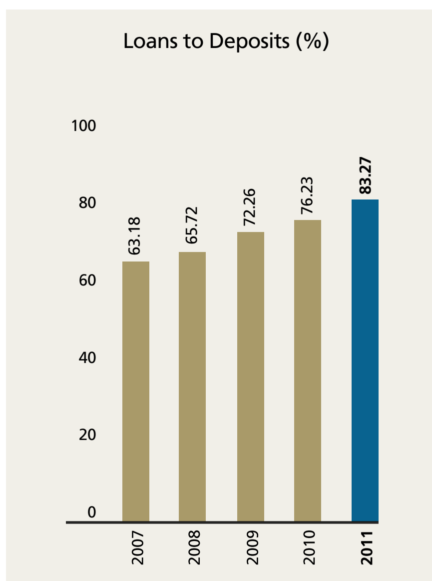
The Bank kept its focus on maintaining the quality of the loans portfolio; however, the impact of the ongoing economic recession is seen in the increase in the ratio of non-performing loans to gross loans, from 3.18% in 2010 to 4.96% at the end of fiscal 2011. The Central Bank's benchmark for this ratio is 5%.



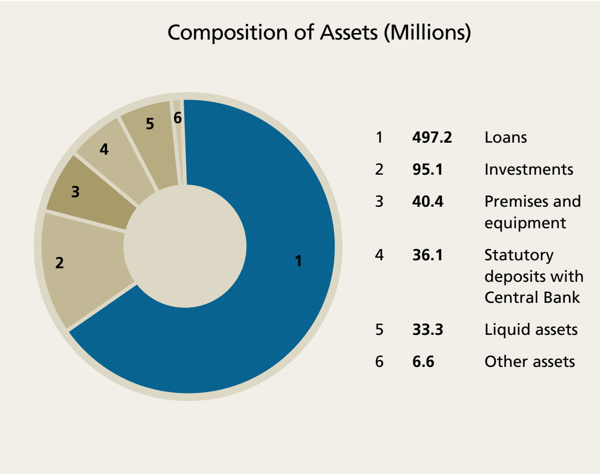
The ratio of specific provision for loan losses to non-performing loans was 29.0% in 2011, reflecting prudent provisioning estimates in the current harsh economic conditions. The quality of the Bank's collateral remains strong.



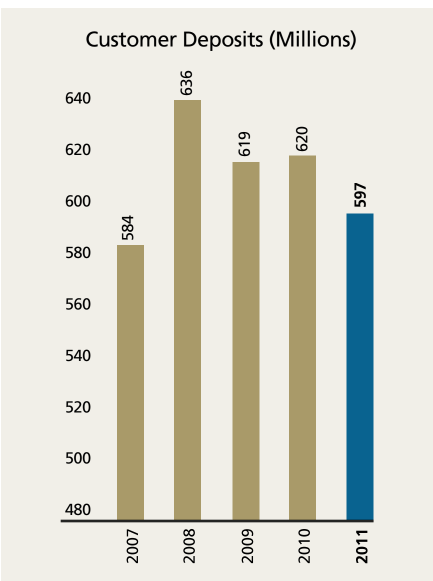
Our loans to deposits ratio improved, moving from 76.2% in 2010 to 83.3% in 2011, a continuation of the trend over the past five years.



Prudent balance sheet management, necessary in the current tough economic climate, has resulted in an increase in the ratio of interest earning assets to total assets, as the bank endeavours to optimise its revenues.



Customer deposits declined during the year by 3.8% or $23.4 million to end the year at $597 million. During the year, the market remained flat.



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 $92.6 million at the end of the year under review, with a Tier 1 capital ratio of 16%.

While the Bank's dividend policy is to distribute 40% to 50% of its net earnings, the Board has exceptionally declared a total distribution of $1.350 million, representing 71.20% of net profit for the year under review.

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, 2011, the Bank exceeded the minimum levels required with Tier 1 capital to risk-weighted assets of 16% and total qualifying capital to risk-weighted assets of 16.4%. These ratios exceed the prudential guidelines, as well as the Bank's internal benchmark of 12%.

Other

Our commitment to our Corporate Social Responsibility is evident from our Power to Make a Difference programme, our University of the West Indies scholarship and bursary programmes, sponsorship of the annual Republic Bank RightStart Cup Youth Football tournament, and sponsorship of the Republic Bank Angel Harps Steel Orchestra, which won two of the three steel pan competitions this year. For our contribution in this area, we received the ECCB's Good Corporate Citizen Award in November 2010.

We are also committed to providing excellent customer service, and improving efficiency and service delivery through technology, staff training and process improvement. During the past year, we introduced Internet Banking, demonstrating our commitment to providing our customers with quality products and services. In a recently conducted survey, we were adjudged the best in customer service within the local banking sector. Earlier in the fiscal year, we received the ECCB's Good Corporate Citizen Award for Customer Service.

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.

We recognise the support and loyalty of our dedicated and committed staff. During the year, two of our longest-serving managers – Jocelyn Mc Sween and Winefred Logie – retired. We thank them for their years of dedicated service to the organisation and wish them well in their retirement. We are also grateful for the ongoing guidance, direction and counsel afforded by the Chairman and Directors of the Board.

Family Business Succession Planning Seminar: Republic Bank worked closely with its family-owned business customers and partners to seek ways to positively impact the local business sector. In July 2011, the Bank hosted a Family Business Succession Planning seminar to sensitise business owners about the need to have a Continuity or Succession Plan for the next generation. "Management Succession" and "Components to an Effective Family Business Communication Strategy", were among the topics discussed.

