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GRENADA DEVELOPMENT BANK

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST DECEMBER, 2016

GRENADA DEVELOPMENT BANK

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2016

CONTENTS

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INDEPENDENT AUDITORS' REPORT TO THE OF THE SHAREHOLDERS OF GRENADA DEVELOPMENT BANK

Opinion

We have audited the financial statements of Grenada Development Bank, which comprise the statement of financial position at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31st, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Grenada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

INDEPENDENT AUDITORS' REPORT TO THE OF THE SHAREHOLDERS OF GRENADA DEVELOPMENT BANK
(continued)

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

INDEPENDENT AUDITORS' REPORT TO THE OF THE SHAREHOLDERS OF GRENADA DEVELOPMENT BANK (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists; we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

GRENADA

March 9th, 2017

PKF

Accountants & Business Advisers

GRENADA DEVELOPMENT BANK

STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER, 2016

ASSETS	Notes	2016	2015
Non-Current Assets			
Property, plant and equipment	4	5,948,764	6,082,894
Available-for-sale financial assets	5	25,001	25,001
Held-to-maturity financial assets	5	1,000,000	1,000,000
		6,973,765	7,107,895
Loans receivable - Principal	6	40,007,448	27,656,243
TOTAL NON-CURRENT ASSETS		46,981,213	34,764,138
Current Assets			
Loans receivable – Interest	6	135,988	145,361
Other assets	7	325,204	114,982
Loans and receivables financial assets	5	1,849,490	339,311
Cash and cash equivalents	8	7,344,280	11,505,555
		9,654,962	12,105,209
TOTAL ASSETS		$56,636,175	$46,869,347
EQUITY AND LIABILITIES			
Government's Equity			
Capital grants	9	1,040,000	1,040,000
Capital contribution	10	16,559,792	16,559,792
Reserve fund	11	1,157,748	1,054,083
Revaluation reserve	12	3,060,353	3,060,353
Retained earnings		2,007,021	1,727,126
		23,824,914	23,441,354
Non-Current Liabilities			
Long-term borrowings	13	29,436,967	20,038,093
Current Liabilities			
Other liabilities	15	665,403	1,212,831
Short-term borrowings	13	2,421,003	1,945,235
Amount due to projects	16	256,789	231,834
Dividend payable		31,099	-
		3,374,294	3,389,900
TOTAL LIABILITIES		32,811,261	23,427,993
TOTAL EQUITY AND LIABILITIES		$56,636,175	$46,869,347

The notes on pages 9 to 38 form an integral part of these financial statements

: Director : Director

GRENADA DEVELOPMENT BANK

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2016

	Notes	**2016**	2015
INTEREST INCOME			
Interest on loans	19	2,500,422	1,964,640
Interest on investments		218,422	117,779
		2,718,844	2,082,419
Interest expense	20	(917,781)	(546,213)
Net interest income		1,801,063	1,536,206
Other income	21	739,157	1,020,822
		2,540,220	2,557,028
EXPENDITURE			
Directors fees and expenses		(53,601)	(48,886)
General expenses	23	(1,754,937)	(1,700,853)
Pension and gratuities		(3,132)	(3,971)
Depreciation		(157,882)	(154,825)
Commitment fees		(42,034)	-
Bad debts		(113,975)	(239,658)
		(2,125,561)	(2,148,193)
Surplus for the year		414,659	408,835
Transfer to reserve fund		(103,665)	(102,209)
Net surplus for the year		$310,994	$306,626

The notes on pages 9 to 38 form an integral part of these financial statements

GRENADA DEVELOPMENT BANK

STATEMENT OF CHANGES IN GOVERNMENT'S EQUITY
FOR THE YEAR ENDED 31ST DECEMBER, 2016

	Reserve Fund	Capital Grant	Revaluation Reserve	Capital Contribution	Retained Earnings/ (Accumulated Deficit)	Total
Balance at 1st January, 2015	951,874	1,040,000	3,060,353	15,913,326	1,420,500	22,386,053
Net movement in capital contribution	-	-	-	646,466	-	646,466
Net surplus for the year	-	-	-	-	408,835	408,835
Allocation to reserve	102,209	-	-	-	(102,209)	-
Balance at 31st December, 2015	1,054,083	1,040,000	3,060,353	16,559,792	1,727,126	23,441,354
Net surplus for the year	-	-	-	-	414,659	414,659
Allocation to reserve	103,665	-	-	-	(103,665)	-
Dividends	-	-	-	-	(31,099)	(31,099)
Balance at 31st December, 2016	$1,157,748	$1,040,000	$3,060,353	$16,559,792	$2,007,021	$23824,914

