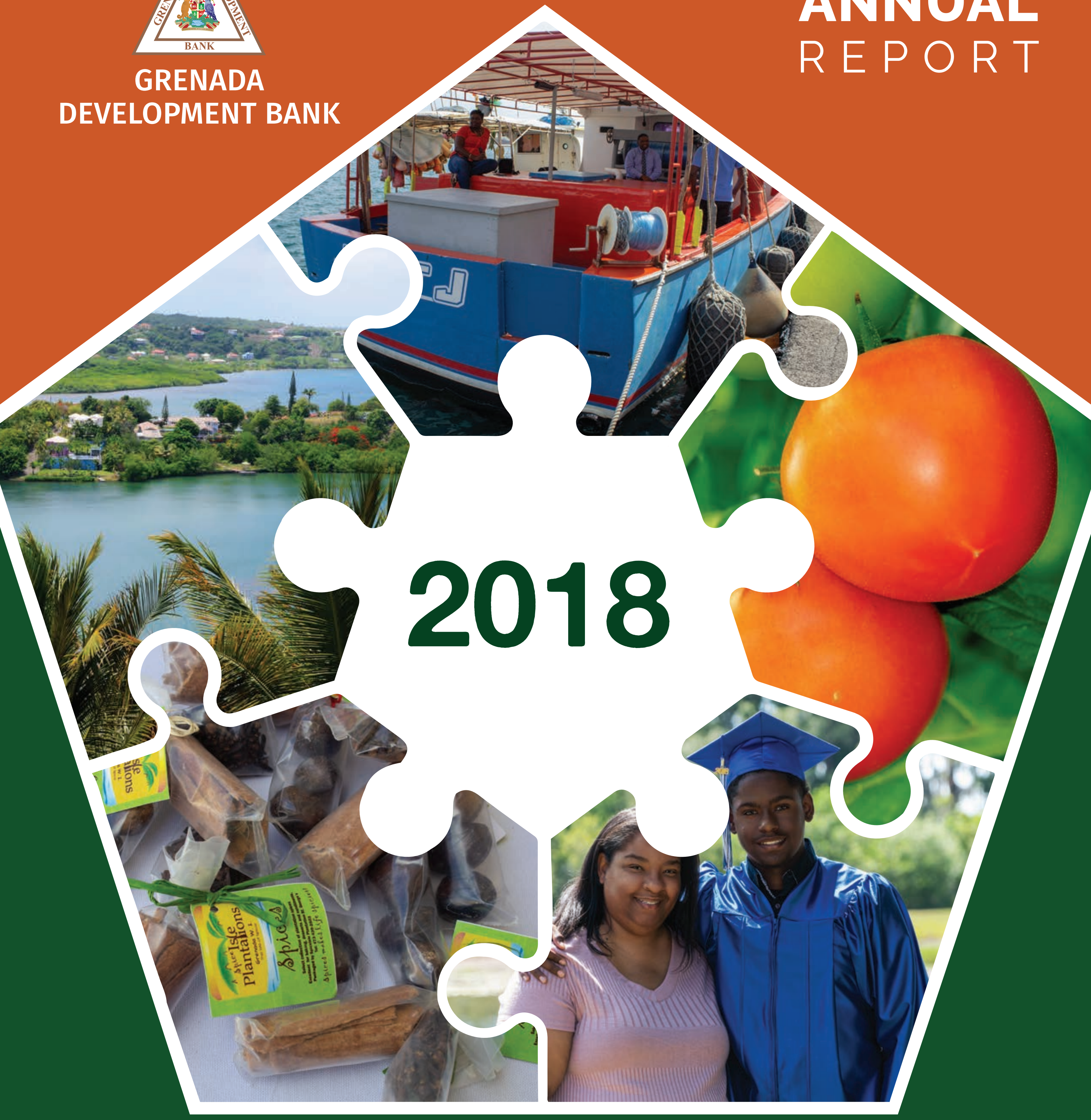
GRENADA DEVELOPMENT BANK

ANNUAL REPORT



2018

CONNECT • FINANCE • DEVELOP

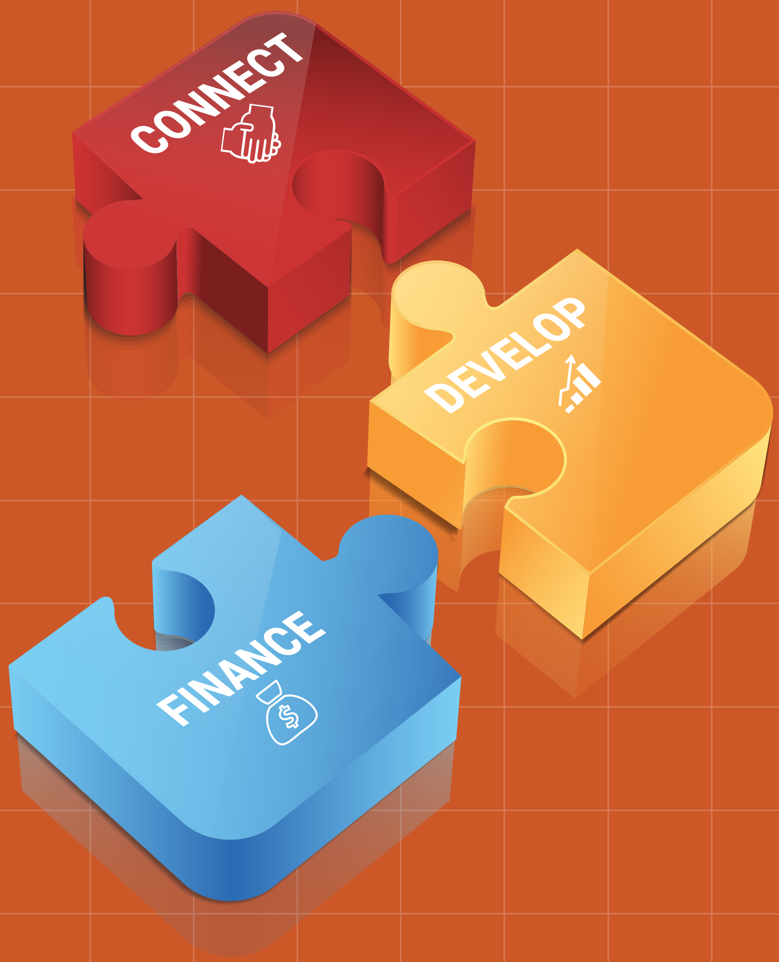
OUR THEME

THE ONE THING: Connecting with the people of the state of Grenada so that we can fulfil their current, future and latent needs.

The above statement outlines the ultimate goal of the Bank's 2018 Priority Objectives.

The theme selected **CONNECT - FINANCE- DEVELOP**. epitomises **THE ONE THING** that the Bank hopes to accomplish.

Connecting with the people of Grenada is the first step in the Bank's aspiration to make dreams a reality through the provision of financing, which would ultimately fulfil its mandate of fostering socio-economic development.



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VISION

To be the leading provider of development financing in Grenada, Carriacou and Petite Martinique.

MISSION

To be an innovative and viable development organization, providing high quality financial and related services to the state of Grenada, with the aim of fostering socio-economic development.

VALUES

DEVELOPMENT FOCUS:
Fostering the socio-economic development of the country is the reason why we exist.

CUSTOMER FOCUS:
Customer Focus: We continuously strive to exceed our customers' expectations.

INNOVATION:
We offer products and services that would meet the changing needs of our customers.

PROFESSIONALISM:
At all times, we would demonstrate high levels of integrity, respect for others, confidentiality, reliability, honesty and objectivity in our dealings.

RESULT ORIENTED:
We work as a team and are performance driven.

ACCOUNTABILITY:
We are responsible for our actions that influence the lives of our customers, fellow workers and the resources that are in our care.

MOTIVATION AND RECOGNITION:
We encourage and reward all staff for their accomplishments and promote continuous personal development.

CORPORATE
Information

REGISTERED OFFICE:
P.O Box 2300, Melville Street,
St. George's.

SOLICITORS:
Ciboney Chambers
Danny Williams & Company
Law Office of Alban M. John
Renwick & Payne

AUDITORS:
PKF

BANKERS:
RBTT Bank Grenada Ltd.
Republic Bank (Grenada) Ltd.
Eastern Caribbean Central Bank.

