Annual Report 2010

Republic Bank (Grenada) Limited

As one entity spanning many territories, Republic Bank has a thriving culture. Ours is a culture of success built on improving the lives of those we serve as customers, communities and stakeholders. United in our culture of core values, strong service traditions and innovative banking customs we have created a legacy of over 173 years of solid banking history.

We understand the benefits of culture and that is why we have always been committed to helping to sustain the diverse and vibrant art forms of the people of our region. For we know that cultures of success flourish and ultimately become a unifying force which sustains the future of nations.

Republic Bank (Grenada) Limited Annual Report 2010

VISION

Republic Bank,
the Financial Institution of Choice
in the Caribbean for Customers,
Staff and Shareholders.

We set the Standard of Excellence
in Customer Satisfaction,
Employee Satisfaction and Shareholder Value.

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 and Shareholders.

VALUES

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

CONTENTS

NOTICE OF MEETING

ANNUAL MEETING

NOTICE is hereby given that the twenty-seventh 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 9, 2010 at 10:00 a.m. for the following purposes:

1 To receive the Audited Financial Statements of the Company for the year ended September 30, 2010 and the Reports of the Directors and Auditors thereon.

2 To take note of the dividends paid for the twelve month period ended September 30, 2010.

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 9, 2010

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 9, 2010 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 9, 2010 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 Registrar's 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 Registrar, will be excluded.

DIVIDEND
A dividend of $2.00 for the financial year ended September 30, 2010 will be payable on December 2, 2010 to shareholders on record at the close of business on November 9, 2010.

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, *BSc (Econ.), Dip. (Mgmt.), 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

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

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

CORPORATE SECRETARY

KIMBERLY G. ERRIAH, *LLB (Hons.), LEC*

REGISTERED OFFICE

Republic House
P.O. Box 857
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

BOARD OF DIRECTORS

Left to right:

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

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

RONALD F. DEC. HARFORD, *CM, FCIB, FIBAF, FCABFI*
Chairman, Republic Bank Limited

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

HUGH D. DOLLAND
Chairman, Spice Basket Limited

NIGEL A. JOHN, *BSc (Civil Eng.), Cert. Proj. Mgmt.*
Managing Director, Joseph, John and Associates Limited

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

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

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

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

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

DIRECTORS' REPORT

Your Directors have pleasure in submitting their Report for the year ended September 30, 2010.

FINANCIAL RESULTS AND DIVIDENDS

The Directors report that the Bank's profit after taxation for the year ended September 30, 2010 amounted to $9.283 million. The Directors have declared a dividend of $2.00 per share. A half-year dividend of $0.75 per share was paid on May 26, 2010, making a total dividend on each share of $2.75 (2009: $2.75)

SUBSTANTIAL INTEREST IN SHARE CAPITAL AS AT SEPTEMBER 30, 2010

	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, Nigel M. Baptiste and Margaret A. Blackburn 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, 2010, 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, *Chairman*

Following a sharp global economic downturn in 2009, which pushed most of the OECS countries into recession, 2010 has proved to be just as taxing. Notwithstanding challenges posed by the economic environment, the Bank recorded a profit after tax of $9.283 million, an increase of 6.96% over the $8.679 million recorded in the previous year. Asset growth of 2.23% over 2009 is reflected in growth in loans and advances, but this was offset by a decline in investments. The Bank has performed creditably in containing non-interest expenses. The increase in loan loss provisioning reflects the prevailing difficult economic circumstances.

The Board has declared a final dividend of $2.00 per share payable on December 2, 2010. This brings the total dividend for the year to $2.75 per share, the same as last year.

GLOBAL

The global economy rebounded in 2010 following its 0.6% contraction in 2009. The recovery was not as smooth as initially expected, however, with sluggish growth in developed countries occurring alongside stronger expansion in developing countries. The International Monetary Fund (IMF) forecasts that global economic activity will expand by 4.8% in 2010, with growth projected at 2.7% and 7.1% in advanced and emerging economies, respectively.

The anticipated recovery forecast for 2010 has not yet fully materialised. After a solid start to the year, GDP growth in developed countries lost impetus in the second half of 2010. The US economy slowed in the second quarter and consumer demand remained weak in the face of slow job growth. The housing market and unemployment rate remain sluggish, with the latter still hovering just below 10%. A sovereign debt crisis in parts of Europe earlier in the year has since strengthened the resolve of many governments to wind up stimulus measures and begin fiscal tightening, as soon as their countries' economies are strong enough.

The experience of developing countries has been markedly different this year. Having recovered more quickly from the global financial crisis, many of these countries, particularly the commodity exporters, are enjoying healthy growth rates, with some, like China, having to take measures to avoid overheating.

Growth is likely to be moderate in 2011, with the slowdown in some leading economies observed in the second half of 2010 expected to carry into the next year. Global growth of 4.2% is expected in 2011, with 2.2% average growth in developed countries and 6.4% across the developing world. Notwithstanding the generally strong showing thus far, persistent sluggish growth in leading economies may eventually curb growth in developing countries.

REGION

Activity within the Caribbean economy increased marginally in 2010. The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) estimates the region's economy will expand by 0.9% in 2010, after contracting by 2.3% in 2009. Nevertheless, the region faces severe challenges. Growth in the US and other developed economies has started to slow, reviving fears of double-dip recession. Although some Caribbean destinations experienced a small increase in stay-over tourist arrivals in the first half of 2010, this was partly due to significant promotion efforts and was accompanied by lower per-visitor earnings. Additionally, high unemployment in major source markets continues to suppress demand for travel.

Reduced revenue streams and high expenditure caused government fiscal positions to deteriorate in several jurisdictions. High debt levels remain a major source of unease, with several nations in the region burdened by debt in excess of 100% of their GDP. A number of projects across the region have been delayed as a result of strained international finance, while remittances to the region have shown little sign of recovery. In this environment, unemployment has been rising, going beyond 20% in a few countries.

GRENADA

The global economic crisis has had an adverse impact on Grenada. Economic activity shrank by 7.7% in 2009, reversing GDP growth of 2.2% in 2008. The slowdown in economic activity continued in 2010, reflecting weaker tourism receipts, remittances and construction financed by foreign direct investment (FDI). Unemployment is reported to be in excess of 30%. On the positive side, agricultural activity recorded a strong 9.4% expansion in 2009, and the sector's contribution to GDP rose to 7.4%, up from 6.3% in 2008. This was a result of strong output from traditional crops such as cocoa and nutmeg, as trees rehabilitated after Hurricane Ivan, are now productive.

Preliminary estimates indicate a small decline in GDP of 0.8% in 2010. The manufacturing sector provided some impetus for growth early in 2010, but this subsided by the middle of the year. Severe drought earlier in the year inflicted yet another setback on agriculture output. High unemployment has resulted in weak domestic demand, which in turn has caused significant shrinkage in the value of imports, helping to curtail the trade deficit. At well in excess of 100% of GDP, the country's debt is onerous and restricts fiscal policy. The introduction of value added tax (VAT) and excise tax in February 2010 should boost government revenue and reduce the deficit on the current account.

OUTLOOK

While signs have emerged that the worst is behind us, the outlook for the next twelve months remains uncertain, depending heavily on the sustainability of the economic recovery within Grenada's main tourism and remittance source markets – the US, UK, and Europe – and on Government's action to stimulate the economy. In this regard, the recent relief measures granted to the tourism, construction and automobile sectors, are welcome.