The notes on pages 9 to 38 form an integral part of these financial statements

GRENADA DEVELOPMENT BANK

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER, 2016

	Note	**2016**	2015
OPERATING ACTIVITIES			
Surplus for the year		414,659	408,835
Adjustment for:			
Depreciation		157,882	154,825
Change in non-cash items		572,541	563,660
Increase in loans receivable		(12,351,205)	(2,869,746)
(Increase)/decrease in other assets		(200,849)	55,640
(Decrease)/increase in other liabilities		(547,428)	162,213
Increase in amounts due to project		24,955	9,799
Net cash used in operating activities		(12,501,986)	(2,078,434)
INVESTING ACTIVITIES			
(Increase)/decrease in financial assets		(1,510,179)	(9,883)
Purchase of property, plant and equipment		(23,752)	(102,856)
Net cash used in investing activities		(1,533,931)	(112,739)
FINANCING ACTIVITIES			
Increase in Government Capital Contribution		-	646,466
Net movement in borrowings		9,874,642	9,799,137
Net cash provided by financing activities		9,874,642	10,445,603
Net (decrease)/increase in cash and cash equivalents		(4,161,275)	8,254,430
Cash and cash equivalents - at beginning of the year		11,505,555	3,251,125
- at end of the year	8	$7,344,280	$11,505,555

The notes on pages 9 to 38 form an integral part of these financial statements

1. CORPORATE INFORMATION

The Bank was established by the Grenada Agricultural and Industrial Development Act, 1976 for the purpose of granting loans and providing other forms of financial assistance for industrial and tourism development, housing, higher education, agricultural development and other development projects.

The corporate name Grenada Agricultural and Industrial Development Corporation was changed to the Grenada Development Bank by proclamation of People's Law No. 33 of 1980 which became effective on 18th July, 1980.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied at all the years presented, unless otherwise stated.

(a) Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are expressed in Eastern Caribbean Currency Dollars. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and building.

The preparation of financial statements in conformity with IFRS's requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(b) New Accounting Standards, Amendments and Interpretations

(i) There are no new standards, amendments or interpretations that are effective for the first time for the financial year beginning on or after 1st January, 2016 that would be expected to have a material impact on the Bank's financial statements.

(ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1st January, 2016 and not early adopted. These either do not apply to the activities of the Bank or have no material impact on its financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New Accounting Standards, Amendments and Interpretations (continued)

Standard	Description	Effective for annual periods beginning on or after
IAS 7	Statement of Cash Flows: Disclosure Initiative (amendments)	1st January, 2017
IAS 12	Income taxes recognition of Deferred Tax Assets for Unrealized Losses (amendments)	1st January 2017
IAS 40	Investment property: Transfer of Investment Property (amendments)	1st January, 2018
IFRS2	Share-based payment: Classification and Measurement of Share-based payment transactions (amendments)	1st January, 2018
IFRS 9	Financial Instruments: Classification and measurement	1st January, 2018
IFRS 15	Revenue from Contracts with Customers	1st January, 2018
IFRS 16	Leases	1st January, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign Currency Transactions

Transactions in foreign currencies are converted at the rates ruling on the dates of the transactions. Liabilities outstanding at the statement of financial position date are translated to Eastern Caribbean Currency Dollars at the rate of exchange ruling at that date. Differences on exchange on current liabilities are reflected in the comprehensive income statement in arriving at net income for the year, while differences on long term loans are deferred until realised.

(d) Provision for Doubtful Loans (Classified debts)

Provision is made based on the specific identification of doubtful receivables. As loans become uncollectible, they are written off against the provision. The total provision at 31st December, 2016 amounted to $1,610,745. (2015: $1,860,842).

(e) Property, Plant and Equipment

Land and building are stated at 2014 valuation less subsequent depreciation on building. However, additions to building thereafter are stated at cost. Depreciation is provided on the straight-line basis at varying rates sufficient to write off the cost or valuation of the assets over the period of their estimated useful lives. No depreciation is charged on land. The rates used are as follows:

Building	2.5%
Furniture, fixtures and equipment	10% to 20%
Motor vehicles	25%
Computers	33⅓%

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, Plant and Equipment

Increases in the carrying amount arising on revaluation of land and buildings are credited to revaluation surplus in equity. Decreases that offset previous increases of the same assets are charged against the surplus directly in equity; all other decreases are charged to the statement of income.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at statement of financial position date.

The cost of property, plant and equipment replaced, retired or otherwise disposed of and the accumulated depreciation thereon are eliminated from the accounts and the resulting gain or loss reflected in current operations.

(f) Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprises cash on hand and at bank.