BANK SECRETARY:
Mrs. Patricia Simon

BOARD OF DIRECTORS:
Mr. Stanford Simon, *Chairman*
Mr. Percival Clouden, MBA - *Deputy Chairman*
Mr. Mervyn Lord, MSc, BSc (Hons)
Mr. Kendall Alexander, MPP
Ms. Sheila Harris, LLB(Hons), LLM
Mr. Marlon St. Louis, BSc, MTA, MCSA, MSCE
Mr. Earl Charles, Msc, MBA
Mr. Marvin Andall
Mr. David Phillip, PGDip

MANAGEMENT:

Mr. Mervyn Lord	– *Manager*
Mr. Donald Williams	– *Credit Manager*
Miss. Johanne Francis	– *Accountant*
Mrs. Janel Jeremiah	– *Administration/ Human Resource Manager (AG.)*
Miss. Genevieve C. Gibbs	– *Systems Administrator*
Mrs. Patricia Simon	– *Bank Secretary*
Mr. Alister Bain	– *Senior Project Officer*

Board of DIRECTORS

1 **MR. STANFORD SIMON**
Chairman

2 **MR. PERCIVAL CLOUDEN,** MBA
Deputy Chairman

3 **MR. MERVYN LORD,** MSc, BSc (Hons)
Manager/Director

4 **MS. SHEILA HARRIS,** LLB(Hons), LLM
Director

5 **MR. EARL CHARLES,** Msc, MBA
Director

6 **MR. MARVIN ANDALL**
Director

7 **MR. KENDALL ALEXANDER,** MPP
Director

8 **MR. MARLON ST. LOUIS,** BSc, MTA, MCSA, MSCE
Director

9 **MR. DAVID PHILLIP,** PGDip
Director

CHAIRMAN'S
Letter of Transmittal

GRENADA DEVELOPMENT BANK

Dr. The Right Honourable Keith C. Mitchell
Minister for Finance
Ministry of Finance, Planning, Economic Development
and Physical Development
Financial Complex
The Carenage
St. George

Dear Minister,

Pursuant to Cap. 129, Section 18 of the Grenada Development Bank Act, I have the honour to submit to you the Annual Report and Audited Financial Statements of the Bank for the Financial Year ended December 31, 2018.

Yours faithfully,

....

Stanford Simon
Chairman

CHAIRMAN'S *Message*

"Connecting with the people of our tri-island state and contributing meaningfully to the fulfilment of the country's socio-economic development needs is undoubtedly the Bank's single most important priority".

THE GRENADIAN ECONOMY

According to the 2019 Budget Presentation, Grenada's economy in 2018 has continued on a steady path of economic expansion and is poised to experience its sixth consecutive year of growth. Economic growth of 5.2% in real terms is provisionally estimated for the year 2018, which is fueled by expansions in the major sectors, particularly Construction, Tourism, Transport, Private Education and Manufacturing. Grenada remains the fastest growing economy in the region, averaging real growth of 5.0% since 2013, with growth in 2019 conservatively projected to be around 4.2%.

THE BANKING SECTOR

According to the Eastern Caribbean Central Bank Economic Review for the first six months of 2018, domestic credit continued on a downward trajectory declining by 4.8% during the review period as compared with a reduction of 3.2% during the corresponding period in 2017. This accelerated decline in 2018 was primarily due to an increase in transactions of Non-Financial Public Enterprises. Notwithstanding the aforementioned, private sector credit rose by 1.3% ($19.7M) reflecting an uptick in outstanding credit to businesses (3.8%) and households (0.1%).

Commercial Banks' liquidity rose during the first half of 2018 as evidenced by a 1.0% point decline in the ratio of loans and advances to total deposits. The ratio of non-performing loans to gross loans continued on a downward trajectory, reaching 3.1% at the end of June 2018 from 3.9% at the end of December 2017.

THE GRENADA DEVELOPMENT BANK'S PERFORMANCE

In 2018, the Bank continued to implement its foremost goal, outlined in its five-year Strategy Plan 2017-2021, "To better connect with the people of the tri-island state of Grenada so as to create a more positive financial and socio-economic impact on the Grenadian economy in a customer focused manner while improving the viability and sustainability of the Bank". Connection provides the Bank with the in-depth understanding of the needs of the populace allowing it to better support the economic growth agenda and the growth strategy of the Government of the tri-Island State.

Consistent with its Goal, the Bank disbursed over $17.2M to its customers most of which went directly into the local economy, stimulating growth and development, maintaining and creating approximately 681 jobs and ultimately improving the standard of living of the populace.

Consequently, the Bank's loan portfolio increased by 19%, from $53.4M in 2017 to $63.48M in 2018. It is imperative to note that the Bank only provides business loans, education loans and home mortgage loans to the lower and middle income earners. Therefore it's entire lending operations has a direct positive impact on the local economy and the standard of living of the people of the tri-island State.

The Bank's loan portfolio quality continues to improve surpassing all the key loan portfolio benchmarks stipulated by the Caribbean Development Bank. Of significant importance is the Non-performing ratio which was reduced from over 40% in 2001 to 4.59% as at 31 December, 2018. The Bank continues to have the lowest Non-performing ratio of all the development banks in the Eastern Caribbean Currency Union and is now within the benchmark set by the ECCB for commercial banks.

While profit maximization is not the Bank's ultimate goal, profitability is critical for its sustainability and is therefore an important performance measure. 2018 marked the 11th consecutive year of operating profits and the 7th consecutive year of net profits broken only in 2010 and 2011 to account for the impairment of investments. The net profit of $561.3K represents 11% decline from the 2017 net profit of $631.5K; however, the Bank declared dividends to its sole shareholder, the Government of Grenada, for the third consecutive year. The reduction of the net profit is mainly on account of the reduction in revenue from recoveries plummeting from $381.3K in 2017 to $66.9K in 2018 as the Bank had already realized the more saleable securities of its Non-performing loan portfolio. In addition, the increase of the CDB's interest rate from 2.97% as at January 1 2017 to 4.8% as at December 31, 2018 and the additional loan loss provisions to satisfy IFRS 9 had a direct negative impact on the Bank's bottom line.

Notwithstanding the aforementioned, interest income increased by $500K (13.9%) from $3.6M in 2017 to $4.1M in 2018 on account of the growth in the loan portfolio and the continued improvement in the portfolio quality. The Bank is therefore on a more sustainable path as it positions itself to achieve net profits even without significant contributions to revenue from recoveries. This was nonexistent a few years ago as the Bank would have recorded losses without the substantial contribution to revenue from recoveries.

BOARD COMPOSITION

The Board of Directors is comprised of nine members, eight of which are independent non-executive members. The Directors are appointed by the Minister of Finance and represent the Ministry of Finance, the Attorney General's Office and the critical sectors of the economy. The Manager is also an ex-officio member of the Board. There were no changes to the composition of the Board during the year under review.

CORPORATE GOVERNANCE

The Board and Management have the responsibility to ensure that the Bank's operations are conducted in accordance with all applicable laws and regulations, and continue as a credible going concern.

In accordance with its terms of reference, the Board of Directors meets monthly. The meetings review the executive management's performance in accordance with the strategic objectives and benchmarks, approve the implementation of new or revised policies and make decisions on loans referred to the Board. The Board also retains effective control over the Bank and is assisted by two Board Committees which are responsible for different aspects of governance. The Audit Committee focuses mainly on reinforcing the internal control systems and the internal and external audit capabilities as well as overall delinquency control and related strategic direction. In addition, there is the Establishment Committee which assists the Board in fulfilling its obligations relating to human resource, compensation policies and related matters and to establish a plan of continuity and development for the senior management of the Grenada Development Bank (GDB).

CLIMATE FINANCE INITIATIVES

Cognizant of the Government's prioritization of its national response to climate change, the Bank continues with its thrust to actively access climate financing that would serve to build resilience to climate events. To this end, the Bank has submitted its application for accreditation to the Green Climate Fund (GCF) as a National Direct Access entity for Grenada. This would allow the Bank to submit proposals directly to the GCF, leveraging available financial instruments for local projects. Additionally, the Bank has been identified as an Executing Entity and Service Provider respectively for two approved GCF projects in Grenada, one of which is earmarked to begin shortly.