Executive Management

1 **KEITH A. JOHNSON**
Managing Director

2 **ANTHONY P. S. CLERK**
General Manager,
Credit

3 **DONNA L. Y. LANDER**
General Manager,
Operations

Management

1 **VALENTINE ANTOINE**
Manager,
Commercial Credit

2 **HERMILYN CHARLES**
Manager,
Business Support Services

3 **NAOMI DE ALLIE**
Manager,
Corporate Credit

4 **MC KIE GRIFFITH**
Manager,
Human Resources,
Training and Development

5 **EDWIN JAMES**
Manager,
Finance

6 **ALTHEA ROBERTS**
Manager,
Retail Services,
Republic House Cluster

7 **GARNET ROSS**
Manager,
Retail Operations,
St. George's Cluster

8 **DEVON THORNHILL**
Manager,
Grenville Cluster


1


2


3


4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Republic Bank
Angel Harps

The Power to Make a Difference
The Invisible Ones – Nurturing their true potential

In 2011, the eighth consecutive year of our Power to Make a Difference programme, Republic Bank has once again confirmed our dedication to youth empowerment and championing the rights of the differently-abled, in order to help both groups succeed in their goals of high achievement in all areas of life.

Since the programme's inception in 2003, we have encouraged achievement in communities through the use of advocacy and teamwork. Together with Non-Governmental Organisations (NGOs) and Community-Based Organisations (CBOs), we have changed the shape and scope of Corporate Social Responsibility, both locally and regionally. And we have been steered by the belief that if the nation's young, elderly and socially disadvantaged can retain the hope, vision and wherewithal to achieve, we would have fulfilled our mandate to be our brothers' and sisters' keeper.

Over the years, we have directed our resources in a variety of ways as we worked with communities to support their ideals for improvement. The recent economic challenges have not diminished our zeal, as we continue to heed our communities' calls for help.

Power to Make a Difference –
Year Eight Advocacy for the Differently-abled

Through our deeper involvement with the NGO community, we have gained a clearer appreciation of the struggles of people with physical and mental challenges.

While we support the interests of the differently-abled, including those with visible or physical disabilities, we have also been drawn to the area of hidden disabilities because these tend to be misdiagnosed, or worse, remain undetected, with dire consequences. In December 2010, we supported several charitable organisations in their continued quest to help enrich the lives of socially marginalised persons in our communities.

Collaborations with Chores Support Group in Grenada, Grenada Community Development Agency (books and uniforms programme), Dorothy Hopkin Centre for the Disabled, Grenada Heart Foundation, Grenada National Council for the Disabled, Grenada Cancer Society, Grenada Diabetes Foundation, Grenada National Patient Kidney Foundation, Grenada Foundation for Needy Students, Cadrona Home for the Aged, Rotary Club Grenada East (Vosh Eye Care) programme, have benefited differently-abled children, elderly, ill and socially marginalised persons in Grenada, Carriacou and Petite Martinique, through various programmes and facilities.

In September 2011, The Resource Centre for the Blind, which caters to the needs of blind and visually impaired students, was the recipient of much needed specialised equipment which will assist the students and teachers to better manage the everyday challenges of visual impairment. In 2011, the Bank also provided safer learning environments for two primary schools. At St. Patrick's Catholic School, a concrete stairway with guard rails and covering was erected to connect the two buildings of the school, making them more accessible to the students and teachers. The St. Joseph's R.C. School located in Morne Jaloux, benefited from the erection of a fence to secure its compound and a retaining wall to control the erosion of the soil.

Youth Programmes

The empowerment of young people continues to be one of the main focuses of the Power to Make a Difference programme. The most enduring testament to our work is seen in the high attendance numbers of a variety of eagerly anticipated sport programmes.

For the past eight years, over 600 young achievers benefitted annually from the Republic Bank RightStart Cup Youth Football Tournament. In addition, our on-going sponsorship of the Carriacou Domestic Cricket Tournament and the Grenada International Traithlon -– Tri de Spice – are also avenues where young people are given the opportunity to excel and develop life skills.

This vision of youth empowerment continues to extend into programmes specifically designed to extract, develop and showcase the potential and talents of young people from many walks of life. In 2010/2011, we maintained our longstanding relationship with the Republic Bank Angel Harps Steel Orchestra, which provides young persons with an excellent opportunity to develop character and discipline, while learning to play the steel pan. Ongoing sponsorship of the Republic Bank Bursary and Scholarship programme provides educational opportunities for students pursuing higher learning at the University of the West Indies Open Campus – Grenada.

Republic Bank remains committed to building successful societies and we are confident that these objectives can be achieved through deeper engagement with the various communities that we serve.

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 two 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 Directors 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 other 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, one-third of the Directors retire and may offer themselves for re-election. At the upcoming Annual Meeting, Gregory I. Thomson, Ian R. De Souza and Hugh D. Dolland retire from the Board by rotation and being eligible, have offered themselves for re-election.

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

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

AUDIT COMMITTEE

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

The Committee comprises:

GREGORY I. THOMSON, Chairman
RONALD F. deC. HARFORD
MARGARET A. BLACKBURN
LEON D. CHARLES
ISABELLE S. V. SLINGER

Signed on behalf of the Board

RONALD F. deC. HARFORD
Chairman

September 30, 2011

The differently-abled among us continue to show they are just as able. The Grenada Combined Schools for Special Education got together for their bi-annual sports meet this year. Differently-abled children had the opportunity to display their talent and ability, as well as compete among their peers. Republic Bank sponsored the Grand Anse School for Special Education at the event.