(g) Interest

Accrued interest on loans is recorded in the statement of financial position in the related asset category. No credit is taken for interest due but uncollected after three months.

(h) Financial Assets

The Bank classifies its financial assets into the following categories: held-to-maturity, loans and receivables and available-for-sale. Management determines the appropriate classification of its financial assets at the time of purchase and re-evaluates this designation at every reporting date.

Available-for-sale

Investments are classified as available-for-sale as they are intended to be held for an indefinite period of time. These investments may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These investments are stated at cost as fair market values are not available.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial Assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in active markets. They are included in financial investments and are classified as assets in the statement of financial position.

Held-to-maturity

Investments classified as held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has both the intent and the ability to held-to-maturity. These investments are stated at cost.

Fair value

Fair value amounts represent the approximate value at which financial instruments could be exchanged in current transactions between willing parties. However, the bank's financial instruments lack an available trading market and therefore it is not possible to determine independently the estimated fair values. The fair values of the financial instruments are therefore considered to the approximate their book value.

(i) Borrowings

Borrowings are recognised at fair value net of transaction cost incurred. Borrowings are subsequently stated at amortized cost: any difference between the proceeds, net of transaction cost, and the redemption value is recognised in the statement of comprehensive income over the period of borrowings. Borrowings are classified as current liabilities unless the Bank has an unconditional right to defer settlement of the liability for at least twelve (12) months after the statement of financial position date.

(j) Financial Instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised on the Bank's statement of financial position when the bank becomes a party to the contractual provision of the instrument.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Instruments (continued)

Recognition and measurement

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date that is the date on which the Bank commits itself to purchase or sell an asset. A regular way purchase and sale of financial assets is a purchase or sale of an asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market place concerned.

When financial assets are recognised initially, they are measured at fair value of the consideration given plus transaction costs directly attributable to the acquisition of the asset. Financial assets are derecognised when the contractual rights to receive the cash flows expire or where the risks and rewards of ownership of the assets have been transferred.

Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or group of financial assets is impaired and impairment losses are incurred if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(i) Significant financial difficulty of the issuer or obligor.

(ii) A breach of contract, such as default or delinquency in interest or principal payments.

(iii) It is becoming probable that the borrower will enter into bankruptcy or other financial organization.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Instruments (continued)

(iv) The disappearance of an active market for that financial asset because of financial difficulties.

(v) Observable data indicating that there is a measurable decrease in the estimated cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with individual financial assets in the group, including adverse changes in the payment status of borrowers in the Bank or national or economic conditions that correlate with defaults on assets in the Bank.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Impairment losses are recorded in an allowance account and are measured and recognised in the statement of comprehensive income.

Financial liabilities

When financial liabilities are recognised initially, they are measured at fair value of the consideration given plus transaction costs directly attributable to the acquisition of the liability. Financial liabilities are re-measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when they are extinguished that is when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability extinguished and the consideration paid is recognised in the statement of comprehensive income.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The development of estimates and the exercise of judgment in applying accounting policies may have a material impact on the Bank's reported assets, liabilities, revenues and expenses. The items which may have the most effect on these financial statements, are set out below.

Valuation of property

The Bank utilises professional valuators to determine the fair value of its properties. Valuations are determined through the application of a variety of different valuation methods which are all sensitive to the underlying assumptions chosen.

Property, plant and equipment

Management exercises judgment in determining whether future economic benefits can be derived from expenditures to be capitalized and in estimating the useful lives and residual values of these assets.

Impairment of loans receivable

Provision is made for doubtful debts based on specific identification of doubtful balances. As debts become uncollectible they are written off against the provision.

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2016
(continued)

4. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Furniture, Fixtures and Equipment	Computers	Motor Vehicles	Total
Balance at 1st January, 2015						
Cost/Valuation	923,780	5,130,000	443,330	710,699	75,000	7,282,809
Accumulated depreciation	-	-	(409,402)	(663,544)	(75,000)	(1,147,946)
NET BOOK VALUE	**$923,780**	**$5,130,000**	**$33,928**	**$47,155**	**$ -**	**$6,134,863**
For the year ended 31st December, 2015						
Opening book value	923,780	5,130,000	33,928	47,155	-	6,134,863
Additions for the year	81,335	-	1,355	20,166	-	102,856
Depreciation charge for the year	-	(128,250)	(6,399)	(20,176)	-	(154,825)
NET BOOK VALUE	**$1,005,115**	**$5,001,750**	**$28,884**	**$47,145**	**$ -**	**$6,082,894**
Balance at 1st January, 2016						
Cost	1,005,115	5,130,000	444,707	730,887	75,000	7,385,709
Accumulated depreciation	-	(128,250)	(415,823)	(683,742)	(75,000)	(1,302,815)
NET BOOK VALUE	**$1,005,115**	**$5,001,750**	**$28,884**	**$47,145**	**$ -**	**$6,082,894**
For the year ended 31st December, 2016						
Opening book value	1,005,115	5,001,750	28,884	47,145	-	6,082,894
Additions for the year	-	-	20,914	2,838	-	23,752
Depreciation charge for the year	-	(128,250)	(6,500)	(23,132)	-	(157,882)
	$1,005,115	**$4,873,500**	**$43,298**	**$26,851**	**$ -**	**$5,948,764**
Balance at 31st December, 2016						
Cost/Valuation	1,005,115	5,130,000	465,621	733,725	75,000	7,409,461
Accumulated depreciation	-	(256,500)	(422,323)	(706,874)	(75,000)	(1,460,697)
NET BOOK VALUE	**$1,005,115**	**$4,873,500**	**$43,298**	**$26,851**	**$ -**	**$5,984,764**