With the commitment and contribution of our staff, the Bank will continue to withstand the challenges ahead. Our balance sheet continues to be strong, with well-secured loans and investments. Our income base remains stable and is expanding. In the new financial year, we will seek to consolidate our position, focusing on preserving asset value, improving customer experience, expanding our product offering, and achieving further advances in operational efficiency.

In closing, I would like to express my gratitude to my fellow directors for their invaluable contribution to the organisation. As always, I express my appreciation to the management and staff for their unending commitment to the organisation, and to our customers and shareholders for their continued dedication and support.

MANAGING DIRECTOR'S DISCUSSION AND ANALYSIS

KEITH A. JOHNSON, *Managing Director*

INTRODUCTION

Republic Bank (Grenada) Limited was incorporated on October 12, 1979. The Bank is a subsidiary of Republic Bank Limited and a member of the Republic Group. The Bank is well represented in Grenada, with six branches 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 23 to 69 of this report. All amounts are stated in Eastern Caribbean (EC) 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:

Country	**2010**	2009
United States Dollars	2.70	2.70
Canadian Dollars	2.6304	2.5213
Pounds Sterling	4.3186	4.3666
Euro	3.5865	3.9522
Trinidad & Tobago Dollars	0.4340	0.4405

The operating environment during the reporting year was characterised by a persistence of the economic challenges of the previous year. Through careful management, the Bank withstood the pressures and recorded satisfactory results.

SUMMARY OF OPERATIONS

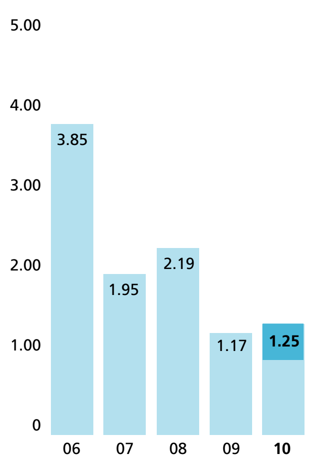
All figures are in EC$M	2010	2009	Change	% Change
Profitability				
Core profit before taxation and provisioning	10.5	8.2	2.3	28.0
Provision for loan losses	1.3	(0.3)	1.6	(533.3)
Profit before taxation	9.2	8.5	0.7	8.2
Profit after taxation	9.3	8.7	0.6	6.9
Balance Sheet				
Total assets	749.3	733.0	16.3	2.2
Total advances	473.0	447.1	25.9	5.8
Total deposits	620.4	618.7	1.7	0.3
Shareholders' equity	95.8	89.4	6.4	7.2

STATEMENT OF INCOME REVIEW

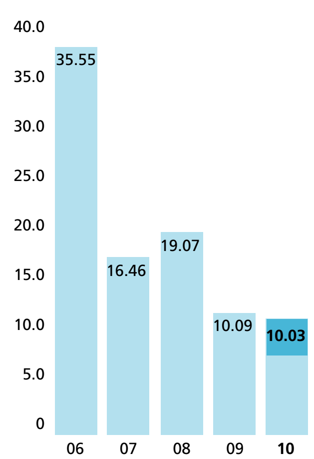
Financial Summary

Fiscal 2010 saw the Bank returning a profit after tax of $9.3 million which is 6.9% more than the $8.7 million reported in 2009. Considering the harsh economic climate, this improvement can be considered satisfactory, and is due to effective cost control and a partial write back on the tourism-related investment that was impaired in 2009 by $1.2 million. Those gains were counterbalanced by an increase in Bad Debt expense and exchange losses due to a depreciation of the TT Dollar.

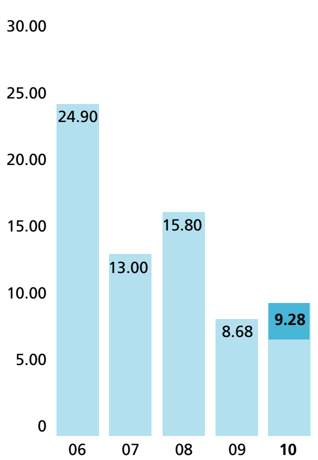
RETURN ON AVERAGE ASSETS (%)



RETURN ON AVERAGE EQUITY (%)



PROFIT AFTER TAX (MILLIONS)

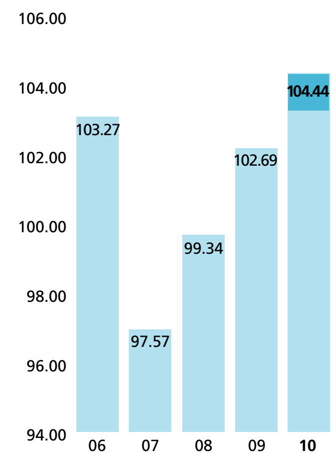


The profitability is directly reflected in the Bank's return on average total assets and return on average equity.

NET INTEREST AND OTHER INCOME

Net interest income remained steady at $32.9 million (2009: $32.8 million). While interest income on loans grew by 6.7%, there was a 22% fall in interest on investments and a 41% fall in interest on liquid assets due to the extremely low-interest -rate environment and the scarcity at this time of acceptable investment opportunities. However, although our deposit portfolio remained flat, growing by just 0.3%, interest cost reduced by 2%. This reflects prudent management of the bank's assets and liabilities by reducing non-interest earning or low-yielding assets, increasing the loan portfolio and managing interest expense. The ratio of the Bank's average interest earning assets to average customer deposits grew to 104%, reflecting the Bank's resolve to make optimum use of customers' deposits.

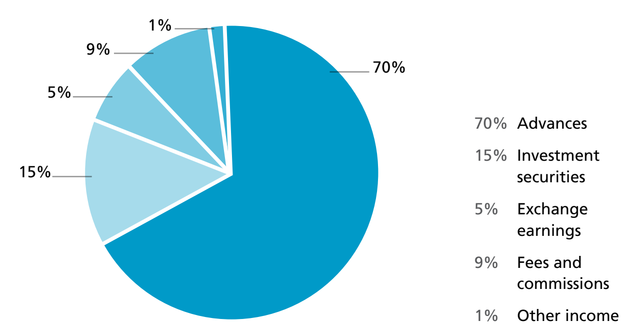
INTEREST EARNING ASSETS TO DEPOSITS (%)



Other income provided $8.5 million in 2010. This is a 9.6% decline from the 2009 level of $9.4 million. Exchange earnings decreased by 29%, due in part to reduced trading in foreign exchange. However, due to the revision of fees, we have improved the fees and commissions earned by 11%. 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%, reflecting the economic circumstances existing in the country and the weakening of the TT Dollar against the EC Dollar.

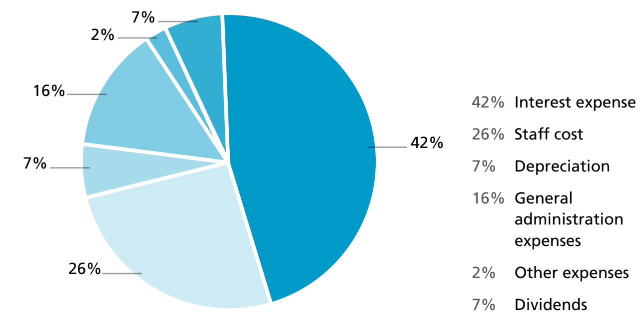
SOURCES OF REVENUE



Operating expenses decreased by 9.2%, reflecting reduced security, telephone, electricity and advertising costs.

In accordance with IAS 39, the Bank conducts an impairment review of each of its impaired financial assets annually. In 2010, expenses related to provisioning for impaired assets amounted to $1.59 million, as against $1.49 million, in 2009.