Management's Responsibility for Financial Reporting

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

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

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

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

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

Signed on behalf of the Board

RONALD F. deC. HARFORD
Chairman

September 30, 2011

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, 2011, 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 misstatement, whether due to fraud or error.

Auditors’ Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as a September 30, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

Bridgetown
Chartered Accountants
Barbados

October 20, 2011

Statement of Financial Position

as at September 30, 2011
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	Notes	2011	2010
ASSETS			
Cash		6,862	8,572
Statutory deposit with Central Bank		36,098	37,237
Due from banks		18,815	51,019
Treasury bills		5,897	18,244
Investment interest receivable		1,753	2,033
Advances	4	497,173	472,974
Investment securities	5	95,147	112,437
Premises and equipment	6	40,426	41,288
Pension asset	7	2,530	1,982
Deferred tax assets	8	1,973	1,990
Other assets	9	2,103	1,555
TOTAL ASSETS		708,777	749,331
LIABILITIES & EQUITY			
LIABILITIES			
Due to banks		4,290	15,636
Customers' current, savings and deposit accounts	10	597,055	620,471
Post-retirement medical and group life benefits	7	3,107	2,806
Taxation payable		–	236
Deferred tax liabilities	8	1,885	2,178
Interest payable		1,844	3,153
Other liabilities	11	7,952	9,062
TOTAL LIABILITIES		616,133	653,542
EQUITY			
Stated capital	12	15,000	15,000
Statutory reserves		15,000	15,000
Other reserves		3,331	4,397
Retained earnings		59,313	61,392
TOTAL EQUITY		92,644	95,789
TOTAL LIABILITIES & EQUITY		708,777	749,331

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

These financial statements were approved by the Board of Directors on October 20, 2011 and signed on its behalf by:

RONALD. F. DEC HARFORD
Chairman

KEITH A. JOHNSON
Managing Director

October 20, 2011

Statement of Income

for the year ended September 30, 2011
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	Notes	2011	2010
Interest income	13 (a)	47,855	49,424
Interest expense	13 (b)	(15,677)	(16,568)
Net interest income		32,178	32,856
Other income	13 (c)	8,582	8,489
		40,760	41,345
Operating expenses	13 (d)	(34,192)	(30,865)
		6,568	10,480
Loan impairment expense	4 (b)	(4,493)	(1,320)
Operating profit		2,075	9,160
Taxation (expense)/credit	14	(179)	123
Net profit after taxation		1,896	9,283
Earnings per share ($)			
Basic		$1.26	$6.19
Number of shares ('000)		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, 2011
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	2011	2010
Net profit after taxation	1,896	9,283
Other comprehensive income:		
Revaluation of available-for-sale investments	(1,523)	1,821
Tax effect	457	(546)
Other comprehensive income for the year, net of tax	(1,066)	1,275
Total comprehensive income for the year, net of tax	830	10,558

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

Statement of Changes in Equity

for the year ended September 30, 2011
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	Stated capital	Statutory reserves	Other reserves	Retained earnings	Total equity
Balance at September 30, 2009	15,000	15,000	3,122	56,234	89,356
Total comprehensive income for the year	**–**	**–**	**1,275**	**9,283**	**10,558**
Dividends (Note 20)	–	–	–	(4,125)	(4,125)
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**

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

Statement of Cash Flows

for the year ended September 30, 2011
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

	2011	2010
Operating activities		
Profit before taxation	2,075	9,160
Adjustments for:		
Depreciation	3,764	4,140
Loan impairment expense	4,493	1,320
(Loss)/Gain on sale of premises and equipment	(15)	7
Increase/(Decrease) in employee benefits	247	(43)
Increase in advances	(28,692)	(25,877)
(Decrease)/Increase in customers' deposits and other fund raising instruments	(23,416)	1,770
Decrease/(Increase) in statutory deposit with Central Bank	1,139	(18)
(Increase)/Decrease in other assets and investment interest receivable	(268)	629
(Decrease)/Increase in other liabilities and accrued interest payable	(2,289)	2,141
Cash used in operating activities	(42,962)	(6,771)
Investing activities		
Purchase of investment securities	(6,883)	(27,907)
Redemption of investment securities	34,139	43,271
Additions to premises and equipment	(3,020)	(4,745)
Proceeds from sale of premises and equipment	133	22
Cash provided by investing activities	24,369	10,641
Financing activities		
(Decrease)/Increase in balances due to other banks	(11,346)	4,804
Dividends paid to shareholders	(3,975)	(4,125)
Cash (used in)/provided by financing activities	(15,321)	679
Net (decrease)/ increase in cash and cash equivalents	(33,914)	4,549
Cash and cash equivalents at beginning of year	59,591	55,042
Cash and cash equivalents at end of year	25,677	59,591
Cash and cash equivalents at end of year are represented by:		
Cash on hand	6,862	8,572
Due from banks	18,815	51,019
	25,677	59,591

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

Notes to the Financial Statements

for the year ended September 30, 2011
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 and one agency office in Petite Martinique. The Bank was continued under the provision of the Companies Ordinance Section 365, 1995 on March 23, 1998 and its registered office is located at Republic House, Grand Anse, St. George, Grenada. It is a subsidiary of Republic Bank Limited of Trinidad and Tobago.

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, Trinidad and Tobago.

The CL Financial Group holds, through its various subsidiaries, 51.50% of the shares of Republic Bank Limited.