5. FINANCIAL ASSETS

	2016	2015
AVAILABLE-FOR-SALE		
Eastern Caribbean Securities Exchange 2,500 class C shares at $10.00 each - cost	25,000	25,000
Financial Data Systems Limited 60,000 shares of common stock at $1.00 each - cost	60,000	60,000
	85,000	85,000
Less: Provision for diminution in value of shares	59,999	59,999
	$25,001	$25,001
LOANS AND RECEIVABLES		
Grenada Public Service Co-operative Credit Union Limited - Fixed deposit	349,490	$339,311
- Fixed deposit	1,000,000	-
Grenada Union of Teachers - Fixed deposit	500,000	-
	$1,849,490	$339,311
HELD-TO-MATURITY		
Government of Grenada - 6% 2016 bond (The rate of interest will be changed to 3% from January 1, 2017 and the duration will be 7 years).	$1,000,000	$1,000,000

6. LOANS RECEIVABLE

Loans receivable – principal	41,618,193	29,517,085
Less: Provision for doubtful debts	1,610,745	1,860,842
	$40,007,448	$27,656,243
Accrued interest (3 months)	$135,988	$145,361

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2016
(continued)

6. LOANS RECEIVABLE (continued)

Loans receivable – principal by sector

	2016		2015	
Agriculture	2,522,408	6.06%	2,576,287	8.72%
Education	11,876,862	28.54%	11,534,403	39.08%
Fishing	626,589	1.50%	654,964	2.22%
Housing	12,179,584	29.27%	6,162,457	20.88%
Industry	10,361,936	24.90%	4,202,718	14.24%
Micro sector	232,714	0.56%	290,601	0.98%
Tourism	3,638,942	8.74%	3,980,583	13.49%
Personal	179,158	0.43%	115,072	0.39%
	$41,618,193		$29,517,085	

Movements in provision for loan losses are as follows:

	2016	2015
Balance at the beginning of the year	1,860,842	1,704,413
Bad debts recovered	(72,676)	(84,365)
Write-offs	(291,229)	-
Increase in provision	113,808	240,794
Balance at end of the year	$1,610,745	$1,860,842

Allowance for impairment losses by sector

	2016	2015
Agriculture	792,139	805,987
Education	333,760	370,391
Fishing	-	135,285
Housing	5,823	15,990
Industry	133,320	158,967
Micro sector	35,809	78,724
Tourism	309,894	295,498
	$1,610,745	$1,860,842

7. OTHER ASSETS

	2016	2015
Matured investment – CLICO investment	810,000	810,000
Interest receivable	186,931	95,334
Accounts receivable	330,277	195,203
Prepayments	83,043	99,492
	1,410,251	1,200,029
Less: Impairment provision	1,085,047	1,085,047
	$325,204	$114,982

8. CASH AND CASH EQUIVALENTS

Cash on hand	1,200	1,200
Cash at bank	7,343,080	11,504,355
	$7,344,280	$11,505,555

9. GOVERNMENT CAPITAL GRANTS

(a) $40,000

This amount represents Government's counterpart contribution under the terms of the Small Industry Credit Loan Agreement dated 30th September, 1974 with the Caribbean Development Bank.

(b) $1,000,000

This amount represents Government's counterpart contribution under the terms of the "Second Consolidated Line of Credit - AIC/MF/SLS Loan Agreement dated 2nd September, 1988 with the Caribbean Development Bank.

10. GOVERNMENT CAPITAL CONTRIBUTION

	2016	2015
Balance at 1st January, 2016	16,559,792	15,913,326
Contribution during the year	-	646,466
Balance at 31st December, 2016	$16,559,792	$16,559,792

11. RESERVE FUND

Pursuant to the Grenada Development Bank Act, the Bank is required to transfer a minimum of 25% of its net surplus to a reserve fund to meet contingencies and for such other purposes as the Bank deems fit.