The Bank is also poised to commence a technical assistance project with the Inter-American Development Bank (IDB) called EcoMicro. This seeks to create Green Finance Products that build the resilience of Micro, Small and Medium Enterprises (MSMEs) and low income households to Climate Change. It is an innovative approach to product development that creates access to sustainable, low-cost energy and adaptation technologies.

Continuously building resilience to climate change is imperative for Grenada as a vulnerable Small Island Developing State and the Bank would continue to pursue all available avenues to assist with the realization of this objective.

OUTLOOK FOR 2019

According to the Ministry of Finance, Grenada's economic growth is conservatively projected at 4.2% in 2019. In support of the forecast position, the Bank endeavors to increase its contribution to the critical sectors of the economy thus creating a greater impact on the socio-economic development of the country. New lines of credit and the amendment of the GDB Act are of utmost importance as the Bank focuses on its sustainable growth agenda in accordance with the Government's priority and strategic direction. The Bank will also streamline its processes using information technology to improve its efficiency which is all geared at improving the customers' experience and accelerating the development thrust of the country and its people.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to thank our valued customers, directors, executive management, and all the staff of the Grenada Development Bank for their support and efforts in implementing the Bank's strategy and in achieving its goals and objectives.

I would also like to express my sincerest gratitude to the Government of Grenada, the Caribbean Development Bank, the CARICOM Development Fund, the Eastern Caribbean Home Mortgage Bank, Petrocaribe, our regulator and all the relevant authorities for their constant support and dedicated efforts to develop GDB and by extension, the country and its citizens.

The Board reaffirms its commitment to all our customers and our sole shareholder that in 2019, we will continue to focus on areas that represent the best opportunities for the GDB, to dedicate all our efforts to significantly contribute to the socio-economic agenda of the country and to deliver on our strategic goals as well as strengthening the position of the GDB within Grenada.

....

Stanford Simon
Chairman

MANAGEMENT
Team

1 MR. MERVYN LORD, MSc, BSc (Hons)
General Manager

2 MRS. JANEL JEREMIAH
Administration/Human Resource Manager (AG.)

3 MISS. JOHANNE FRANCIS
Accountant

4 MR. DONALD WILLIAMS
Credit Manager

5 MISS. GENEVIEVE C. GIBBS
Systems Administrator

6 MRS. PATRICIA SIMON
Bank Secretary

7 MR. ALISTER BAIN
Senior Project Officer

Management
Discussion & Analysis

This Management Discussion and Analysis (MD&A) enables readers to assess material changes in the financial condition and operating results of the Grenada Development Bank (GDB) for the year ending December 31, 2018 compared with the prior year(s) and/or planned results. This MD&A is prepared in conjunction with the Consolidated Financial Statements and related Notes for the same period, and should be read together with those documents. Unless otherwise indicated, all amounts are expressed in Eastern Caribbean dollars.

FINANCIAL PERFORMANCE TO PLAN

Each year, the GDB develops Priority Objectives and a corporate plan through a comprehensive budget and planning process. The following table provides a comparison of key financial indicators for 2018:

Performance Measures	2018 Actuals	2018 Plan
Growth		
Assets	$74.5M	$72.3M
Asset growth	18.1%	14.6%
Loan and Advances	$63.48M	$63.7M
Loan and Advances growth	18.9%	19.3%
Credit Quality		
Non-performing ratio*	4.59%	≤7%
Total Contamination ratio**	8.09%	≤15%
Total Arrears ratio***	10.55%	≤15%
Collection ratio****	90.5%	≥85%
Leverage		
Debt to Equity	2.04:1	≤4:1
Interest coverage	1.33	≥1.5
Profitability and Return		
Net Profit	$561.3K	$420K (revised)
Return on assets (ROA)	0.81%	1%

**Non-performing ratio: Total principal balance of all non-performing loans as a percentage of the total loan portfolio.*

***Total Contamination ratio: Total principal balance of all loans in arrears as a percentage of the total loan portfolio.*

****Total Arrears ratio: Total arrears as a percentage of the total loan portfolio.*

*****Collection ratio: Actual amount collected as a percentage of the total amount due.*

ACCOMPLISHMENT OF 2018 PRIORITY OBJECTIVES

In accordance with the Bank's Strategic Plan, a number of key financial and non-financial priority objectives were approved by the Board for 2018. Notwithstanding the fact that some objectives were deferred for various reasons, over 86% of the remaining objectives were either met or surpassed. The priority objectives pertaining to the Bank's financial benchmarks are presented in the foregoing table. The following are some of the Bank's major accomplishments of the non-financial priority objectives for 2018 under the broad categories:

FUNDING

» A comprehensive assessment of available low-cost funding and grant sources with terms and conditions suitable for development banks was conducted as the Bank endeavours to broaden its source of capital.

ATTRACTING NEW CUSTOMERS AND MAINTAINING EXISTING ONES

» The Bank's products and services were again reviewed and revised to remain current and better meet the dynamic needs of intended beneficiaries.

» In collaboration with the Bank's Social Club, an outreach programme was executed as the Bank connects with the populace and aims to become a better corporate citizen.

» A sensitization workshop for student loan beneficiaries was conducted geared at providing the necessary guidance to potential and current students. This is geared towards preparing them to effectively cope with university life and enhance their chances of success.

» As the Bank continues to focus on supervised credit, it spearheaded three Micro and SME training sessions geared at providing entrepreneurs with the necessary skills to effectively manage and operate their businesses.

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- The Bank gained 100 new customers in 2018 and provided additional facilities to 49 existing customers thereby positively affecting the lives of over 149 persons.
- The Bank successfully staged a customer appreciation day as part of its anniversary celebrations to show gratitude to its customers as it focuses not only on attracting new customers but also maintaining existing ones.

ENHANCE EMPLOYEES' SATISFACTION AND PRODUCTIVITY

- A new bonus system was implemented providing the staff with a performance bonus for the first time in the Bank's history. The Bank sees employees' satisfaction as critically important to its development thrust.
- The Bank continued to implement its Training Plan geared at improving the skill set of the staff with a view to increasing the level of productivity.
- Procedures for handling Accounting and Non-accounting complaints were reviewed and revised making it easier for complaints to be communicated through the proper channel and addressed timely.
- As the Bank endeavours to be proactive in providing better benefits for its staff so as to attract and retain the best employees, research and a survey was conducted and a revised benefit package was approved by the Board for implementation in 2019.
- The Bank's security policies and procedures were reviewed to ensure that they adequately cater for all emergency situations. The revised policies will be presented to the Board in 2019.

The Bank will continue to navigate the course that has been charted in its Strategic Plan 2017-2021, making pertinent adjustments as necessitated by the advent of unforeseen circumstances and unanticipated changes in the economic dynamics of the country, as it remains steadfast in its goal to significantly contribute to the socio-economic development agenda of the country.

CLIMATE FINANCE INITIATIVES

The Bank continues to be actively engaged in seeking appropriate green finance instruments which can be deployed in the marketplace in response to the national climate change agenda. The approach is to catalyse the green finance ecosystem by leveraging the Bank's role as the leading provider of development finance in Grenada. Bridging the current financing gap and boosting the level of climate finance investment will unlock the deployment of renewable energy / energy efficiency (RE/EE) and adaptation technologies for the private sector and wider society, enabling them to realize associated cost savings and productivity improvements.

As part of these initiatives, the Bank's Accreditation Application to the Green Climate Fund (GCF) was submitted and is currently under review. Additionally, the Bank would be responsible for partially executing two GCF projects namely; the Challenge Fund of Grenada's Climate Resilient Water Sector (G-CREWS) project which would on-grant critical financing to the Tourism and Agricultural sectors and the Revolving Fund of the Enhanced Direct Access (EDA) project which provides concessionary financing to build resilience in low income households.

As mentioned by our Chairman in his report, the Bank is also partnering with the Inter-American Development Bank's (IDB) EcoMicro program to develop climate finance products that build resilience in our local economy. This strategic partnership is innovative for many reasons being the first test case in the EcoMicro Program wherein a project will be executed by a development bank. Moreover, this is the first EcoMicro project that will pilot both adaptation and mitigation finance. The project will therefore serve as an important case study, generating real evidence and best practices on how development banks can best support micro enterprises and low-income households to mitigate and adapt to the impacts of climate change through market-based green finance solutions in a variety of sectoral contexts in a small economy.