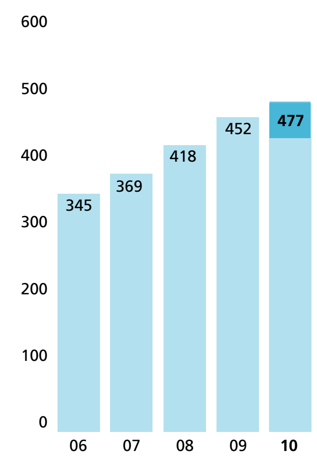
REVENUE DISTRIBUTION



BALANCE SHEET REVIEW

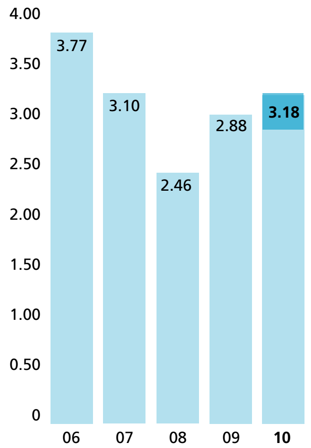
In 2010, total assets increased by 2.2% or $16.3 million. The loans portfolio increased by 5.8% or $25.9 million, a demonstration of the Bank's continuing confidence in the future, in spite of the harsh economic climate. The growth reflects the trend of the past five years. This increase was spread fairly evenly across the retail, commercial and corporate sectors, and was financed mainly through a reduction in low yielding investments and dated securities that matured during the year, together with the increase in the deposit portfolio. Investments decreased by 8.3% or $10.2 million during the year.

GROSS LOANS AND ADVANCES (MILLIONS)



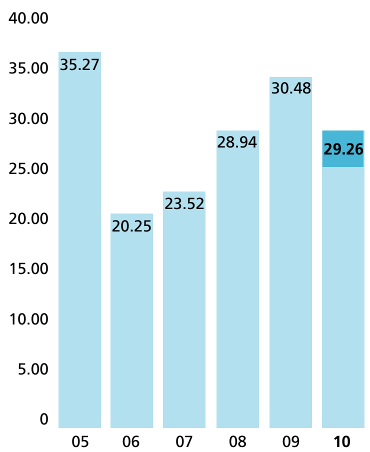
The Bank continued to focus on maintaining the quality of the loans portfolio, and for the fifth consecutive year, our non-performing segment was kept under 4%. The ECCB's benchmark for this is 5%. The Bank's ratio of non-performing loans to gross loans as at September 30, 2010 increased to 3.2% from the prior year's 2.9%.

NON-PERFORMING TO GROSS LOANS (%)



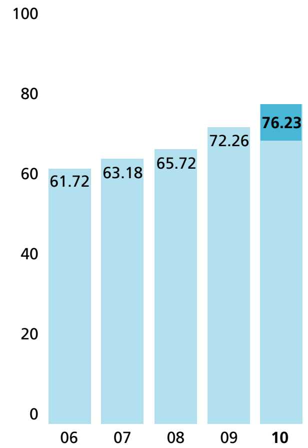
Its ratio of specific provision for loan losses to non-performing loans moved from 30.5% in 2009 to 29.3% in 2010 reflecting the continued strong quality of the Bank's collateral, and at the same time, the economic conditions.

SPECIFIC PROVISIONS TO NON-PERFORMING LOANS (%)



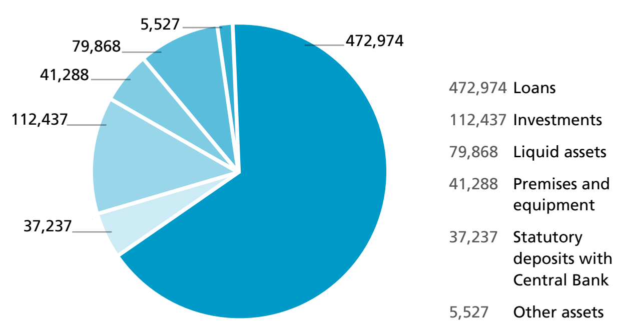
Our loans to deposits ratio also improved, moving from 72.3% in 2009 to 76.2% in 2010, a continuation of the trend over the past five years.

LOAN TO DEPOSITS (%)



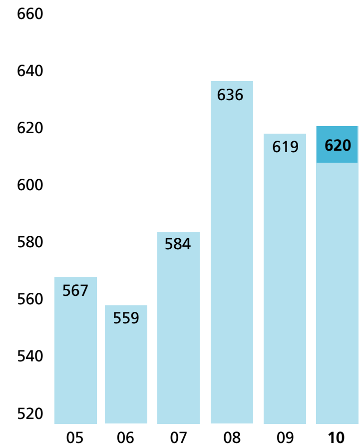
Strong balance sheet management, necessary in the current poor economic climate, has resulted in a higher volume of interest-earning assets as the Bank strives to maximise its earnings to help cover the high costs of doing business.

COMPOSITION OF ASSETS (MILLIONS)



Customer deposits recorded minimal growth during the year of 0.3% or $1.7 million to end the year $620.4 million. This small growth comes at a time of economic hardship for the country, and is an indication of customers' loyalty to, and faith and confidence in, the management of the Bank.

CUSTOMER DEPOSITS (MILLIONS)



MANAGEMENT OF RISK

Overview

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

Capital Structure

The Bank's policy is to maintain a prudent relationship between capital resources and the risks of its underlying business. Shareholders' equity increased by 7.2% or $6.4 million to $95.8 million over the year under review.

The Bank's dividend policy is to distribute 40% to 50% of its net earnings to shareholders. The total distribution based on the results for the financial year 2010 was $4.125 million, representing 44.4% of net profit for the year.

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

At September 30, 2010, the Bank exceeded the minimum levels required with Tier 1 capital to risk-weighted assets of 16.9% and total qualifying capital to risk-weighted assets of 18%. 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 scholarship and bursary programme enabling studies at the University of the West Indies, sponsorship of the annual Republic Bank RightStart Cup Youth Football tournament and sponsorship of the Republic Bank Angel Harps Steel Orchestra.

We are also committed to a continued excellent quality of customer service, improving efficiency and delivery through technology, staff training and process improvement. During fiscal 2011 we will introduce Internet Banking to all customers.

While we expect 2011 to be challenging, we are confident that our adherence to core banking, prudent management and strategies to meet challenges will continue to add value for all our stakeholders.

Our achievement during this financial year would not have been possible without the continued support of our dedicated and committed staff, and we thank them for their dedication, commitment, support, and loyalty. We are also grateful for the ongoing guidance, direction and counsel afforded by the Chairman and Directors of the Board.

EXECUTIVE MANAGEMENT TEAM

Left to right:

KEITH A. JOHNSON, *Managing Director*

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

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

MANAGEMENT TEAM

Standing left to right:

NAOMI DE ALLIE, *Manager, Corporate Credit*

EDWIN JAMES, *Manager, Finance*

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

VALENTINE ANTOINE, *Manager, Commercial Credit*

HERMILYN CHARLES, *Manager, Business Support Services*

WINEFRED LOGIE, *Manager, Retail Services, Grenville Cluster*

Seated left to right:

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

CLIFFORD BAILEY, *Manager, Information Technology Management*

JOCELYN MC SWEEN, *Manager, Retail Credit, St. George's Cluster*

MC KIE GRIFFITH, *Manager, Human Resourses, Training and Development*

A heart to do good beats within us all. With this comes the responsibility to take up the challenge of providing for those who cannot provide for themselves, and to empower those in whom the potential for greatness dwells. In 2004, we acted on that responsibility when we launched the Power to Make A Difference programme. Stepping away from the model of traditional corporate philanthropy, Republic Bank made the promise to work together with various non-governmental and community-based organisations (NGOs and CBOs) in an effort to invest in and safeguard a brighter future for Grenada, Carriacou and Petite Martinique.