12. REVALUATION RESERVE

Revaluation surplus	$3,060,353	$3,060,353

The Bank's property was last re-valued in December 2014 by Joseph John and Associates Limited, professional valuators. The valuation was carried out using the open market value method. The excess of the revaluation over the carrying value totalled $462,562.

13. BORROWINGS

(a) Caribbean Development Bank (Note 14)	12,516,723	9,390,151
(b) National Insurance Board	2,816,620	3,270,541
(c) CARICOM Development Fund	7,524,627	5,322,636
(d) Eastern Caribbean Home Mortgage Bank	9,000,000	4,000,000
	31,857,970	21,983,328
Less: Short-term portion	2,421,003	1,945,235
Long-term portion	$29,436,967	$20,038,093

13. BORROWINGS (continued)

(a) These loans are secured by guarantees from the Government of Grenada.

(b) There are two (2) National Insurance Board loans as follows:

(i) Loan A - Renovation loan

The sum of $1,000,000 was authorised and withdrawn. It is repayable over twenty-five (25) years by equal monthly instalments of $7,067.79 inclusive of interest, which began December 31st, 1999. Interest is charged at the rate of 7% per annum.

(ii) Loan B

This loan was refinanced in 2014. It is to be repaid over seven (7) years at a rate of interest of 7%. The monthly repayment is $49,121.75 inclusive of interest which began in January 2015.

The loans are secured by a mortgage on the Bank's property at Melville Street.

(c) The sum of $8,064,000 was made available and withdrawn as at the year-end. Interest only is payable at the rate of 3% per annum, with principal payments commencing in January 2017 over forty (40) equal quarterly instalments.

(d) The sum of $9,000,000 was made available and everything was withdrawn at year end. Interest only is payable at the rate of 3.5% per annum, with principal payments to commence in November 2019 over sixty-four (64) equal quarterly instalments.

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2016
(continued)

14. CARIBBEAN DEVELOPMENT BANK - LOANS

			Foreign Currency	**2016 EC$**	2015 EC$
(a) 07/SFR -OR-GRN	Third consolidated line of credit	US$	175,671	472,241	5,376,400
(b) 11/SFR – GR	Sixth student loan (see note below)	US$	764,864	2,056,107	948,344
(c) 21/SFR-OR-GRN	Fourth consolidated line of credit	US$	3,715,637	9,988,375	3,065,407
				$12,516,723	$9,390,151

Note: These loans are in the name of the Government of Grenada with the Bank as the executing Agency.

14. CARIBBEAN DEVELOPMENT BANK LOANS (continued)

	Principal	Interest
(a) 07/SFR -OR-GRN	SFR portion – 60 equal quarterly instalments. OCR portion – 44 equal quarterly instalments. Repayments commenced January 2005 for the SFR portion and July 2009 for the OCR portion	2.5% - 3.5% per annum. Payable quarterly.
(b) 11/SFR – GR	SFR portion – 40 equal quarterly instalments. OCR portion – 40 equal quarterly instalments. Repayments started December 2008. SF	2.5% - 3.5% per annum. Payable quarterly.
(c) 21/SFR-OR-GRN	SRF portion (i) 60 equal quarterly instalments. (ii) 32 equal quarterly instalments. Repayment of SFR part (1) is to commence in January 2021and part (ii) in January 2018 OCR portion – 60 equal quarterly instalments. Repayment f the OCR portion is to commence in January 2021	2.97% - 3.97% per annum. Payable quarterly.

15. OTHER LIABILITIES

	2016	2015
Amount due to Government of Grenada	1,270	820,124
Accrued interest	185,672	36,465
Accounts payable	478,461	356,242
	$665,403	$1,212,831

16. AMOUNT DUE TO PROJECTS

	2016	2015
Youth enterprise initiative	$256,789	$231,834

These funds are disbursed for on-lending to the respective micro-businesses.

17. COMMITMENTS

At the statement of financial position date un-disbursed loans committed amounted to $7,856,877(2015: $3,189,494).

18. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to the following risks from the use of financial instruments:

- Credit risk
- Liquidity risk
- Currency risk
- Interest rate risk
- Operational risk

Risk is inherent to the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for risk exposures relating to their responsibilities.

Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies, principles, policies and procedures. Day to day adherence to risk principles is carried out by the management of the Bank in compliance with the policies approved by the Board of Directors.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board has established two (2) committees, the Audit Committee and the Internal Loan Committee, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. These committees report to the Board of Directors.