HUMAN RESOURCE
Management and Development

OVERVIEW:

The objective of this report is to review the performance of the Human Resources Department for the year 2018. It will highlight the major accomplishments and performance of the Department during the period under review.

The achievements of the Department include training and development of employees throughout the organization, the successful hosting of the annual staff award and recognition ceremony, continuing to increase employees' satisfaction and building employee relationships throughout the institution.

During the period under review, the Bank's thrust was on institutional strengthening and corporate governance. The following were the main priorities for 2018:

» Changing the Bank's approach from a laidback mode to being a more proactive, aggressive and energized institution.

» Reviewing and revising the Bank Act.

» Ongoing implementation of the succession plan.

» Continuing to train staff and ensuring that there is value added to the Bank's operations.

STAFFING:

At the end of the year 2018, the GDB had a total of twenty seven (27) staff as follows:

Department	No. of Employees
Administration	8
Credit	9
Finance	6
Small Business Development Fund	4

NEW RECRUITS:

Two (2) employees were recruited namely Mrs. Sasha Clarke and Ms. Vashti Daniel to fill the positions of Cashiers in the Finance Department.

RESIGNATIONS:

The GDB bade farewell to Administration and Human Resources Manager, Mrs. Janel Jeremiah who had given twenty seven (27) years of sterling contribution to the organization.

Loans Officer, Mr. Christopher Holder of the GDB and Project Officer, Mr. Garth St. Bernard, who was attached to the Small Business Development Fund (SBDF), also left the employment of the organisation. Additionally, Cashier, Ms. Karla Haywood resigned to join the SBDF as the External Relations Officer.

TRAINING AND DEVELOPMENT:

In keeping with the GDB's philosophy of continuing to develop its human capital to equip them with the necessary competencies to function effectively in their various job functions, focus was placed on training its employees.

The following seminars/workshops were attended by employees:

Training Topics	Name and position of Employee
Climate Finance Readiness	*Natasha Joseph – Business Development Officer* *Irva Frank-Roberts – Senior Loans Officer*
Understanding Small to Medium Enterprises and Financing	*Alister Bain – Senior Project Officer: Small Business Development Fund*
Digital Strategies for Sustainable Business Growth	*Chriselle Jerome - Communications Officer*
Basic Excel	*Entire staff except Management.*
Leadership	*Janel Jeremiah – Administration & Human Resource Manager (Ag)* *Johanne Francis – Accountant* *Antonnette Charles-McSween – Loans Officer* *Lizter Padmore – Loans Officer* *Trevor Baptiste – Accounting Officer* *Irva Frank – Senior Loans Officer*
Leadership – Action Coach	*Veron Lewis Marshall – Recoveries Officer* *Janel Jeremiah – Administration & Human Resource Manager (Ag)*
ICAEC Risk Management Seminar	*Johanne Francis – Accountant* *Donald Williams – Credit Manager* *Mervyn Lord – Manager*
ECHMB Mortgage Underwriting Programme	*Christopher Holder – Loans Officer*
CDB Regional Stakeholders' Meeting And Proposal Writing Workshop	*Natasha Joseph – Business Development Officer*
First Aid	*Calesha Noel – Loans Administration Clerk* *Karen Joseph – Securities Officer* *Hazel Antoine – Customer Service Representative* *Garth St Bernard – Project Officer: Small Business Development Fund*

BUILDING STAFF RELATIONS THROUGH COMMUNITY OUTREACH:

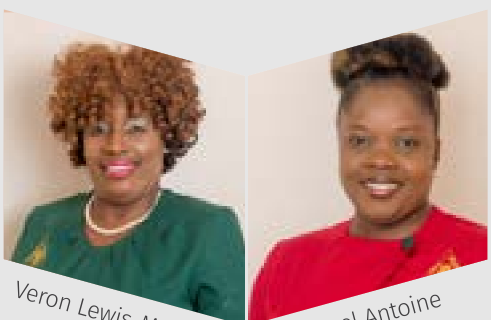
The Bank's Social and Activities Club visited GDB's former customers and also reached out to residents of the Hillsview Home for the Aged in Gouyave, St. John's. The Club's entire objective, as part of its philanthropic efforts, is to assist in making a difference in the lives of residents

REWARD AND RECOGNITION:

The GDB sees employees as its greatest assets and ascribes to the principle that ongoing recognition shows employees that they are valuable contributors to its objectives. Therefore, the Bank has seen the importance of publicly recognizing its employees for their outstanding works and contributions in 2018. Employees received awards in the following categories:

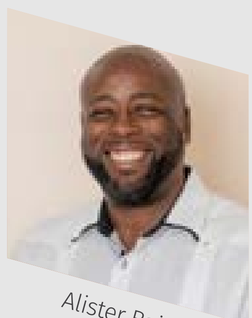
- Years of service.
- Anniversary.
- Perfect attendance.
- On-the-spot.
- Team-up.
- Star Leader.

10 Years of Service



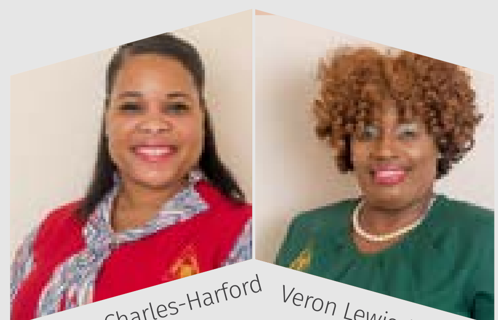
Veron Lewis-Marshall
Hazel Antoine

Employee of the Year



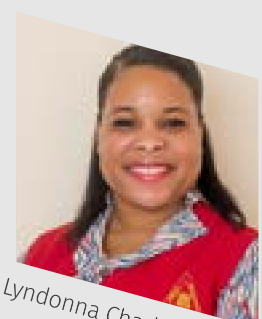
Alister Bain

First Runner up: Employee of the year



Lyndonna Charles-Harford
Veron Lewis-Marshall

Outstanding Internal Customer Service Award

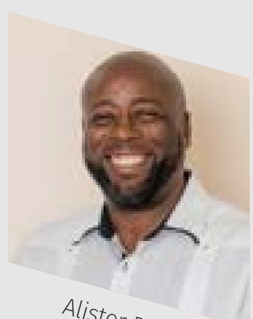


Lyndonna Charles-Harford

Outstanding External Customer Service Award

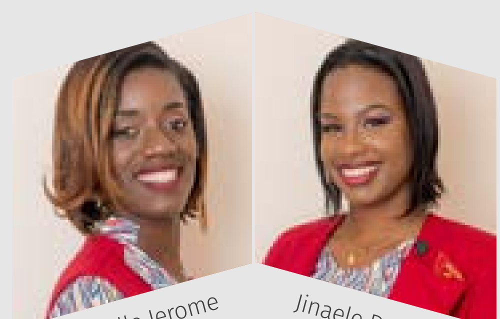
Lizter Padmore

Five-year Anniversary



Alister Bain

Perfect Attendance



Chriselle Jerome
Jinaele Douglas

ANNUAL STAFF SOCIAL:

The annual end of year staff social and employee recognition ceremony was held at the Aquarium Restaurant, Point Salines. The awards publicly applauded outstanding employees and acknowledged their contributions to the Bank, while offering them the opportunity to socialize and recognize their peers for their exceptional job performance.

HUMAN RESOURCE WRAP UP:

As the organization moves towards increasing its productivity and attaining a higher level of employee satisfaction, the fostering of a closer working relationship through rewards and promoting continuous personal development, along with the employees' involvement in activities are considered critical elements in achieving this new strategic intent.