Structured on the four pillars – the Power to Care, the Power to Help, the Power to Learn and the Power to Succeed – the Power to Make A Difference programme draws its greatest strength from the fact that it can fully address key aspects of social development and build solid relationships within the NGO and CBO communities.

Since its launch in 2004, we have spent over $2.7million in support of various community groups and social development projects through education, sport and culture; care for the elderly, the differently able, the socially marginalised and the ill. We have equipped/refurbished computer laboratories at Westmorland Secondary School, and Presentation Brothers' College; constructed a technical wing at Bishop's College, Carriacou; refurbished the Hillsview Home for the Aged; built a new wing for the St. Andrew School for Special Education and funded the Grenada Agricultural Information Service.

In 2010, we partnered with the Grenada Save the Children Development Agency (GRENSAVE), to sponsor the Grensave Summer Camp for underprivileged children at Harford Village, St. Andrew. Uniforms were also provided for the children of the Belair Home for Children and Adolescents, and assistance was rendered to allow five secondary schools' teams to participate in the 2010 Spice Island Triathlon.

Annual contributions were made to the CHORES Support Group, Grencoda School Books and Uniform Programme, Dorothy Hopkin Centre for the Disabled, Grenada Heart Foundation, Grenada National Council of the Disabled, Grenada Cancer Society, Grenada Diabetes Foundation, Grenada National Patient Kidney Foundation, Grenada, Carriacou and Petite Martinique Foundation for Needy Students, Cadrona Home for the Aged and Rotary Club of Grenada East – Vosh Eye Care Programme.

As we continued to empower the national community, we deepened the value of our focus on that most critical stage of life – childhood. In 2010, we continued our work to support youth potential through a variety of on-going projects such as sponsorship of the RightStart Cup Youth Football Tournament.

Investment in education was part of our commitment to national development. To this end, we provided a scholarship for one student to pursue a degree programme at the University of the West Indies and awarded the top academic achiever at the T.A. Marryshow Community College. In addition, our ongoing bursary programme enabled several students to pursue studies through the University of the West Indies Open Campus, Grenada.

We continued to play a significant role in preserving for future generations our cultural traditions and artforms. Most notably, we collaborated with the Carriacou Regatta Committee to host its annual Regatta Festival. We continued our longstanding sponsorship of the award winning Republic Bank Angel Harps Steel Orchestra. In 2010 we opened the "Republic Wing" of the Dorothy Hopkin Centre for the Disabled and funded the Grenada School for Special Education annual sports meet.

As we continue to carry the torch for corporate social investment, we look forward to the new fiscal year and to what the Power to Make A Difference will do. Backed by the commitment to teamwork and sustainable development, we stand ready to work together to meet the needs of our developing society. Power to Make A Difference is our way of honouring the communities we serve. By giving back to them, we are assured that a heart to do good continues to beat strongly within us all.

THE POWER TO MAKE A DIFFERENCE

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, Nigel M. Baptiste and Margaret A. Blackburn 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.

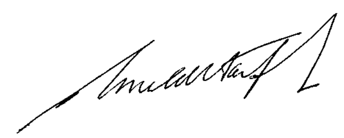
AUDIT COMMITTEE

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, 2010

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:

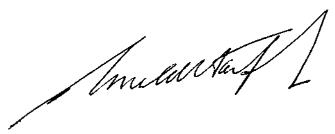
- establishing and maintaining effective internal controls and procedures for financial reporting;
- safeguarding of assets; and
- prevention and detection of fraud and other irregularities.

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, 2010

CONTENTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF REPUBLIC BANK (GRENADA) LIMITED

We have audited the financial statements of Republic Bank (Grenada) Limited (the Bank), which comprise the statement of financial position as at September 30, 2010, and the related statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly in all material respects the financial position of the Bank as at September 30, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

Bridgetown
BARBADOS

October 21, 2010

STATEMENT OF FINANCIAL POSITION

As at September 30, 2010

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

	Notes	**2010**	2009
ASSETS			
Cash		8,572	9,819
Statutory deposit with Central Bank		37,237	37,219
Due from banks		51,019	45,223
Treasury bills		18,244	22,884
Investment interest receivable		2,033	2,673
Advances	4	472,974	447,097
Investment securities	5	112,437	122,619
Premises and equipment	6	41,288	40,756
Pension asset	7	1,982	1,633
Deferred tax assets	8	1,990	1,453
Taxation recoverable		0	71
Other assets	9	1,555	1,543
TOTAL ASSETS		749,331	732,990
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		15,636	10,832
Customers' current, savings and deposit accounts	10	620,471	618,701
Post-retirement medical benefits	7	2,806	2,500
Taxation payable		236	–
Deferred tax liabilities	8	2,178	1,527
Interest payable		3,153	2,759
Other liabilities	11	9,062	7,315
TOTAL LIABILITIES		653,542	643,634
EQUITY			
Stated capital	12	15,000	15,000
Statutory reserves		15,000	15,000
Other reserves		4,397	3,122
Retained earnings		61,392	56,234
TOTAL EQUITY		95,789	89,356
TOTAL LIABILITIES AND EQUITY		749,331	732,990

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

These financial statements were approved by the Board of Directors on October 21, 2010 and signed on its behalf by:

RONALD F. DEC. HARFORD, *Chairman*

KEITH A. JOHNSON, *Managing Director*

STATEMENT OF INCOME

For the year ended September 30, 2010

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

	Notes	**2010**	2009
Interest income	13 (a)	49,424	49,689
Interest expense	13 (b)	(16,568)	(16,919)
Net interest income		32,856	32,770
Other income	13 (c)	8,489	9,402
		41,345	42,172
Operating expenses	13 (d)	(30,865)	(33,991)
		10,480	8,181
Loan impairment expense	4 (b)	(1,320)	270
Operating profit		9,160	8,451
Taxation credit	14	123	228
Net profit after taxation		9,283	8,679
Earnings per share ($)			
Basic		$6.19	$5.79
Number of shares ('000)			
Basic		1,500	1,500

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended September 30, 2010

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

	2010	2009
Net profit after taxation	9,283	8,679
Other comprehensive income:		
Revaluation of available-for-sale investments	1,821	178
Tax effect	(546)	(53)
Other comprehensive income for the year, net of tax	1,275	125
Total comprehensive income for the year, net of tax	10,558	8,804

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

STATEMENT OF CHANGES IN EQUITY

For the year ended September 30, 2010

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, 2008	15,000	15,000	2,997	54,305	87,302
Total comprehensive income for the year	–	–	125	8,679	8,804
Dividends	–	–	–	(6,750)	(6,750)
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	–	–	–	(4,125)	(4,125)
Balance at September 30, 2010	15,000	15,000	4,397	61,392	95,789