On January 31, 2009, 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 (CIB). Further, 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. As at September 30, 2011, the combined shareholding of Republic Bank Limited for CLICO and CIB was 51.23%.

The CBTT 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 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.

a) Basis of preparation

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

b) Changes in accounting policies

i) New accounting policies adopted

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended September 30, 2010 except for the adoption of new standards and interpretations noted below:

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

i) New accounting policies adopted (continued)

IFRS 1 - First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters (Amendments) (effective January 1, 2010)

IFRS1 has been amended to provide additional exemptions from full retrospective application of IFRS for the measurement of oil and gas assets and leases.

IFRS 1 - First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective July 1, 2010)

IFRS 1 has been amended to allow first-time adopters to utilise the transitional provisions of IFRS 7 Financial Instruments: Disclosures as they relate to the March 2009 amendments to the standard. These provisions give relief from providing comparative information in the disclosures required by the amendments in the first year of application.

IFRS 2 Share-based payment: Group Cash-settled Share-based Payment Transactions effective January 1, 2010)

IFRS 2 has been amended to clarify the accounting for group cash-settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers but the parent or another entity in the group pays for those goods or services. The amendments clarify that the scope of IFRS 2 includes such transactions. This amendment is applied retrospectively, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in respect of changes in accounting policy. For group reporting and consolidated financial statements, the amendment clarifies that if an entity receives goods or services that are cash settled by shareholders not within the group, they are outside the scope of IFRS 2. The adoption of this amendment did not have any impact on the financial position of the bank.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues

The amendment to IAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the bank after initial application.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Bank.

Improvements to IFRSs (issued 2009)

IAS 1 Presentation of Financial Statements - The terms of a liability that could at anytime result in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. This is effective for annual periods beginning on or after January 1, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

i) New accounting policies adopted (continued)

Improvements to IFRSs (issued 2009) *(continued)*
IAS 7 Statement of Cash Flows - Only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. This is effective for annual periods beginning on or after January 1, 2010.

IAS 17 Leases - The specific guidance on classifying land as a lease has been removed so that only the general guidance remains. This is effective for annual periods beginning on or after January 1, 2010.

IAS 36 Impairment of Assets - The largest unit permitted for allocating goodwill acquired in a business combination is the operating segment defined in IFRS 8 before aggregation for reporting purposes. This is effective prospectively for annual periods beginning on or after January 1, 2010.

IAS 39 Financial Instruments: Recognition and Measurement - Assessment of loan prepayment penalties as embedded derivatives: A prepayment option is considered closely related to the host contract when the exercise price reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. This is effective for annual periods beginning on or after January 1, 2010.

Scope exemption for business combination contract: The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, not derivative contracts where further actions are still to be taken. This is effective prospectively to all unexpired contracts for annual periods beginning on or after January 1, 2010.

Cash flow hedge accounting: Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges or recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss. This is effective prospectively to all unexpired contracts for annual periods beginning on or after January 1, 2010.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - This amendment clarifies that the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations are only those set out in IFRS 5. This is effective prospectively for annual periods beginning on or after January 1, 2010.

IFRS 8 Operating Segments - Segment assets and liabilities need only be reported when those assets and liabilities are included in measures used by the chief operating decision maker. This is effective for annual periods beginning on or after January 1, 2010.

ii) New accounting policies not adopted
Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards when they become effective.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

ii) New accounting policies not adopted *(continued)*

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after January 1, 2011. It 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.

IFRS 9 Financial Instruments: Classification and Measurement

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. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in mid 2011. 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. The bank is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the bank at the date of adoption, it is not practical to quantify the effect.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after January 1, 2011 with retrospective application. 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 amendment is expected to have no impact on the financial statements 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

The amended standard is effective for annual periods beginning on or after 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.

IAS 12 Income Taxes — Recovery of Underlying Assets

The amendment clarified the determination of deferred tax in investment property measured at fair value. The amendment introduces 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, it introduces the requirement to calculate deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16, always be measured on the sale basis of the asset.

The amendment becomes effective for annual periods beginning on or after January 1, 2012.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

ii) New accounting policies not adopted (continued)

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

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 amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The amendments are listed below.

- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programmes

The bank, however, expects no impact from the adoption of the amendments on its financial position or performance.

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, bills discounted 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 derecognised when the rights to receive the cash flows from the asset have expired or where the Bank has transferred all the risks and rewards of ownership of the asset. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. All 'regular way' purchases and sales are recognised at settlement date.

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

- Available-for-sale

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

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

f) Impairment of financial assets

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

i) Advances

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

f) Impairment of financial assets *(continued)*

ii) Investment securities

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

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

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

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

Depreciation other than on leasehold buildings, leased equipment, and leasehold improvements 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: -

Freehold premises	2%
Equipment, furniture and fittings	12.5% - 33.33%
Leasehold Improvements	1% - 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 all employee benefit plans.

For these defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of income 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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

h) Employee benefits *(continued)*

i) Pension obligations *(continued)*

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

iii) Profit sharing scheme

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

i) Taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting 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 method. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

m) Fee and commission income

Unless included in the effective interest calculation, fees and commissions are recognised on an accrual basis as the service is provided. Fees and commissions not integral to effective interest arising from negotiating, or participating in the negotiation of a transaction from a third party are recognised on completion of the underlying transaction.

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

These represent the Bank's potential liability, for which there are equal and offsetting claims against its customers in the event of a call on these commitments. These amounts are not recorded on the Bank's Statement of Financial Position but are detailed in Notes 16 and 22 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.