18. FINANCIAL RISK MANAGEMENT (continued)

Audit Committee

The Audit Committee has oversight for the integrity of the financial statements and reviews the adequacy and effectiveness of internal controls and risk management procedures.

Internal Loan Committee

This committee reviews applications for business loans up to $100,000, student loans up to $200,000 and mortgage loans up to $300,000.The Board of Directors considers for approval, loans over the limits of the Internal Loan Committee. All loans under the limits of the committee are considered for approval by the Manager.

Credit Risk

Credit risk is the risk of financial loss to the Bank if a borrower or counter party to a financial instrument fails to meet its contractual obligations in accordance with agreed terms. The objective of the Bank's credit risk management function is to maintain credit risk exposure within acceptable parameters as the effective management of credit risk is a key comprehensive approach to risk management and is considered essential to the long-term success of the Bank. The Bank's exposure to credit risk arises primarily from the Bank's loans receivable which are given for national developmental purposes in all areas of industrial development. The priority areas for industrial development are identified by the Government of Grenada each year.

Significant changes in the economy or in the state of a particular industry segment that represents a concentration in the Bank's portfolio could result in losses that are different from those provided at the statement of financial position date.

Concentration of credit risk exists if a number of customers are engaged in similar activities or are located in the same industry sector or have similar economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the bank's performance to developments affecting a particular industry or geographical location.

Management of credit risk

Loans

The management and oversight of credit risk of loans is executed by the management of the Bank, the Internal Loan Committee and the Board of Directors. There is a documented credit policy in place, which guides the bank's credit processes.

18. FINANCIAL RISK MANAGEMENT (continued)

Management of credit risk (continued)

Loans (continued)

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers and to industry segments. Such risk is monitored on a revolving basis and is subject to an annual or more frequent review. The level of risk is set against economic factors and government priority areas.

Exposure to credit risk is managed through regular analysis of the ability of the borrower to meet interest and capital repayment obligations, obtaining collateral and corporate and personal guarantees, and by changing lending limits and adjusting interest rates within approved ranges where appropriate.

Other financial assets

With respect to credit risk arising from the other financial assets of the bank, which comprise accounts receivable and prepayments, cash and cash equivalents and investments, the Bank's exposure to credit risk arises from default of the counter-party with regards to cash and cash equivalents and investments. The Bank seeks to hold its funds with financial institutions which management regards as sound and the market for investments are monitored regularly to ensure that returns are realized.

Exposure to credit risk

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, without taking account of any collateral held or other credit enhancements.

	Maximum exposure	
	2016	2015
Held-to-maturity financial assets	1,000,000	1,000,000
Available-for-sale financial assets	25,001	25,001
Loans and receivable financial assets	1,849,490	339,311
Loans receivable – Principal	40,007,448	27,656,243
Loans receivable - Interest	135,988	145,361
Other assets	325,204	114,982
Cash and cash equivalents	7,344,280	11,505,555
	$50,687,411	$40,786,453

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2016
(continued)

18. FINANCIAL RISK MANAGEMENT (continued)

Concentration of credit risk at 31st December, 2016

	Held-to-Maturity Financial Assets	Available-for-Sale Financial Assets	Loans and Receivables Financial Assets	Loan Receivable Principal	Loan Receivable Interest	Other Assets	Cash and Cash Equivalents	Total
Education	-	-	-	11,543,102	60,342	-	-	11,603,444
Agriculture	-	-	-	1,730,269	4,156	-	-	1,734,425
Fishing	-	-	-	626,589	1,402	-	-	627,991
Tourism	-	-	-	3,329,047	15,156	-	-	3,344,203
Housing	-	-	-	12,173,761	28,882	-	-	12,202,643
Micro- sector	-	-	-	196,905	1,080	-	-	197,985
Industry	-	-	-	10,228,617	24,522	-	-	10,253,139
Personal	-	-	-	179,158	448	-	-	179,606
Other	1,000,000	25,001	1,849,490	-	-	325,204	7,344,280	10,543,975
	$1,000,000	$25,001	$1,849,490	$40,007,448	$135,988	$325,204	$7,344,280	$50,687,411

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2016
(continued)