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

STATEMENT OF CASH FLOWS

For the year ended September 30, 2010

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

	2010	2009
Operating activities		
Profit before taxation	9,160	8,451
Adjustments for:		
Depreciation	4,140	4,123
Loan impairment expense	1,320	1,100
Gain on sale of premises and equipment	7	157
(Decrease)/increase in employee benefits	(43)	12
Increase in advances	(25,877)	(34,674)
Increase/(decrease) in customers' deposits and other fund raising instruments	1,770	(21,747)
(Increase)/decrease in statutory deposit with Central Bank	(18)	797
Decrease in other assets and investment interest receivable	629	1,963
Increase/(decrease) in other liabilities and accrued interest payable	2,141	(10,033)
Cash used in operating activities	(6,771)	(49,851)
Investing activities		
Purchase of investment securities	(27,907)	(22,918)
Redemption of investment securities	43,271	39,194
Additions to premises and equipment	(4,745)	3,943
Proceeds from sale of equipment	22	70
Cash provided by investing activities	10,641	20,289
Financing activities		
Increase/(decrease) in balances due to other banks	4,804	(4,855)
Dividends paid to shareholders	(4,125)	(6,750)
Cash provided by/ (used in) financing activities	679	(11,605)
Net increase/(decrease) in cash and cash equivalents	4,549	(41,167)
Cash and cash equivalents at beginning of year	55,042	96,209
Cash and cash equivalents at end of year	59,591	55,042
Cash and cash equivalents at end of year are represented by:		
Cash on hand	8,572	9,819
Due from banks	51,019	45,223
	59,591	55,042

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

NOTES TO FINANCIAL STATEMENTS

For the year ended September 30, 2010
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. The Bank operates under the Grenada Banking Act and other laws of Grenada. It is not organised into distinguishable business segments and operates solely in Grenada providing a wide range of Banking, Financial and related services. The Bank 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. The CL Financial Group holds through its various subsidiaries 52.39% of the shares of Republic Bank Limited.

On January 31, 2009, Central Bank of Trinidad & Tobago (CBTT) issued a Notification pursuant to sections 44D and 44E of the Central Bank Act, Chap. 79:02 that the Central Bank of Trinidad & Tobago assumed control of the affairs of CLICO Investment Bank (CIB). Further, on February 13, 2009, the Central Bank of Trinidad & Tobago issued a Notification pursuant to sections 44D and 44E of the Central Bank Act, Chap. 79:02 that the Central Bank of Trinidad & Tobago 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 Central Bank of Trinidad & Tobago has the power to deal with assets of the Companies, including the Republic Bank Limited shares. The CBTT will not receive any benefit financial or otherwise from the exercise of its powers under the Central Bank Act. As at September 30, 2010, the combined shareholding of CLICO and CIB is 52.11%.

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 are 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 are 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, 2009, 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 2 - Share-based Payment - Vesting Conditions and Cancellations (Amendment) (effective January 1, 2009)

This amendment gives greater clarity in respect of vesting conditions and cancellations. The amendment defines a 'vesting condition' as a condition that includes an explicit or implicit requirement to provide services. Therefore, any condition that does not have such a requirement is a 'non-vesting condition', for example possible non-complete provisions or transfer restrictions. The amendment requires non-vesting conditions to be treated in a similar fashion to market conditions and, hence, factored into account in determining the fair value of the equity instruments granted. Where an award does not vest as the result of a failure to meet a non-vesting condition, the accounting treatment depends on whether the failure to meet the condition is within or outside the control of either the entity or the counterparty. A failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as a cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation. The adoption of this standard had no effect on the financial position or performance of the Bank.

IFRS 3 - Business Combinations (Revised) (effective July 1, 2009)

This change to the scope of IFRS 3 increases the number and types of transactions to which the standard must be applied, for example by including combinations of mutual entities and combinations without consideration. The more significant changes include changes to the measurement of non-controlling interest at each business combination, changes in the treatment of previously held interests and goodwill in step acquisitions, changes to the measurement of contingent consideration and the treatment of acquisition-related costs. The Bank has had no new business combinations for the year and as such, the adoption of this standard had no effect on the financial position or performance of the Bank.

IFRS 7 - Financial Instruments: Disclosures (Amendments) (effective January 1, 2009)

This standard has been amended to enhance disclosures about fair value measurement and liquidity risk.

The enhanced disclosures on fair value measurement include disclosures on the source of the inputs in determining fair value using a three-level hierarchy that distinguishes between quoted prices (Level 1), inputs other than quoted prices that are based on observable market data (Level 2) and those that are not based on observable market data (Level 3). This information must be given by class of financial instrument. Full details on this disclosure are included in Note 18 to the financial statements – Fair Value.

The amendment to disclosures on liquidity risk includes a disclosure of the maturity analysis of financial assets held for managing liquidity risk in addition to the financial liabilities that were previously disclosed.

The adoption of this amendment had no effect on the financial position or performance of the Bank.

IFRS 8 - Operating Segments (effective January 1, 2009)

This standard replaces IAS 14 (Segment Reporting) and adopts a full management approach to identifying, measuring and disclosing the results of operating segments by reporting information based on the method used by the chief operating decision maker for internal evaluation of the performance of operating segments and the allocation of resources to those segments (a 'through the eyes of management' approach). The adoption of this standard had no effect on the financial position or performance of the Bank.

NOTES TO FINANCIAL STATEMENTS

For the year ended September 30, 2010

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

i) *New accounting policies adopted (continued)*

IAS 1 - Presentation of Financial Statements (Revised) (effective January 1, 2009)

This standard has been revised to enhance the usefulness of information presented in the financial statements. The main change involves the removal of full details of non-owner changes in equity from the statement of changes in equity, resulting in only full disclosure of changes in equity arising from transactions with owners. The full details of transactions with non-owners, including the income tax relating to each component, are included in a new statement called the Statement of Comprehensive Income. This standard also introduces new terminology, replacing "balance sheet" with "statement of financial position" and "cash flow statement" with "statement of cash flows". The adoption of this standard had no effect on the financial position or performance of the Bank.

ii) *New accounting policies not adopted*

The Bank has not adopted the following new and revised IFRSs and IFRIC Interpretations that have been issued as these standards/interpretations do not apply to the activities of the Bank:

IFRS 1 - First-time Adoption of International Financial Reporting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments) (effective January 1, 2009).

IFRIC 15 - Agreements for the Construction of Real Estate (effective January 1, 2009).

IFRIC 18 - Transfers of Assets from Customers (effective July 1, 2009).

iii) *Standards in issue not yet effective*

The Bank has not early adopted the following new and revised IFRSs and IFRIC Interpretations that have been issued but are not yet effective. These standards/interpretations either do not apply to the activities of the Bank or have no material impact on its financial statements:

IFRS	Subject of Amendment
IFRS 1 -	First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters (Amendments) (effective January 1, 2010)
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)
IAS 32 -	Financial Instruments: Presentation – Classification of Rights Issues (Amendment) (effective February 1, 2010)
IFRS 9 -	Financial Instruments (effective January 1, 2013)
IAS 24 -	Related Party Disclosures (Revised) (effective January 1, 2011)

In April 2009, the International Accounting Standards Board issued "Improvements to IFRSs", which is part of its annual improvements project, and a vehicle for making non-urgent but necessary amendments to various IFRSs. These amendments primarily become effective for annual periods beginning on or after January 1, 2010. The following shows the IFRSs and topics addressed by these amendments:

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policies *(continued)*

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

IFRS	Subject of Amendment
IFRS 5 -	Non Current Assets Held for Sale and Discontinued Operation Disclosure
IAS 1 -	Presentation of Financial Statements Current/non-current classification of convertible instruments
IAS 7 -	Statement of Cash Flows Classification of expenditures on unrecognised assets
IAS 17 -	Leases Classification of land and buildings
IAS 36 -	Impairment of Assets Unit of accounting for goodwill impairment testing.
IAS 38 -	Intangible Assets Consequential amendments arising from IFRS 3. Measuring fair value.
IAS 39 -	Financial Instruments: Recognition and Measurement Assessment of loan prepayment penalties as embedded derivatives. Scope exemption for business combination contract. Cash flow hedge accounting.
IFRIC 9 -	Reassessment of Embedded Derivatives Scope of IFRIC 9 and IFRS 3.
IFRIC 14 -	Prepayment of a Minimum Funding Requirement (Amendment) effective (January 1, 2011)
IFRIC 16 -	Hedges of a Net Investment in a Foreign Operation Amendment of the restriction on the entity that can hold hedging instruments.
IFRIC 19 -	Extinguishing Financial Liabilities with Equity Instruments (effective July 1, 2010)

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.