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 reporting date to determine whether financial assets are impaired. Financial assets are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

Inherent provisions on advances are calculated on an estimate of impairment incurred but not reported, existing in assets as at the 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

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

Pension and Post Retirement Medical Liability

In conducting valuation exercises to measure the effect of all employee benefit plans throughout the Bank, the Banks' independent actuaries use judgement and assumptions in determining discount rates, salary increases, NIS ceiling increases, pension increases and the rate of return. These are detailed in Note 7 – Employee Benefits.

Deferred taxes

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

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

Premises and Equipment

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

4. ADVANCES

a) Advances

	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

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

4. ADVANCES

a) Advances

	2010			
	Retail lending	Commercial and Corporate lending	Mortgages	Total
Performing advances	73,469	132,149	256,400	462,018
Non-performing advances	2,645	4,333	8,209	15,187
	76,114	136,482	264,609	477,205
Unearned interest	(495)	(43)	–	(538)
Accrued Interest	260	389	855	1,504
	75,879	136,828	265,464	478,171
Allowance for impairment losses	(1,209)	(2,768)	(1,220)	(5,197)
Net Advances	**74,670**	**134,060**	**264,244**	**472,974**

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.

4. ADVANCES *(continued)*

b) Allowance for impairment losses *(continued)*

i) *Impairment assessment (continued)*

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.

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

	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

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

4. ADVANCES *(continued)*

b) Allowance for impairment losses *(continued)*

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

	2010			
	Retail lending	Commercial and Corporate lending	Mortgages	Total
Balance brought forward	1,055	2,352	1,257	4,664
Charge-offs and write-offs	(647)	(46)	(94)	(787)
Loan impairment expense	1,299	944	674	2,917
Loan impairment recoveries	(498)	(482)	(617)	(1,597)
Balance carried forward	1,209	2,768	1,220	5,197
Individual impairment	1,111	2,572	761	4,444
Collective impairment	98	196	459	753
	1,209	2,768	1,220	5,197
Gross amount of loans individually determined to be impaired, before deducting any allowance	2,645	4,333	8,209	15,187

c) The undiscounted fair value of collateral that the Bank holds relating to loans individually determined to be impaired at September 30, 2011 amounts to $33 million (2010: $31 million). The collateral consists of cash, securities and properties.

5. INVESTMENT SECURITIES

Available-for-sale

	2011	2010
Government securities	41,696	50,888
State owned company securities	30,363	33,136
Corporate bonds/debentures	22,094	27,486
Equities and mutual funds	994	927
Total investment securities	95,147	112,437

6. PREMISES AND EQUIPMENT

2011	Capital works in progress	Freehold premises	Leasehold premises	Equipment, furniture and fittings	Total
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

2010	Capital works in progress	Freehold premises	Leasehold premises	Equipment, furniture and fittings	Total
Cost					
At beginning of year	865	27,435	7,649	31,158	67,107
Exchange and other adjustments	–	(189)	–	(1,794)	(1,983)
Additions at cost	1,146	1,417	36	2,146	4,745
Disposal	–	–	(396)	(208)	(604)
	2,011	28,663	7,289	31,302	69,265
Accumulated depreciation					
At beginning of year	–	1,138	4,087	21,126	26,351
Exchange and other adjustments	–	242	(148)	(2,028)	(1,934)
Charge for the year	(45)	599	40	3,546	4,140
Disposal of assets	–	–	(397)	(183)	(580)
	(45)	1,979	3,582	22,461	27,977
Net book value	2,056	26,684	3,707	8,841	41,288

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

6. PREMISES AND EQUIPMENT *(continued)*

Capital commitments

	2011	2010
Contracts for outstanding capital expenditure not provided for in the financial statements	194	2,103
Other capital expenditure authorised by the Directors but not yet contracted for	339	430

7. EMPLOYEE BENEFITS

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

	Defined benefit pension plans		Post-retirement medical and group life benefits	
	2011	2010	2011	2010
Opening defined benefit obligation	19,353	19,272	2,591	2,359
Current service cost	794	935	153	155
Interest cost	1,337	1,334	181	165
Members' contributions	153	183	–	–
Actuarial gain on obligations	(406)	(1,886)	(128)	(78)
Benefits paid	(511)	(427)	–	–
Expense allowance	(58)	(58)	–	–
Premiums paid by the Bank	–	–	(29)	(10)
Closing defined benefit obligation	20,662	19,353	2,768	2,591

7. EMPLOYEE BENEFITS *(continued)*

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

	Defined benefit pension plans	
	2011	2010
Opening fair value of plan assets	22,435	20,259
Expected return on plan assets	1,593	1,448
Actuarial loss	(209)	(140)
Contributions by employer	1,086	1,170
Members' contributions	153	183
Benefits paid	(511)	(427)
Expense allowance	(58)	(58)
Closing fair value of plan assets	24,489	22,435

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

	Defined benefit pension plans		Post-retirement medical and group life benefits	
	2011	2010	2011	2010
Defined benefit obligation	(20,662)	(19,353)	(2,768)	(2,591)
Fair value of plan assets	24,489	22,435	–	–
	3,827	3,082	(2,768)	(2,591)
Unrecognised actuarial gain	(1,297)	(1,100)	(339)	(215)
Net asset/(liability) recognised in the statement of financial position	2,530	1,982	(3,107)	(2,806)