18. FINANCIAL RISK MANAGEMENT

Concentration of credit risk at 31st December, 2015

	Held-to-Maturity Financial Assets	Available-for-Sale Financial Assets	Loans and Receivables Financial Assets	Loan Receivable Principal	Loan Receivable Interest	Accounts Receivables and Prepayment	Cash and Cash Equivalents	Total
Education	-	-	-	11,164,013	82,763	-	-	11,246,776
Agriculture	-	-	-	1,770,300	11,114	-	-	1,781,414
Fishing	-	-	-	519,678	152	-	-	519,830
Tourism	-	-	-	3,685,085	10,846	-	-	3,695,931
Housing	-	-	-	6,146,467	21,501	-	-	6,167,968
Micro- sector	-	-	-	211,877	1,313	-	-	213,190
Industry	-	-	-	4,043,751	17,454	-	-	4,061,205
Personal	-	-	-	115,072	218	-	-	115,290
Other	1,000,000	25,001	339,311	-	-	114,982	11,505,555	12,984,849
	$1,000,000	$25,001	$339,311	$27,656,243	$145,361	$114,982	$11,505,555	$40,786,453

18. FINANCIAL RISK MANAGEMENT (continued)

Analysis of loans past due but not impaired before provision for loan losses:

	Neither past due nor impaired $	Past due but not impaired: 1-3 months $	3-6 months $	6-12 months $	Over 12 months $	Total $
2016	37,137,615	1,437,781	-	-	3,042,797	41,618,193
2015	24,899,274	1,207,937	177,987	126,886	3,105,001	29,517,085

Individually impaired financial assets at 31st December, 2016:

	Carrying Value	Provision for Impairment	Net book value 2016	Net book value 2015
Loans	$3,082,698	$1,610,745	$1,471,953	$605,358
Available-for-sale financial assets	$85,000	$59,999	$25,001	$25,001
Matured financial assets	$810,000	$810,000	$ -	$ -
Interest receivable	$86,282	$86,282	$ -	$ -
Other receivable	$188,765	$188,765	$ -	$ -

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank has guidelines that set out the acceptability of different types of collateral and valuation parameters. The types of collateral held by the Bank are mortgage over properties, bill of sales over motor vehicles and other assets, liens over cash, bonds and shares, covenants over assets, and personal guarantees.

Estimates of fair values are based on value of collateral assessed at the time of borrowing and are generally not updated except when a loan is individually assessed as impaired.

18. FINANCIAL RISK MANAGEMENT (continued)

Collateral (continued)

Management monitors the market value of collateral, request 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 of which the proceeds are used to repay outstanding balances on loans.

Impairment

Impaired financial assets are assets for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms. The main consideration for impairment assessment for loans receivable is known difficulties in the cash flows of the counterparty, or infringement of the original terms of the loan agreement.

Impairment allowances on individually assessed accounts are determined by an evaluation at the statement of financial position date on a case-by-case basis. The assessment normally encompasses collateral held and the anticipated receipts for the individual account.

Past due and not impaired

These are loans where the contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate based on the quality and value of security available or the stage of collection of amounts owed to the Bank.

Write off policy

The Bank writes off a loan when it determines that the loan is uncollectible after considering information such as the occurrence of significant changes in the borrower’s statement of financial position such that the borrower can no longer pay the obligation, and that proceeds from collateral will not be sufficient to recover the entire exposure.

Liquidity risk

Liquidity risk is the risk that the Bank will have difficulty in meeting its obligations from its financial liabilities.

18. FINANCIAL RISK MANAGEMENT (continued)

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank monitors its risks of a shortage of funds by considering the maturity of both its investments and the projected cash flow from operations to ensure that it is able to honour all its commitments when they fall due.

18. FINANCIAL RISK MANAGEMENT (continued)

The aggregate value of the Bank's financial assets and liabilities into relevant groups based on the remaining period at the statement of financial position to the contractual maturity dates.

	On Demand	Up to 1 year	1 to 5 years	Over 5 years	Total
Long-term borrowings	-	-	7,255,058	22,181,909	29,436,967
Other liabilities	665,403	-	-	-	665,403
Short-term borrowings	-	2,421,003	-	-	2,421,003
Amount due to projects	256,789	-	-	-	256,789
Balance at 31st December, 2016	$922,192	$2,421,003	$7,255,058	$22,181,909	$32,780,162
Long-term borrowings	-	-	8,737,523	11,300,570	20,038,093
Other liabilities	1,212,831	-	-	-	1,212,831
Short-term borrowings	-	1,945,235	-	-	1,945,235
Amount due to projects	231,834	-	-	-	231,834
Balance at 31st December, 2015	$1,444,665	$1,945,235	$8,737,523	$11,300,570	$23,427,993

18. FINANCIAL RISK MANAGEMENT (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company operates primarily in The Eastern Caribbean and is therefore not subject to significant foreign currency risk. However, some of the Bank's transactions are in United States but there is no significant risk exposure.