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 investment – available-for-sale' or 'Financial assets designated at fair value through profit or loss'. After initial measurement, advances are subsequently measured

NOTES TO FINANCIAL STATEMENTS

For the year ended September 30, 2010

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e) Financial instruments *(continued)*

i) Advances *(continued)*

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 and leased equipment are depreciated over the period of the lease.

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

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

Depreciation other than on leasehold buildings and leased equipment is computed on the 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%

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended September 30, 2010

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

h) Employee benefits *(continued)*

i) Pension obligations *(continued)*

For the defined benefit plan, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of income so as to spread regular costs over the service lives of employees in accordance with the advice of qualified actuaries. Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses exceed 10% of the previous years defined benefit obligation and the fair value of plan assets. These gains or losses are recognised by amortising them over the average remaining working lifetime of employees.

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

ii) Other post-retirement obligations

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

k) Earnings per share

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

l) Interest income and expense

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

m) Fee and commission income

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis as the service is provided. Fees and commissions not integral to effective interest 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.

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

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 on the assets of the Plan. 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.

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

	2010			
	Retail lending	Commercial & 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**

4. ADVANCES *(continued)*

a) Advances *(continued)*

	2009			
	Retail lending	Commercial & Corporate lending	Mortgages	Total
Performing advances	91,936	116,398	231,017	439,351
Non-performing advances	1,556	4,412	7,054	13,022
	93,492	120,810	238,071	452,373
Unearned interest	(1,584)	(173)	–	(1,757)
Accrued Interest	237	305	603	1,145
	92,145	120,942	238,674	451,761
Allowance for impairment losses	(1,055)	(2,352)	(1,257)	(4,664)
Net Advances	91,090	118,590	237,417	447,097

b) Allowance for impairment losses

(i) Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

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4. ADVANCES *(continued)*

b) Allowance for impairment losses *(continued)*

(i) Impairment assessment *(continued)*

Collectively assessed allowances (continued)

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

	2010			
	Retail lending	Commercial & 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**

4. ADVANCES *(continued)*

b) Allowance for impairment losses *(continued)*

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

	2009			
	Retail lending	Commercial & Corporate lending	Mortgages	Total
Balance brought forward	1,288	2,696	1,207	5,191
Charge-offs and write-offs	(120)	(95)	(42)	(257)
Loan impairment expense	548	418	529	1,495
Loan impairment recoveries	(661)	(667)	(437)	(1,765)
Balance carried forward	**1,055**	**2,352**	**1,257**	**4,664**
Individual impairment	861	1,851	1,257	3,969
Collective impairment	194	501	–	695
	1,055	**2,352**	**1,257**	**4,664**
Gross amount of loans individually determined to be impaired, before deducting any allowance	**1,556**	**4,412**	**7,054**	**13,022**

c) The undiscounted fair value of collateral that the Bank holds relating to loans individually determined to be impaired at September 30, 2010 amounts to $31 million (2009: $25 million). The collateral consists of cash, securities and properties.

5. INVESTMENT SECURITIES

	2010	2009
Available-for-sale		
Government securities	**50,888**	72,625
State owned company securities	**33,136**	29,556
Corporate bonds/debentures	**27,486**	19,540
Equities and mutual funds	**927**	898
Total investment securities	**112,437**	122,619

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6. PREMISES AND EQUIPMENT

2010	Capital works in progress	Freehold premises	Leasehold premises	Equipment, furniture & 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/transfer of assets	–	–	(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

2009	Capital works in progress	Freehold premises	Leasehold premises	Equipment, furniture & fittings	Total
Cost					
At beginning of year	27	27,623	7,649	28,458	63,757
Exchange and other adjustments		(220)	–	(569)	(789)
Additions at cost	838	32	–	3,907	4,777
Disposal/transfer of assets	–	–	–	(638)	(638)
	865	27,435	7,649	31,158	67,107
Accumulated depreciation					
At beginning of year	–	753	3,883	17,958	22,594
Charge for the year	–	385	204	3,534	4,123
Disposal of assets	–	–	–	(366)	(366)
	–	1,138	4,087	21,126	26,351
Net book value	865	26,297	3,562	10,032	40,756

6. PREMISES AND EQUIPMENT *(continued)*

Capital commitments

	2010	2009
Contracts for outstanding capital expenditure not provided for in the financial statements	2,103	3,942
Other capital expenditure authorised by the Directors but not yet contracted for	430	159

7. EMPLOYEE BENEFITS

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

	Defined benefit pension plan 2010	Defined benefit pension plan 2009	Post-retirement medical benefit 2010	Post-retirement medical benefit 2009
Opening defined benefit obligation	19,272	16,901	2,359	2,122
Current service cost	935	873	155	149
Interest cost	1,334	1,166	165	148
Members' contributions	183	158	–	–
Additional voluntary contributions	–	10	–	–
Actuarial (gains) /losses on obligations	(1,886)	707	(78)	(53)
Benefits paid	(427)	(488)	–	–
Expense allowance	(58)	(55)	–	–
Premiums paid by the Bank	–	–	(10)	(7)
Closing defined benefit obligation	19,353	19,272	2,591	2,359

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

	Defined benefit pension plan 2010	Defined benefit pension plan 2009
Opening fair value of plan assets	20,259	18,517
Expected return on plan assets	1,448	1,317
Actuarial loss	(140)	(200)
Contributions by employer	1,170	1,010
Members' contributions	183	158
Benefits paid	(427)	(488)
Expense allowance	(58)	(55)
Closing fair value of plan assets	22,435	20,259

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7. EMPLOYEE BENEFITS *(continued)*

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

	Defined benefit pension plan 2010	Defined benefit pension plan 2009	Post-retirement medical benefit 2010	Post-retirement medical benefit 2009
Defined benefit obligation	(19,353)	(19,272)	(2,591)	(2,359)
Fair value of plan assets	22,435	20,259	–	–
	3,082	987	(2,591)	(2,359)
Unrecognised actuarial (gain)/loss	(1,100)	646	(215)	(141)
Net asset/(liability) recognised in the statement of financial position	1,982	1,633	(2,806)	(2,500)

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

	Defined benefit pension plan 2010	Defined benefit pension plan 2009	Post-retirement medical benefit 2010	Post-retirement medical benefit 2009
Current service cost	935	873	155	149
Interest on defined benefit obligation	1,334	1,166	165	148
Expected return on plan assets	(1,448)	(1,317)	–	–
Amortised net gain	–	–	(4)	–
Past service cost	–	10	–	–
Unutilisable surplus	–	–	–	–
Total included in staff costs	821	732	316	297

e) Actual return on plan assets

	Defined benefit pension plan 2010	Defined benefit pension plan 2009
Expected return on plan assets	1,448	1,317
Actuarial loss on plan assets	(140)	(200)
Actual return on plan assets	1,308	1,117