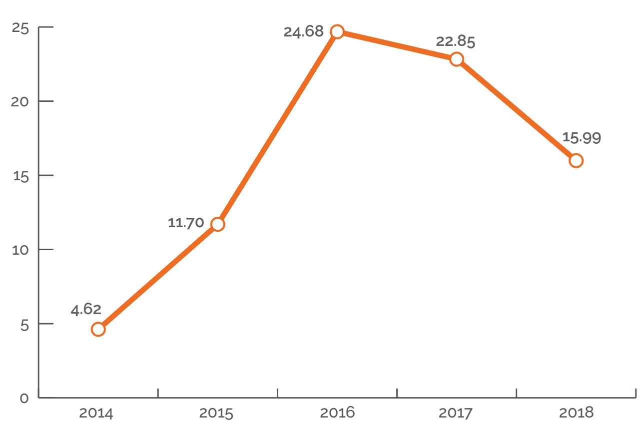
LOAN
Portfolio Analysis

LOAN APPROVALS

In 2018, the GDB approved 149 loans valued at EC$15,986,833. This represents a significant decline from 2016 and 2017 when approvals were valued at $24,684,556 and $22,826,696 respectively. Despite this, 2018 approvals remained significantly over that of 2014 and 2015. One of the main factors that contributed to the significant falloff in approvals in 2018 was the absence of new lines of credit to on-lend. The Bank earlier exhausted all its lines and was negotiating new lines hence all approvals were via its recycled local funds. This triggered a curtailing of the Banks promotional activities.

The following chart shows approvals for 2014 to 2018.

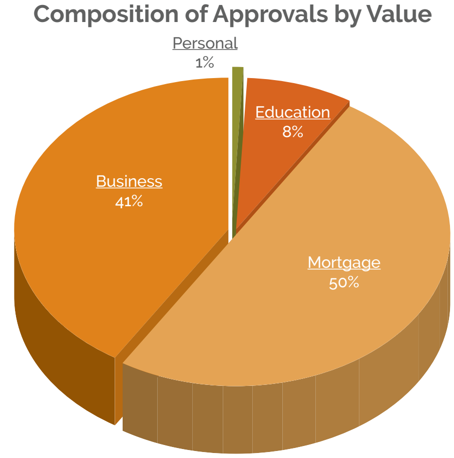
Loan Approvals
(In Millions)



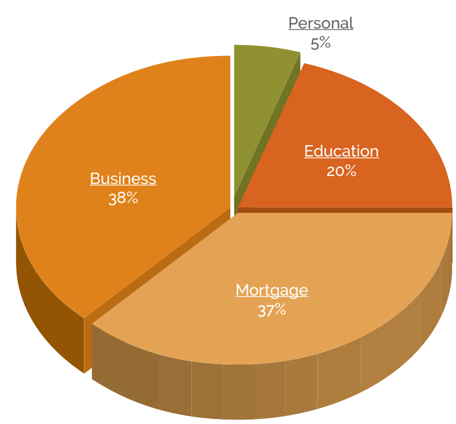
Home mortgage loans accounted for 49.57% of the value and 37% of the number of loans approved in 2018. The business sectors together totaled 41% by value and 38% by number. Education comprised 8% and 20% by value and number respectively.

Notwithstanding the aforementioned, of the 149 loans approved in 2018, 56 were Business, 55 Home mortgage loans, 30 education loans and 8 Personal loans. Although more persons benefited from Business loans than the other sectors, the average size of the Home mortgage loans was bigger than that of the other sectors hence the higher value of Mortgage loans.

Composition of Approvals by Value



Composition Of Approvals By Number Of Loans

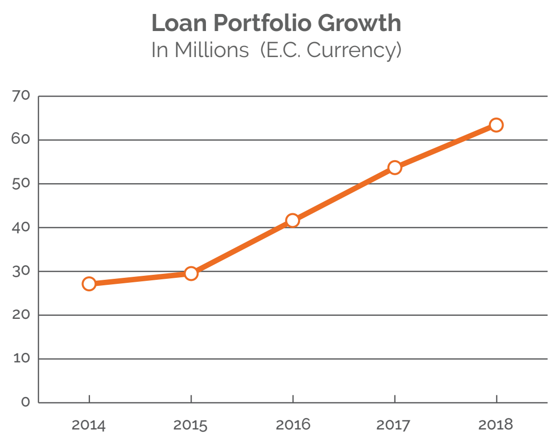


Government has articulated adequate affordable housing as a priority area for development. The Bank's market intelligence revealed that despite the increased aggressiveness on the part of the other financial institutions with their packaging and promotion of Home mortgage loans, the GDB's focal segment of the market was still not adequately catered for. The Bank focuses on low and lower middle income earners most of whom found it difficult to meet the qualifying criteria of these institutions. It was therefore imperative that the Bank as an agent of the Government take steps to ensure that this segment of the market is not marginalized.

PORTFOLIO GROWTH

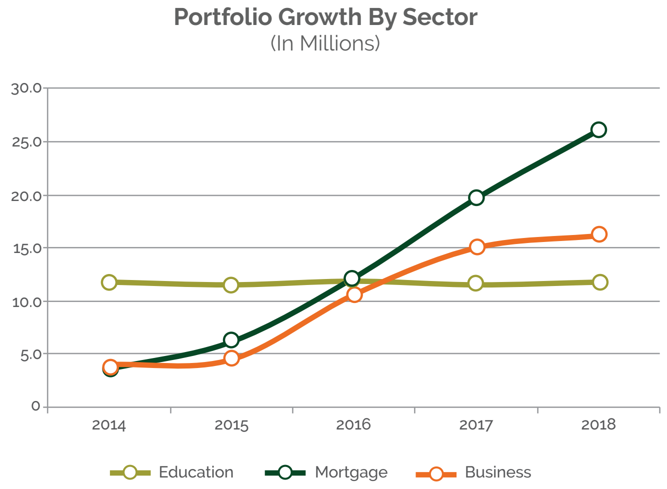
GDB's total loan portfolio as at December 31st 2018 was $63.478 million, up from $27.084 million in 2014; achieving a total growth of 134%.

The following illustrates the Bank's loan portfolio growth over the past five years.



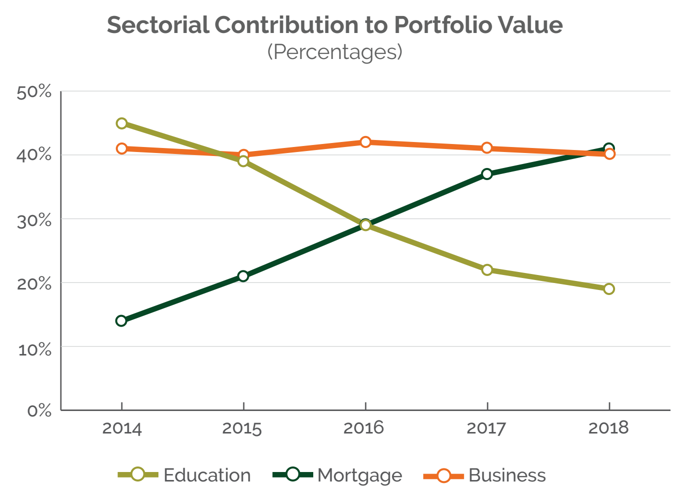
Loan growth was led by residential mortgages which moved from $3.602 million in 2014 up to $26.065 million in 2018 registering an overall growth for the period of $22.463 million or 623%. Together, the Business loans comprising Fishing, Agriculture, Tourism and other businesses grew by $12.131 million or 301% moving from $4.025 million in 2014 to $16.156 million in 2018. During the same period, Education loans remained fairly constant at $11.795 million in 2014 and $11.789 million in 2018. The chart hereunder shows the growth by sector:

Click the Video to play

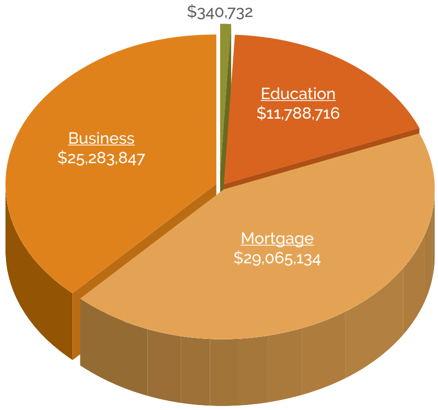


PORTFOLIO COMPOSITION

As at December 2018, 41% of GDB's loan portfolio consisted of Home mortgages loans, an increase from 37% in 2016. Over the past five years, Home mortgages moved from 14% of the portfolio in 2014 to 41% in 2018. During the same period, the percentage contribution of Business loans remained relatively constant at 41% in 2014 reaching up to 42% in 2017 and 40% in 2018. At the same time, the percentage contribution of Education loans reduced from 45% in 2014 to 19% in 2018.