The aggregate value of the Bank's financial assets and liabilities by currency is as follows:

Management of liquidity risk (continued)

	EC$	US$	Total
Balance at 31st December, 2016			
Assets	1,000,000	-	1,000,000
Held –to-maturity financial assets	25,001	-	25,001
Available-for-sale financial assets	1,849,490	-	1,849,490
Loans and receivable financial assets	40,007,448	-	40,007,448
Loans receivable-principal	135,988	-	135,988
Loans receivable-interest	325,204	-	325,204
Other assets	7,344,280	-	7,344,280
Cash and cash equivalents			
	50,687,411	-	50,687,411
Liabilities			
Long-term borrowings	11,312,817	18,124,150	29,436,967
Other liabilities	606,212	59,191	665,403
Short-term borrowings	503,802	1,917,201	2,421,003
Amount due to projects	256,789	-	256,789
	12,679,620	20,100,542	32,780,162
Net currency exposure	$38,007,791	$(20,100,542)	$17,907,249

18. FINANCIAL RISK MANAGEMENT (continued)

Currency risk

	EC$	US$	Total
Balance at 31st December, 2015			
Assets			
Held –to-maturity financial assets	1,000,000	-	1,000,000
Available-for-sale financial assets	25,001	-	25,001
Loans and receivable financial assets	339,311	-	339,311
Loans receivable-principal	27,656,243	-	27,656,243
Loans receivable-interest	145,361	-	145,361
Other assets	114,982	-	114,982
Cash and cash equivalents	11,504,072	1,483	11,505,555
	40,784,970	1,483	40,786,453
Liabilities			
Long-term borrowings	6,810,709	13,227,384	20,038,093
Other liabilities	1,048,125	164,706	1,212,831
Short-term borrowings	459,832	1,485,403	1,945,235
Amount due to projects	231,834	-	231,834
	8,550,500	14,877,493	23,427,993
Net currency exposure	$32,234,470	$(14,876,010)	$17,358,460

Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Bank is exposed to interest rate risk through the effect of fluctuations in the prevailing levels of interest rates on interest bearing financial assets and liabilities, including loans.

The Bank's exposure is also managed through the matching of funding products with financial services and monitoring market conditions and yields.

18. FINANCIAL RISK MANAGEMENT (continued)

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those rising from legal and regulatory requirements and generally accepted standards of good corporate behaviour. Operational risks arise from all the Bank's operations. The Bank's objective to manage operational risk is assigned to senior management so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and for development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the periodic assessment of operational risks faced, as the adequacy of controls and procedures to address the risks identified.
- Training and professional development
- Risk mitigation, including insurance where this is effective.

19. INTEREST INCOME

	2016	2015
CARICOM Development Fund loan	331,951	156,130
Caribbean Development Bank loans	699,102	519,507
Local loans	848,290	927,879
Business reactivation loans	254,900	330,982
National Insurance Scheme loans	10,453	11,414
Eastern Caribbean Home Mortgage Bank	355,726	18,728
	$2,500,422	$1,964,640

20. INTEREST EXPENSE

CARICOM Development Fund	170,764	96,009
Caribbean Development Bank	246,950	164,334
National Insurance Scheme	220,353	239,788
Eastern Caribbean Home Mortgage Bank	279,714	46,082
	$917,781	$546,213

21. OTHER INCOME

	2016	2015
Rental	156,000	156,000
Sundry	270,451	170,898
Bad debts recoveries	312,706	693,924
	$739,157	$1,020,822

22. RELATED PARTY TRANSACTIONS

i) Compensation of key management personnel of the Bank.

Salaries and staff benefits	$594,450	$565,027

ii) Loans receivable from key management personnel and directors	$161,896	$8,485

iii) Interest income from key management personnel and directors	$982	$966

23. GENERAL EXPENSES

	2016	2015
Salaries, wages and allowances	1,004,689	955,365
National Insurance contributions	43,261	39,987
Security	37,763	38,156
Computer expenses	83,939	81,747
Subscription and donations	16,114	14,136
Postage	2,184	1,566
Office expenses	25,001	24,404
Advertising	17,499	22,900
Audit fees	23,500	23,500
Professional services	63,925	55,859
Bank charges	8,307	5,136
Entertainment	420	718
Motor vehicle expenses	13,415	8,709
Legal fees	30,673	36,023
Stationery and printing	44,043	40,947
Telephone and cable	44,798	61,729
Miscellaneous	6,531	4,342
Repairs and maintenance	21,677	15,923
Staff uniforms	22,093	20,927
Travelling and subsistence	83,495	63,342
Electricity	52,717	66,111
Rates and taxes	3,683	4,187
Staff training	19,086	41,131
Insurance	34,636	42,098
Recruitment cost	3,672	6,868
Staff functions and awards	38,533	22,133
Cash shortage	25	-
Corporate image and product development	9,258	2,909
	$1,754,937	$1,700,853