7. EMPLOYEE BENEFITS *(continued)*

f) Experience history

Defined benefit pension plan	2010	2009	2008	2007	2006
Defined benefit obligation	(19,353)	(19,272)	(16,901)	(15,433)	(13,858)
Plan assets	22,435	20,259	18,517	16,041	14,282
Surplus	3,082	987	1,616	608	424
Experience adjustments on plan liabilities	(1,886)	707	(373)	16	(71)
Experience adjustments on plan assets	(140)	(200)	433	28	(868)

Post-retirement medical benefits	2010	2009	2008	2007	2006
Defined benefit obligation	(2,591)	(2,359)	(2,122)	(1,923)	(1,696)
Deficit	(2,591)	(2,359)	(2,122)	(1,923)	(1,696)
Experience adjustments on plan liabilities	(78)	(53)	(71)	(17)	–

g) The Bank expects to contribute $1.121 million to the pension plan in the 2011 financial year.

h) The principal actuarial assumptions used were as follows:

	2010 %	2009 %
Discount rate	7.00	7.00
Rate of salary increase	6.00	6.00
Pension increases	0.00	0.00
Medical cost trend rates	n/a	n/a
Expected return on plan assets	7.00	7.00
NIS ceiling rates	4.00	4.00

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.

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7. EMPLOYEE BENEFITS *(continued)*

i) Plan asset allocation as at September 30

	Defined benefit pension plan 2010 %	2009 %
Equity securities	3.6	4.2
Debt securities	43.6	55.6
Money market instruments/cash	52.8	40.2
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% pa	+69	+487
Medical expense decrease by 1% pa	-50	-359

8. DEFERRED TAX ASSETS AND LIABILITIES

Components of deferred tax assets and liabilities

a) Deferred tax assets	2010	2009
Post retirement medical liability	842	750
Excess of depreciation over capital allowances	266	–
Unearned loan origination fees	882	703
	1,990	1,453

b) Deferred tax liabilities	2010	2009
Pension asset	595	490
Unrealised reserve	1,583	1,037
	2,178	1,527

9. OTHER ASSETS

	2010	2009
Accounts receivable and prepayments	1,555	1,543
	1,555	1,543

10. CUSTOMERS' CURRENT, SAVINGS AND DEPOSIT ACCOUNTS

Concentration of customers' current, savings and deposit accounts	2010	2009
State	39,808	16,993
Corporate and commercial	50,706	67,169
Personal	516,553	523,434
Other financial institutions	13,404	11,105
	620,471	618,701

11. OTHER LIABILITIES

	2010	2009
Accounts payable and accruals	3,770	2,220
Provision for profit sharing and salary increase	597	550
Deferred income	2,941	2,344
Other	1,754	2,201
	9,062	7,315

12. STATED CAPITAL

	2010 Number of ordinary shares ('000)	2009 Number of ordinary shares ('000)	2010 $'000	2009 $'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

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13. OPERATING PROFIT

a) Interest income	**2010**	2009
Advances	40,770	38,204
Investment securities	7,862	10,146
Liquid assets	792	1,339
	49,424	49,689
b) Interest expense		
Customers' current, savings and deposit accounts	16,558	16,900
Other interest bearing liabilities	10	19
	16,568	16,919
c) Other income		
Other fee and commission income	4,993	4,493
Net exchange trading income	3,068	4,327
Dividends	30	19
Gain from sale of Premises and Equipment	–	10
Other operating income	398	553
	8,489	9,402
d) Operating expenses		
Staff costs	15,979	16,131
Staff profit sharing	578	703
General administrative expenses	10,365	11,180
Property related expenses	542	626
Depreciation expense	4,140	4,123
Advertising and public relations expenses	813	869
Impairment (recovery) / expense	(1,644)	266
Directors' fees	92	93
	30,865	33,991

14. TAXATION EXPENSE

	2010	2009
Corporation tax expense	(309)	–
Deferred tax credit	432	228
Taxation credit	123	228

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:

	2010	2009
Operating profit	9,160	8,451
Tax at applicable statutory tax rates	(2,748)	(2,535)
Tax effect of items that are adjustable in determining taxable profit:		
Tax exempt income	2,506	3,134
Items not allowable for tax purposes	(1,661)	(1,587)
Wear and tear allowance	910	849
Other allowable deductions	684	139
Tax effect of items comprising Deffered tax credit:		
Effect of deferred tax on pension asset/liability	(105)	(83)
Effect of deferred tax on Post retirement Medical Benefit	92	81
Effect of deferred tax on Timing differences on assets	266	–
Effect of deferred tax on unearned loan origination fees	179	230
	123	228

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.

NOTES TO FINANCIAL STATEMENTS

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15. RELATED PARTIES *(continued)*

	2010	2009
Net advances, investments and other assets		
Parent Company	17,382	9,069
Directors and key management personnel	3,070	1,915
Other related parties	25,182	25,823
	45,634	36,807
Deposits and other liabilities		
CL Financial Group	2,232	2,438
Parent Company	512	206
Directors and key management personnel	1,365	389
Other related parties	14,460	8,794
	18,569	11,827
Interest and other income		
CL Financial Group	1	2
Parent Company	39	57
Directors and key management personnel	230	39
Other related parties	683	1,358
	953	1,456
Interest and other expense		
CL Financial Group	13	–
Associates	–	–
Directors and key management personnel	104	5
Other related parties	–	–
	117	5

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

Key management compensation	**2010**	2009
Short-term benefits	627	610
Post employment benefits	15	17
	642	627

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.

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

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16. RISK MANAGEMENT *(continued)*

16.2 Credit risk *(continued)*

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:

	2010	2009
	Gross maximum exposure	
Statutory deposit with Central Bank	37,237	37,219
Due from banks	51,019	45,223
Treasury bills	18,244	22,884
Investment interest receivable	2,033	2,673
Advances	477,205	452,373
Investment securities	111,510	121,721
Total	695,215	682,093
Undrawn commitments	38,761	42,961
Guarantees and indemnities	5,141	5,499
Letters of credit	118	484
Total	44,020	48,944
Total credit risk exposure	739,235	731,037

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:

	2010	2009
Eastern Caribbean	67,859	78,772
Barbados	23,475	17,360
Grenada	528,773	476,978
Trinidad and Tobago	66,758	98,740
United States	36,297	40,930
Cayman Island	–	81
Other Countries	13,875	18176
	737,037	731,037

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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:

	2010	2009
Government and Government Bodies	**84,880**	115,002
Financial sector	**208,972**	110,829
Energy and mining	**8,000**	2,981
Agriculture	**6,422**	4,852
Electricity and water	**26,579**	28,651
Transport storage and communication	**7,409**	11,750
Distribution	**48,326**	47,084
Real estate	**2,285**	–
Manufacturing	**10,167**	7,766
Construction	**9,497**	14,614
Hotel and restaurant	**74,930**	52,897
Personal	**210,927**	288,393
Other services	**40,841**	46,218
	739,235	731,037

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 deposits with Central Banks
- Due from banks
- Advances
- Financial investment securities

Treasury bills and Statutory deposits with Central Banks

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

Balances due from banks

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

16. RISK MANAGEMENT *(continued)*

16.2 Credit risk *(continued)*

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

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
2010	5,051	45,968	–	51,019
2009	4,185	40,900	138	45,223

Loans and advances - Commercial and Corporate

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

Superior: These counterparties have strong financial position. 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

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16. RISK MANAGEMENT *(continued)*

16.2 Credit risk *(continued)*

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

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
2010	236	17,539	111,952	4,333	134,060
2009	12,342	3,961	97,875	4,412	118,590

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
2010	–	–	–	2,572	1,761	4,333
2009	–	–	–	–	4,412	4,412

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
2010	317,257	1,425	4,301	3,347	3,603	8,981	338,914
2009	307,555	1,404	4,098	1,723	16,783	8,610	340,173

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:

16. RISK MANAGEMENT *(continued)*

16.2 Credit risk *(continued)*

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

Investment securities (continued)

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 debt security investments as at September 30:

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

	Superior	Desirable	2009 Acceptable	Sub-standard	Total
Financial investments - Available-for-sale	97,520	16,076	3,305	4,820	121,721

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16. RISK MANAGEMENT *(continued)*

16.2 Credit risk *(continued)*

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, 2010.