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

7. EMPLOYEE BENEFITS *(continued)*

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

	Defined benefit pension plans		Post-retirement medical and group life benefits	
	2011	2010	**2011**	2010
Current service cost	**794**	935	**153**	155
Interest on defined benefit obligation	**1,337**	1,334	**181**	165
Expected return on plan assets	**(1,593)**	(1,448)	**–**	–
Amortised net gain	**–**	–	**(4)**	(4)
Total included in staff costs	**538**	821	**330**	316

e) Actual return on plan assets

	Defined benefit pension plans	
	2011	2010
Expected return on plan assets	**1,593**	1,448
Actuarial loss on plan assets	**(209)**	(140)
Actual return on plan assets	**1,384**	1,308

7 EMPLOYEE BENEFITS *(continued)*

f) Experience history

	Defined benefit pension plans				
	2011	2010	2009	2008	2007
Defined benefit obligation	**(20,662)**	(19,353)	(19,272)	(16,901)	(15,433)
Plan assets	**24,489**	22,435	20,259	18,517	16,041
Surplus	**3,827**	**3,082**	**987**	**1,616**	**608**
Experience adjustments on plan liabilities	**(406)**	(1,886)	707	(373)	16
Experience adjustments on plan assets	**(209)**	(140)	(200)	433	28

	Post-retirement medical and group life benefits				
	2011	2010	2009	2008	2007
Defined benefit obligation	**2,768**	(2,591)	(2,359)	(2,122)	(1,923)
Surplus/(Deficit)	**2,768**	**(2,591)**	**(2,359)**	**(2,122)**	**(1,923)**
Experience adjustments on plan liabilities	**(128)**	(78)	(53)	(71)	(17)

g) The Bank expects to contribute $1.143 million to the plan in the 2012 financial year.

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

7 EMPLOYEE BENEFITS *(continued)*

h) The principal actuarial assumptions used were as follows:

	2011 %	2010 %
Discount rate	7.0	7.0
Rate of salary increase	6.0	6.0
Pension increases	0.0	0.0
Medical cost trend rates	n/a	n/a
Expected return on plan assets	7.0	7.0
NIS ceiling rates	4.0	4.0

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

i) Plan asset allocation as at September 30

	Defined benefit pension plans	
	2011 %	2010 %
Equity securities	2.9	3.6
Debt securities	35.0	43.6
Money market instruments/cash	62.1	52.8
Total	100	100

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% p.a.	71	510
Medical expense decrease by 1% p.a.	(51)	(376)

8. DEFERRED TAX ASSETS AND LIABILITIES

Components of deferred tax assets and liabilities

a) Deferred tax assets

	2011	2010
Post retirement medical liability	932	842
Premises and equipment	107	266
Unearned loan origination fees	934	882
	1,973	1,990

b) Deferred tax liabilities

	2011	2010
Pension asset	759	595
Net unrealised gains on available- for-sale investment securities	1,126	1,583
	1,885	2,178

9. OTHER ASSETS

	2011	2010
Accounts receivable and prepayments	2,103	1,555

10. CUSTOMERS' CURRENT, SAVINGS AND DEPOSIT ACCOUNTS

	2011	2010
State	25,983	39,808
Corporate and commercial	33,088	50,706
Personal	524,658	516,553
Other financial institutions	13,326	13,404
	597,055	620,471

Notes to the Financial Statements

for the year ended September 30, 2011
Expressed in thousands of Eastern Caribbean dollars ($'000), except where otherwise stated

11. OTHER LIABILITIES

	2011	2010
Accounts payable and accruals	1,966	3,770
Provision for profit sharing and salary increase	–	597
Unearned loan origination fees	3,121	2,941
Other	2,865	1,754
	7,952	9,062

12. STATED CAPITAL

Number of ordinary shares	2011 ('000)	2010 ('000)	2011 $'000	2010 $'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

	2011	2010
a) Interest income		
Advances	40,878	40,770
Investment securities	6,843	7,862
Liquid assets	134	792
	47,855	49,424
b) Interest expense		
Customers' current, savings and deposit accounts	(15,667)	(16,558)
Other interest bearing liabilities	(10)	(10)
	(15,677)	(16,568)

13. OPERATING PROFIT *(continued)*

	2011	2010
c) Other income		
Other fee and commission income	5,565	4,993
Net foreign exchange trading income	2,610	3,068
Dividends	3	30
Gain from sale of premises and equipment	95	–
Other operating income	309	398
	8,582	8,489
d) Operating expenses		
Staff costs	16,097	15,979
Staff profit sharing	–	578
General administrative expenses	9,866	10,365
Property related expenses	618	542
Depreciation expense	3,764	4,140
Advertising and public relations expenses	713	813
Impairment expense/(recovery)	3,036	(1,644)
Directors' fees	98	92
	34,192	30,865

14. TAXATION EXPENSE

	2011	2010
Corporation tax	–	309
Deferred tax	179	(432)
	179	(123)

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

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:

	2011	2010
Operating profit	2,075	9,160
Tax at applicable statutory tax rates	(623)	(2,748)
Tax effect of items that are adjustable in determining taxable profit:		
Tax exempt income	1,937	2,506
Items not allowable for tax purposes	(1,597)	(1,661)
Wear and tear allowance	1,236	910
Other allowable deductions	31	684
Effect of deferred tax on pension asset/liability	164	(105)
Effect of deferred tax on Post retirement Medical Benefit and Group Life	(90)	92
Effect of deferred tax on timing differences on assets	(159)	266
Effect of deferred tax on unearned loan origination fees	54	179
Adjustment for taxable loss	(1,132)	–
	(179)	123

15. RELATED PARTIES

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

	2011	2010
Net advances, investments and other assets		
Parent Company	14,260	17,382
Directors and key management personnel	8,062	3,070
Other related parties	1,317	25,182
	23,639	45,634