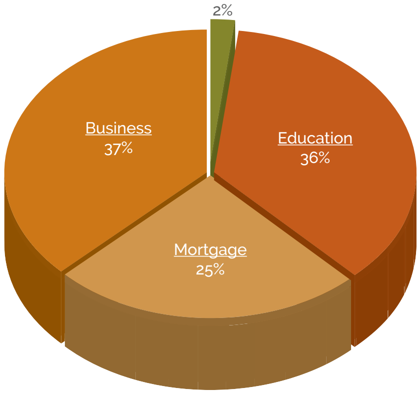


Sectorial Contribution By Value



Despite the significant increase in the percentage contribution of Home mortgage loans to the value of the portfolio, in terms of number of loans its percentage contribution is much less and the distribution is much more even among Business, Education and Home mortgage. As at December 31st 2018, home mortgages amounted to 154 out of a total of 604 loans constituting 25.50%, Education with 218 loans constitutes 36.09% and Business with 222 loans constitutes 36.75%. Consequently, more persons benefited from Business loans than Mortgage or Education loans.

Sectorial Contribution By Number of Loans

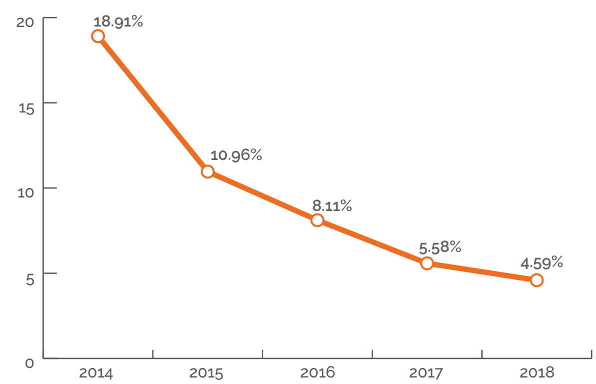


PORTFOLIO QUALITY

Loans are considered past due or delinquent once the installments/payments are not made within five days of the agreed date and until all past due amounts are paid in full. Loans past due in excess of 90 days are automatically converted to non-accrual status and constitute non-performing loans or NPLs. As at December 31st 2018, NPLs totaled $2,910,822.60 constituting 4.59% of the total loan portfolio, an improvement from December 2017 when it constituted 5.58% of the portfolio. From 2014 to 2018, percentage NPLs moved from 18.91% to 4.59%.

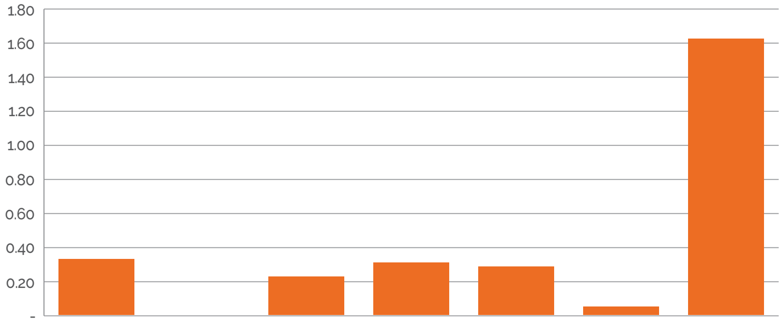
The aforementioned is a direct consequence of annual increases in the total portfolio coupled with reductions in the value of NPLS.

Changes in NPLs
(In Percentages)



Click the Video to play

Aging of NPLs as at December 31st 2018
(In Millions)



	0 - 90 Days	91 Days - 1 Year	1 - 3 Years	3 -5 Years	5 - 8 Years	8 - 10 Years	Over 10 Years
Principal Balance	$327,170.9	$0.00	$231,355.3	$322,472.6	$246,794.4	$146,508.6	$1,636,520

NPLs By Sector

	Personal	Mortgage	Business	Education
Non-Performing	0.00%	0.12%	19.77%	6.16%
Current	100.00%	99.88%	98.25%	93.84%

Click the Video to play

It is noteworthy that the NPLs are for the most part long outstanding debts with over 50% being delinquent in excess of 10 years.

CONCLUSION

In recent years, the Grenada Development Bank concentrated on improving its operations in an effort to better fulfill its mandate as the only state owned financial institution. To this end, it took a number of actions including:

» Strengthening the governance structure policy and procedures.

» Addressing the high level of non-performing loans.

» Mobilizing appropriate financing.

Having successfully addressed the aforementioned, the Bank then set out to strengthen its financial position focusing on portfolio growth which directly impacts its revenues, minimizing costs and increasing efficiency among other measures. As the Bank sought to increase its portfolio, it found it was expedient to concentrate on the Home mortgage sector. This effectively allowed it to address a critical developmental need while at the same time improve the risk profile by increasing the least risky segment of its lending.

The Bank is now better poised to more meaningfully address other critical sectors in 2019. To this end, it has decided to concentrate on effectively re-engaging the Agriculture sector and play a more meaningful role in financing the productive sectors such as Agro-processing, Manufacturing, Fishing and Tourism especially in the areas of product development and services. In addition, Energy Efficient and Renewable Energy initiatives are paramount on the Bank's agenda as focus is placed on climate financing as part of its sustainable development thrust. The Bank sees this as critical in addressing the socio-economic development of the country.

Marketing Communications, *Public Relations*

Guided by the objective of the Bank's 2018 Communications Plan 'to increase visibility and improve the image of the Grenada Development Bank', the year under review saw a heightened focus on Integrated Marketing Communications for the Bank. A number of marketing and public relations activities amounting to $32, 342.81 were executed this year.

GDB @ YOUR DOORSTEP

A public relations vehicle launched as part of the Bank's 53rd Anniversary celebrations in July with the aim of further exposing the Bank to potential customers. This activity involves the Bank setting up a 'satellite office' in a chosen community once every quarter, with the first being held in the Esplanade Mall Courtyard, St. George's and the second at the Grenville Car Park, St. Andrew.

STUDENT MIXER

Held on July 16th, 2018, this activity brought together an ensemble of past, current and potential tertiary students in a social setting, where students received pertinent information and guidance and included discussions on stress management, cultural adaptation and money management.

PARTICIPATION IN EXPOSITIONS

Throughout the year, the Bank partnered with the Department of Co-operatives journeying around the island promoting both the Bank as an option for financing and co-operatives as a business opportunity.

There were also collaborations with other institutions as the Bank participated in a number of expositions island-wide including Lighting the Pathway Expo, Services Expo and the Buy Local Campaign.

CORPORATE IMAGE

The Bank expended a total of $14.783.62 towards corporate image improvement in 2018.

ANNIVERSARY CELEBRATIONS

The Bank celebrated its 53rd anniversary on July 19th, 2018. This was commemorated with a week of activities including:

Launch of re-designed Website - Originally designed in 2010, the re-designed site which is a more user-friendly, interactive platform was launched on July 18th, 2018.

Customer Appreciation Day - Held on the Bank's Anniversary, July 19th, customers (walk-in, local media, social media) were treated to giveaways, breakfast, lunch and snacks for a day.

CHRISTMAS PROMOTION

The Bank through its '12 Days of Christmas' promotion treated customers with a number of giveaways for a 12 day period during the holiday season.

BUSINESS OF THE YEAR NOMINATION

A notable moment for the Bank was being shortlisted for the Grenada Chamber of Industry and Commerce's Business of the Year Award.

CORPORATE SOCIAL RESPONSIBILITY

The Bank in 2018 supported a diverse range of initiatives organised by non-profit clubs and institutions to the tune of $16,114.13.

These included:

» Various sports activities

» Education Institutions

» Charitable organisations and community causes

» Socio- economic development

» Health causes

» Culture

SMALL BUSINESS
Development Fund

The Small Business Development Fund (SBDF) was established in September, 2013 as an initiative of the Government of Grenada in collaboration with the Grenada Development Bank.

The SBDF Programme was one of the economic strategies introduced to improve the access to financing for small and micro businesses to foster job creation and economic stimulation, curb the then high level of unemployment, stimulate entrepreneurial spirit especially among the youth, change the mind-set of persons seeking employment and provide funding for the sustenance of existing businesses and Small and Micro Enterprises (SMEs) who would not usually qualify for funding from the Commercial Financial Sector due to high collateral requirements.