	2010	2009
Investment securities		
- Financial assets designated as available-for-sale	17,067	10,303
Loans and advances to customers		
- Retail lending	–	–
- Commercial and Corporate lending	127	–
- Mortgages	793	–
	920	–
Total renegotiated financial assets	17,987	10,303

16.3 Liquidity risk

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

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

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

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

16.3.1 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.

16. RISK MANAGEMENT *(continued)*

16.3 Liquidity risk *(continued)*

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

Financial liabilities
- statement of financial position

	On demand	Up to one year	1 to 5 years	Over 5 years	Total
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

Financial liabilities
- statement of financial position

	On demand	Up to one year	1 to 5 years	Over 5 years	Total
As at September 30, 2009					
Customers' current, savings and deposit accounts	516,718	89,478	15,264	–	621,460
Due to banks	10,832	–	–	–	10,832
Other liabilities	–	3,288	–	4,027	7,315
Total undiscounted financial liabilities 2009	527,550	92,766	15,264	4,027	639,607

Financial liabilities
- statement of financial position

	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2010					
Guarantees and indemnities	381	2,051	2,709	–	5,141
Letters of credit	–	118	–	–	118
Total	381	2,169	2,709	–	5,259

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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
2009					
Guarantees and indemnities	201	2,148	2,360	790	5,499
Letters of credit	–	484	–	–	484
Total	201	2,632	2,360	790	5,983

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.

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.

16. RISK MANAGEMENT *(continued)*

16.4 Market risk *(continued)*

16.4.1 Interest rate risk *(continued)*

	Increase/ decrease in basis points	Impact on net profit			
		2010		2009	
		Increase in basis points	Decrease in basis points	Increase in basis points	Decrease in basis points
EC$ Instruments	+/- 25	–	–	–	–
US$ Instruments	+/- 50	(2)	2	6	(6)
TT$ Instruments	+/- 50	–	–	–	–
BDS$ Instruments	+/- 50	–	–	–	–

	Increase/ decrease in basis points	Impact on net unrealised gain			
		2010		2009	
		Increase in basis points	Decrease in basis points	Increase in basis points	Decrease in basis points
EC$ Instruments	+/- 25	(185)	185	(496)	258
US$ Instruments	+/- 50	(700)	729	(402)	421
TT$ Instruments	+/- 50	(641)	660	(731)	862
BDS$ Instruments	+/- 50	(50)	50	(81)	82

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.

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

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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 deposit					
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)*

16.4 Market risk *(continued)*

16.4.2 Currency risk *(continued)*

2009	ECD	USD	TTD	Other	Total
FINANCIAL ASSETS					
Cash	9,032	510	–	277	9,819
Statutory deposit					
with Central Bank	37,219	–	–	–	37,219
Due from banks	34,678	10,195	219	131	45,223
Treasury bills	5,890	–	16,994	–	22,884
Interest receivable	694	1,020	959	–	2,673
Advances	427,958	19,139	–	–	447,097
Investment securities	26,834	46,130	42,161	7,494	122,619
TOTAL FINANCIAL ASSETS	542,305	76,994	60,333	7,902	687,534
FINANCIAL LIABILITIES					
Due to banks	3,226	7,606	–	–	10,832
Customers' current, savings					
and deposit accounts	563,729	51,343	–	3,629	618,701
Interest payable	2,697	62	–	–	2,759
TOTAL FINANCIAL LIABILITIES	569,652	59,011	–	3,629	632,292
NET CURRENCY RISK EXPOSURE		17,983	60,333	4,273	
Reasonably possible change					
in currency rate (%)		1%	1%	1%	
Effect on profit before tax		180	603	43	

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16. RISK MANAGEMENT *(continued)*

16.5 Operational risk

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

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

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

17. CAPITAL MANAGEMENT

The Bank's policy is to diversify its sources of capital, to allocate capital within the Bank efficiently and to maintain a prudent relationship between capital resources and the risk of its underlying business. Equity increased by $6.433 million to $95.789 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	**2010**	2009
Tier 1 capital	16.9%	17.6%
Tier 2 capital	18%	18.6%

At September 30, 2010 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.

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:

	2010		
	Carrying value	Fair value	Unrecognized 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 unrecognised change in unrealised fair value			494

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18. FAIR VALUE *(continued)*

18.1 Carrying values and fair values *(continued)*

	2009 Carrying value	Fair value	Unrecognized gain/(loss)
Financial assets			
Cash, due from banks and treasury bills	77,926	77,926	–
Investment securities	122,619	122,619	–
Advances	447,097	443,996	(3,101)
Investment interest receivable	2,673	2,673	–
Financial liabilities			
Customers' current, savings and deposit accounts	618,701	627,609	8,908
Accrued interest payable	2,759	2,759	–
Other financial liabilities	10,832	1,828	(9,004)
Total unrecognised change in unrealised fair value			(3,197)

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.

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.

	2010 Level 1	Level 2	Level 3	Total
Financial assets				
Financial investments -available-for-sale	23,570	88,867	–	112,437

18.2.2 Transfers between Level 1 and 2

For the year ended September 30, 010, 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, 2010, 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.

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19. MATURITY ANALYSIS OF ASSETS AND LIABILITIES *(continued)*

	Up to one year	One to five years	Over five years	Total
2010				
ASSETS				
Cash, due from banks and treasury bills	77,835	–	–	77,835
Statutory deposit 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
2009				
ASSETS				
Cash, due from banks and treasury bills	77,926	–	–	77,926
Statutory deposit with Central Bank	37,219	–	–	37,219
Advances	52,843	74,772	319,482	447,097
Investment securities	29,053	40,867	52,699	122,619
Other assets	4,088	–	44,041	48,129
	201,129	115,639	416,222	732,990
LIABILITIES				
Due to banks	10,832	–	–	10,832
Customers' current, savings and deposit accounts	513,960	104,741	–	618,701
Other liabilities	7,217	–	6,884	14,101
	532,009	104,741	6,884	643,634

20. EQUITY COMPENSATION BENEFITS

Profit sharing scheme

During the 2010 financial year Republic Bank (Grenada) Limited provided $578k for staff profit sharing.

21. DIVIDENDS PAID AND PROPOSED

	2010	2009
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 2010: $0.75 (2009: $0.75)	1,125	1,125
Total dividends paid	4,125	4,125
Proposed for approval at Annual General meeting (not recognised as a liability as at September 30)		
Equity dividends on ordinary shares:		
Final dividend for 2010: $2.00 (2009: $2.00)	3,000	3,000

22. CONTINGENT LIABILITIES

a) Litigation

As at September 30, 2010 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

	2010	2009
Acceptances	–	–
Guarantees and indemnities	5,141	5,499
Letters of credit	118	484
	5,259	5,983
c) Sectoral information		
Corporate and commercial	5,259	5,884
Personal	–	99
	5,259	5,983