15. RELATED PARTIES *(continued)*

	2011	2010
Deposits and other liabilities		
CL Financial Group	3,097	2,232
Parent Company	501	512
Directors and key management personnel	486	1,365
Other related parties	2,562	14,460
	6,646	18,569
Interest and other income		
CL Financial Group	1	1
Parent Company	9	39
Directors and key management personnel	372	230
Other related parties	79	683
	461	953
Interest and other expense		
Directors and key management personnel	109	104
CL Financial Group	–	13
	109	117

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

Key management compensation

	2011	2010
Short-term benefits	659	627
Post employment benefits	14	15
	673	642

16. RISK MANAGEMENT

16.1 Introduction

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

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

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

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

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

16.2 Credit risk

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

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

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

16.2 Credit risk *(continued)*

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 liability may be doubtful or unduly delayed, such accounts are transferred from performing to non-performing status.

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

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	
	2011	2010
Statutory deposit with Central Bank	**36,098**	37,237
Due from banks	**18,815**	51,019
Treasury bills	**5,897**	18,244
Investment interest receivable	**1,753**	2,033
Advances	**497,173**	477,205
Investment securities	**94,153**	111,510
Total	**653,889**	697,248
Undrawn commitments	**39,330**	38,761
Guarantees and indemnities	**7,617**	5,141
Letters of credit	**–**	118
Total	**46,947**	44,020
Total credit risk exposure	**700,836**	741,268

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

16. RISK MANAGEMENT *(continued)*

16.2 Credit risk *(continued)*

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

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

Collateral and other credit enhancements

The Bank maintains credit risk exposure within acceptable parameters through the use of 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.

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:

	2011	2010
Eastern Caribbean	51,039	67,859
Barbados	19,452	23,475
Grenada	513,115	528,773
Trinidad and Tobago	55,546	66,758
United States	37,810	36,297
Other Countries	23,874	13,875
	700,836	737,037

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:

	2011	2010
Government and Government Bodies	60,606	84,880
Financial sector	80,301	118,973
Energy and mining	5,777	8,000
Agriculture	4,962	6,422
Electricity and water	25,615	26,579
Transport storage and communication	11,774	7,409
Distribution	57,578	48,326
Real estate	2,040	2,285
Manufacturing	7,809	10,167
Construction	12,140	9,497
Hotel and restaurant	77,062	74,930
Personal	315,441	302,959
Other services	39,731	40,841
	700,836	741,268

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

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'.

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)*

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
2011	**18,187**	**628**	**-**	**18,815**
2010	5,051	45,968	-	51,019

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:

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
2011	**101**	**19,499**	**114,139**	**8,122**	**141,861**
2010	236	17,539	111,952	4,333	134,060

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
2011	**–**	**–**	**1,354**	**3,542**	**3,226**	**8,122**
2010	–	–	–	2,572	1,761	4,333

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 - 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
2011	325,973	789	7,343	4,067	2,605	14,535	355,312
2010	317,257	1,425	4,301	3,347	3,603	8,981	338,914

Investment securities

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

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

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

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 investments as at September 30:

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

16. RISK MANAGEMENT *(continued)*

16.2 Credit risk *(continued)*

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

***Investment securities** (continued)*

2010	Superior	Desirable	Acceptable	Sub-standard	Total
Financial investments					
- Available-for-sale	62,236	31,580	12,217	5,477	111,510

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

The table below shows the carrying amount for renegotiated financial assets, by class as at September 30.

	2011	2010
Investment securities		
- Financial assets designated as available-for-sale	17,067	17,067
Loans and advances to customers		
- Retail lending	318	127
- Commercial and Corporate lending	228	793
- Mortgages	546	920
Total renegotiated financial assets	17,613	17,987

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.

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

16. RISK MANAGEMENT *(continued)*

16.3 Liquidity risk *(continued)*

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.

16.3.1 Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities - on Statement of Financial Position	On demand	Up to one year	1 to 5 years	Over 5 years	Total
As at September 30, 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**
As at September 30, 2010					
Customers' current, savings and deposit accounts	496,563	119,240	7,821	–	623,624
Due to banks	15,636	–	–	–	15,636
Other liabilities	2,054	4,067	–	2,941	9,062
Total undiscounted financial liabilities 2010	**514,253**	**123,307**	**7,821**	**2,941**	**648,322**

16. RISK MANAGEMENT *(continued)*

16.3 Liquidity risk *(continued)*

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

Financial liabilities - off Statement of Financial Position	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2011					
Guarantees and indemnities	526	1,247	5,844	–	7,617
Total	526	1,247	5,844	–	7,617
2010					
Guarantees and indemnities	381	2,051	2,709	–	5,141
Letters of credit	–	118	–	–	118
Total	381	2,169	2,709	–	5,259

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 respective 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.

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

16. RISK MANAGEMENT *(continued)*

16.4 Market risk *(continued)*

16.4.1 Interest rate risk *(continued)*

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			
		2011		2010	
	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	(2)	2	(2)	2
EC$ Instruments	+/- 25	-	-	-	-
BDS$ Instruments	+/- 50	-	-	-	-

		Impact on unrealised gain			
		2011		2010	
	Increase/decrease in basis points	Increase in basis points	Decrease in basis points	Increase in basis points	Decrease in basis points
EC$ Instruments	+/- 25	(18)	18	(185)	185
US$ Instruments	+/- 50	(674)	703	(700)	729
TT$ Instruments	+/- 50	(486)	504	(641)	660
BDS$ Instruments	+/- 50	(24)	23	(50)	50

16.4.2 Currency risk

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

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

The principal currency of the Bank is Eastern Caribbean dollars.