The Programme is administered by the Grenada Development Bank (GDB) and is governed by a Memorandum of Understanding (MOU) between the Ministry of Finance and the Grenada Development Bank (GDB) and functions as a semi-autonomous department within the Bank.

The Small Business Development Fund (SBDF) is managed by a committee appointed by Cabinet with authority to approve all SBDF loans.

MILESTONES

As the programme celebrates its first five (5) years of financial services to the Micro Sector, the following are some of its major milestone achievements:

» Over 850 loans were approved and disbursed with a value of just over $9M injected primarily into the local economy.

» The fishing sector has been the major beneficiary of the fund with 140 loans approved with a total value of approximately $2.2M. These funds were disbursed primarily to local suppliers, boat builders, marine engine mechanics, etc. resulting in the associated economic benefits within the local communities, with over 70% of the beneficiaries coming from the rural communities.

» Traditionally, insurance companies do not provide coverage for small wooden fishing crafts. As a result of the significant injection of the SBDF into the fishing sector, several of these companies are now offering Marine Insurance Coverage at competitive rates thus providing a greater sense of security and mitigating against the associated risks within that very important sector.

OVER $9M INJECTED PRIMARILY INTO THE LOCAL ECONOMY

OVER 850 LOANS APPROVED & DISBURSED

140 LOANS APPROVED FOR THE FISHING SECTOR

66 CRUISE SHIP ASSISTANCE LOANS WERE APPROVED VALUED AT $235,000

- Cruise Ship Assistance: Sixty-six loans were approved valued at $235,000 in response to the needs of a number of young persons who were being recruited by cruise companies but did not have the funding to acquire the requisite visas, medical certification and other related expenses to allow them to take up the positions. This resonated into job-creation and the associated inflow of remittances into the local economy and an improvement in the livelihood of these individuals, their relatives and friends.

- The fund has successfully accomplished one of its initial primary objectives which is employment impact through the creation and sustenance of over 1200 jobs. This has impacted the lives of an estimated 5,000 individuals based on an average household of five (5) persons which is the general local benchmark.

- Over the five years of the programme, the Government has injected funding of $6.7M while over $5.8M in collections have been reinvested in new loans making this a revolving loan scheme which is gradually becoming a self-sustained revolving fund - the first for any Government Micro Programme.

- With regard to delinquency, loans which were not being serviced was just over 12.5% as at December 30th, 2018 which is considered a major achievement as compared to previous similar local regional Micro Finance programs.

The SBDF is fulfilling its obligation of employment creation through the funding of various projects, playing a major role in the attempt by Government to change the cultural dynamics of moving away from job seekers to innovators, entrepreneurs and employers creating not only self-employment but full and part time employment through agriculture , fishing, light manufacturing, retail and the service industry.

The Small Business Development Fund is fulfilling its obligation in Building Grenada and creating a Sustainable Future.

FINANCIAL
Analysis

2018 Continued Growth Momentum for the GBD

$446.3K

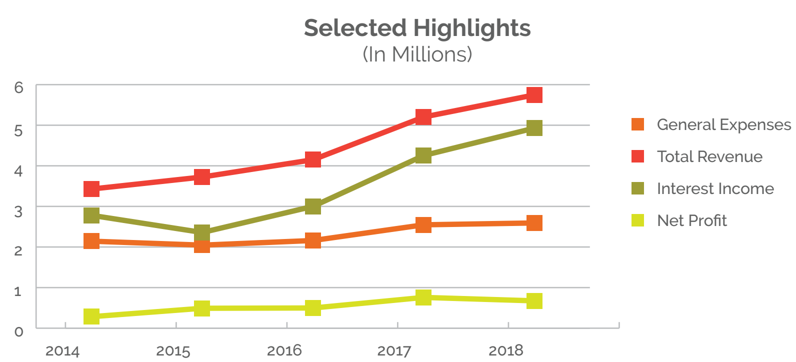
Revenue Increased by 10.3% ($446.3K) ; 2018: $4.78M ; 2017: 4.34M

$561.3K

11th consecutive year of profits - Net Profit - 2018: $561.3K ; 2017: $631.5K

$11.6M

Assets grew by 18.3% ($11.6M) ; 2018: $74.7M ; 2017: $63.1M

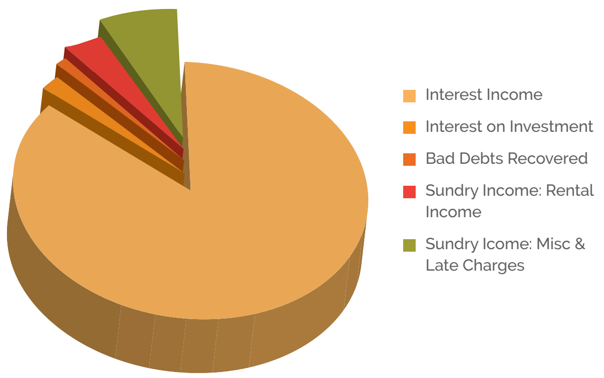


COMPARATIVE FINANCIAL SUMMARY

Selected Financial Highlights	2018	2017	2016	2015	2014	2013
Net Profits	561,324	631,487	414,660	408,834	236,100	285,827
Total Revenue	4,781,493	4,335,218	3,458,002	3,103,241	2,856,531	2,601,933
Interest Income	4,107,637	3,545,263	2,500,422	1,964,641	2,317,189	2,044,382
Investment Income	92,342	88,576	218,422	117,779	105,129	101,252
Income from Recoveries	48,505	235,038	312,706	693,923	217,915	371,658
Other Income	533,009	466,341	426,451	326,898	216,298	84,641
Total Expenditure	4,220,169	3,703,731	3,043,341	2,694,406	2,620,431	2,316,106
Bad Debts	159,342	110,229	113,975	239,658	159,746	110,034
Interest Expense	1,705,174	1,259,910	917,780	546,213	507,589	508,389
General Expenses	2,144,622	2,091,380	1,758,069	1,704,823	1,778,013	1,53,607
Total Assets	74,706,160	63,147,602	56,636,175	46,869,347	35,842,896	32,732,202
Total Equity	24,496,449	24,135,890	23,824,914	23,441,353	22,386,053	17,706,034

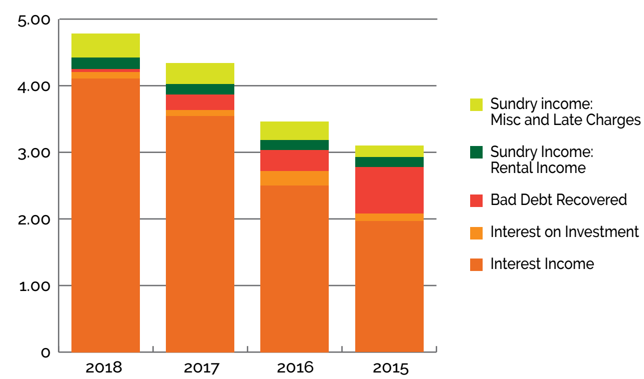
Net profit of $1,618,908 Adjusted downwards by $1,333,081 being debt forgiveness on Balance on EIB loan as per loan agreement

Revenue Categories



2018 Revenue compared with previous years

(In Millions)



REVENUE & EXPENDITURE

REVENUE

In 2018, The Grenada Development Bank continued to build on the achievements of the past years and the momentum of increased growth resulting in a 10.3% {$446.3K} increase in revenues from $4.33M in 2017 to $4.78M in 2018. The main factor driving this growth was interest income which accounted for 86% or $4.11M of total revenue.

The Bank placed emphasis on connecting with the people of the State of Grenada to fulfil their current, future and latent needs. This emphasis resulted in an overall portfolio growth of 18.3% or $9.75M. Mortgage, Business and education financing contributed 85% to the overall portfolio.

Interest income grew by $562.4K or 15.9% to $4.11M in 2018 from $3.55M in 2017. It is fitting to say that by financing loans within the various sectors, the Bank was able to positively contribute towards the socio-economic development of Grenada, Carriacou and Petit Martinique.