16. RISK MANAGEMENT *(continued)*

16.4 Market risk *(continued)*

16.4.2 Currency risk *(continued)*

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

2011	ECD	USD	TTD	Other	Total
FINANCIAL ASSETS					
Cash	5,761	696	–	405	6,862
Statutory deposits 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
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)*

16.4 Market risk *(continued)*

16.4.2 Currency risk *(continued)*

2010	ECD	USD	TTD	Other	Total
FINANCIAL ASSETS					
Cash	7,808	445	–	319	8,572
Statutory deposits with Central Bank	37,237	–	–	–	37,237
Due from banks	42,644	2,244	2,775	3,356	51,019
Treasury bills	5,889	–	12,355	–	18,244
Interest receivable	568	458	876	131	2,033
Advances	452,499	20,475	–	–	472,974
Investment securities	26,553	37,139	40,673	8,072	112,437
TOTAL FINANCIAL ASSETS	**573,198**	**60,761**	**56,679**	**11,878**	**702,516**
FINANCIAL LIABILITIES					
Due to banks	15,636	–	–	–	15,636
Customers' current, savings and deposit accounts	564,995	52,315	–	3,161	620,471
Interest payable	3,128	25	–	–	3,153
TOTAL FINANCIAL LIABILITIES	**583,759**	**52,340**	**–**	**3,161**	**639,260**
NET CURRENCY RISK EXPOSURE		**8,421**	**56,679**	**8,717**	
Reasonably possible change in currency rate (%)		1%	1%	1%	
Effect on profit before tax		84	567	87	

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 decreased by $3.145 million to $92.644 million during the year under review.

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

Capital adequacy ratio	2011	2010
Tier 1 capital	**16.00%**	16.90%
Tier 2 capital	**16.40%**	18.00%

At September 30, 2011 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.

The Bank's available-for-sale investments are not actively traded in organised financial markets, and fair value is determined using discounted cash flow analysis, which requires considerable judgement in interpreting market data and developing estimates. Accordingly estimates contained herein are not necessarily indicative of the amounts that the Bank could 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.

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

18. FAIR VALUE *(continued)*

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

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

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:

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

18. FAIR VALUE *(continued)*

18.1 Carrying values and fair values *(continued)*

	2010		
	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets			
Cash, due from banks and treasury bills	77,835	77,835	–
Investment securities	112,437	112,437	–
Advances	472,974	473,468	494
Investment interest receivable	2,033	2,033	–
Other financial assets	1,982	1,982	–
Financial liabilities			
Customers' current, savings and deposit accounts	636,107	636,107	–
Other financial liabilities	3,153	3,153	–
Total unrecognized change in unrealised fair value			**494**

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 financial instruments 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 Bank, 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.

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

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.

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

18.2.2 Transfers between Level 1 and 2

For the year ended September 30, 2011, 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, 2011, there was no movement in Level 3 financial instruments.

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.

2011	Up to one year	One to five years	Over five years	Total
ASSETS				
Cash, due from banks and treasury bills	**31,574**	**–**	**–**	**31,574**
Statutory deposits with Central Bank	**36,098**	**–**	**–**	**36,098**
Advances	**57,515**	**66,867**	**372,791**	**497,173**
Investment securities	**24,022**	**24,308**	**46,817**	**95,147**
Other assets	**3,856**	**–**	**44,929**	**48,785**
	153,065	**91,175**	**464,537**	**708,777**
LIABILITIES				
Due to banks	**4,290**	**–**	**–**	**4,290**
Customers' current, savings and deposit accounts	**485,348**	**111,707**	**–**	**597,055**
Debt securities in issue	**–**	**–**	**–**	**–**
Other liabilities	**7,801**	**–**	**6,987**	**14,788**
	497,439	**111,707**	**6,987**	**616,133**
2010				
ASSETS				
Cash, due from banks and treasury bills	77,835	–	–	77,835
Statutory deposits with Central Bank	37,237	–	–	37,237
Advances	57,264	73,130	342,580	472,974
Investment securities	4,977	55,226	52,234	112,437
Other assets	4,024	1,982	42,842	48,848
	181,337	**130,338**	**437,656**	**749,331**
LIABILITIES				
Due to banks	15,636	–	–	15,636
Customers' current, savings and deposit accounts	612,818	7,653	–	620,471
Other liabilities	12,380	–	5,055	17,435
	640,834	**7,653**	**5,055**	**653,542**

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

20. DIVIDENDS PAID AND PROPOSED

	2011	2010
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2010: $2.00 (2009: $2.00)	3,000	3,000
First dividend for 2011: $0.65 (2010: $0.75)	975	1,125
Total dividends paid	3,975	4,125
Proposed and Approved by the Board of Directors (not recognised as a liability as at September 30)		
Equity dividends on ordinary shares:		
Final dividend for 2011: $0.25 (2010: $2.00)	375	3,000

21. CONTINGENT LIABILITIES

a) **Litigation**

As at September 30, 2011 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**

	2011	2010
Acceptances	–	–
Guarantees and indemnities	7,617	5,141
Letters of credit	–	118
	7,617	5,259

c) **Sectoral information**

	2011	2010
Corporate and commercial	7,617	5,259
	7,617	5,259

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, 2011 and 2010, the bank's entire operations are in the retail and commercial banking class of business in Grenada.