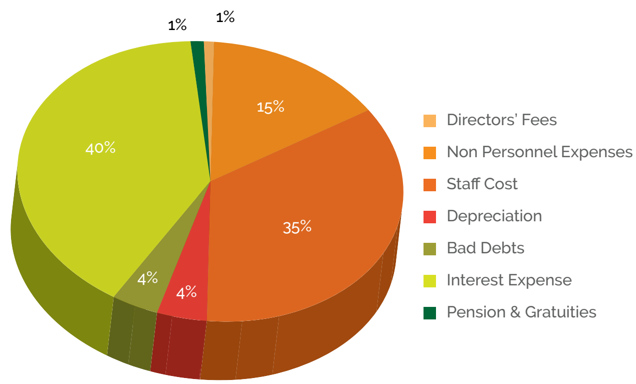
EXPENDITURE

Total expenditure was $4.22M, an increase of $516.4K or 14% from $3.70M in 2017. Higher funding costs in the form of interest expenses , increase in bad debts due to the impact of IFRS9 and the reintroduction of a pension plan for staff contributed to this increase.

The movements in the expenditure categories are as follows:

» Interest expense which accounted for 40% of total expenditure, increased by $445K or 35% from $1.26M in 2017 to $1.71M in 2018. This was mainly due to an increase in the interest rate associated with one of the existing loans. In addition, service payments associated with additional amounts drawn down on existing lines resulted in an increase in our overall debt service payments. It is noteworthy that all loan obligations were honoured in full and in a timely manner during 2018.

2018 Expenditure Categories

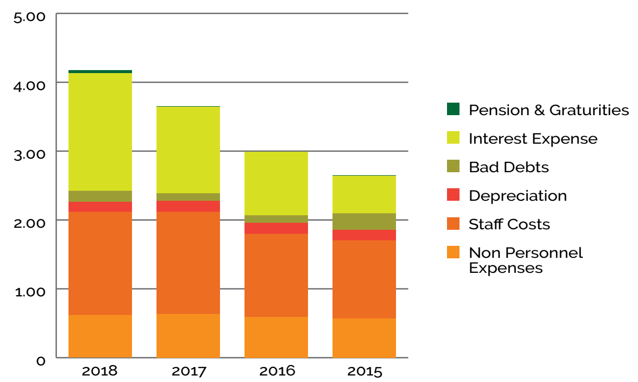


» Staff Costs, which accounted for 35% of total expenditure, increased by $15.4K or 1% from $1.48M in 2017 to $1.50M in 2018. This was mainly due to salary increases, increment and merit payments, increase in the staff complement and awards to staff.

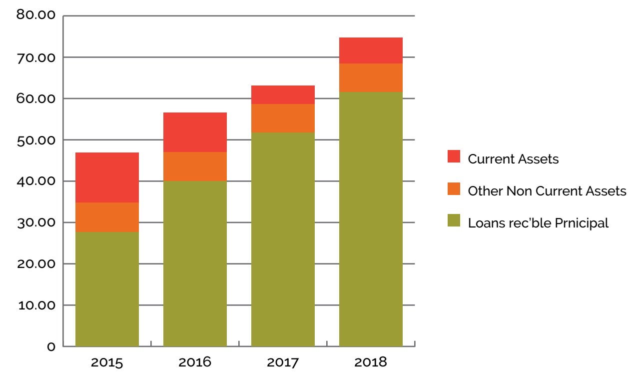
» The Non personnel component of General expenses which accounted for 15% of total expenditure decreased by $18K or 3% from $636K in 2017 to $617.6 in 2018. This was due to the management of our occupancy, finance and communication costs during the year while supporting the economy through donations to sports, schools and institutions.

» Pension costs which accounted for 4% of total expenditure increased by $41K as a result of the reintroduction of a group pension plan for staff.

2018 Expenditure compared with previous years
(In Millions)



Asset Growth, 2015-2018
(In Millions)



PROFITABLITY

2018 marks the 11th year that the Bank has realised operating profits. This achievement resulted in a Net profit of $561.3K, an increase of 35% or $146.7K over the 2016 results. The Bank achieved an ROA of 0.81% and a profit margin of $11.74 % was achieved in 2018.

DIVIDENDS – DECLARED FOR THE THIRD CONSECUTIVE YEAR

It is against the backdrop of a stable 2018 financial performance that the Board of Directors declared dividends amounting to $42,099.00 to the sole shareholder, the Government of Grenada.

It is noteworthy that this is the third consecutive year that dividends have been declared since the Bank's inception 52 years ago.

BALANCE SHEET

GDB'S FINANCIAL POSITION

ASSETS

As at December 31st 2018, total assets amounted to $74.7M compared to $63.1M in 2017. This growth in assets of $11.6M or 18.3% was mainly due to the increase in Advances- Principal which accounted for 82% of total assets. This category of assets grew by $9.8M or 18.8% from $51.7M in 2017 to $61.5M in 2018.

LIABILITIES

Total liabilities increased by 29% or $11.20M from $39.01M in 2017 to $50.2M in 2018. This was mainly due to an increase in the long term borrowings which accounted for 98% or $49.4M. Additional amounts were drawn down in 2018 from our Caribbean Development Bank and Petro Caribe lines of credit totalling $12.6M.

EQUITY

Shareholder Equity increased by $360.6K or 1.49% moving from $24.1M in 2017 to $24.5M in 2018. The equity base continues to provide a platform for the Bank to connect, finance and develop the economy of Grenada, Carriacou and Petit Martinique.

The **Debt to Equity ratio** (total debt to total equity) increased to 2.04:1 compared to 1.62:1 in 2018. This was due to increased borrowing in 2018 of $12.6M. The standard requires a maximum ratio of 4:1, so the Bank can therefore borrow up to $47.8M without the need for additional equity.

The **Gearing ratio** (total debt to total assets) was 67% compared to 62% in 2017.

AUDITED FINANCIAL REPORT 2018

DIRECTOR OF AUDIT REPORT

TO THE HOUSE OF REPRESENTATIVES ON THE FINANCIAL STATEMENTS OF THE GRENADA DEVELOPMENT BANK FOR YEAR ENDED 31 DECEMBER 2018

Section 9 of the Audit Act CAP. 22A of the Laws of Grenada permits me as Director of Audit, to delegate my responsibility or power under the Act, other than the responsibility to make a report to the Minister or an appropriate Minister that is to be laid before the House of Representatives, to a professional auditor entitled by law to practice accounting in Grenada.

The Minister shall, not later than seven days after the House of Representatives first meets, after he has receive the report together with the financial statements and the annual report of the Grenada Development Bank, lay it before the House of Representatives. This is in compliance with Section 82(4) of the Constitution of Grenada.

I had delegated my responsibility to PKF Accountants and Business Advisers to conduct the audit of the financial statements of the Grenada Development Bank in accordance with appropriate auditing standards; I have also delegated my powers to access records and obtain information under Section 19 of the Audit Act CAP. 22A of the Laws of Grenada. I have accepted the audit of the Bank's financial statements for the period ended 31 December 2018.

AUDITORS OPINION

PKF have audited the financial statements of the Grenada Development Bank, which comprise the statement of financial position at 31 December 2018, 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 their opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BASIS FOR OPINION

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

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 alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

DIRECTOR OF AUDIT REPORT

TO THE HOUSE OF REPRESENTATIVES ON THE FINANCIAL STATEMENTS OF THE GRENADA DEVELOPMENT BANK FOR YEAR ENDED 31 DECEMBER 2018

...(continued)

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

PKF 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 and auditors' report that includes their opinion. Reasonable assurance is a high level 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, they exercise professional judgment and maintain professional scepticism throughout the audit. They 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 evidence that is sufficient and appropriate to provide a basis for their 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.

» 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 relate to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If they conclude that a material uncertainty exists; they are required to draw attention in their auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify their opinion. Their conclusions are based on the audit evidence obtained up to the date of their 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.

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

....

Francis Hosten
DIRECTOR OF AUDIT (AG.)

18 June 2019
AUDIT OFFICE
GRENADA

Pannell House | P.O. Box 1798 | Grand Anse | St. George's
Grenada | West Indies
Tel (473) 440-2562/3014/2127/0414
Fax (473) 440-6750 | Email pkf@spiceisle.com

PKF

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND THE MINISTER OF FINANCE, PLANNING, ECONOMIC DEVELOPMENT AND PHYSICAL DEVELOPMENT AND GRENADA DEVELOPMENT BANK

OPINION

We have audited the financial statements of Grenada Development Bank (the "Bank"), which comprise the statement of financial position at December 31st, 2018, 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, 2018 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.

OTHER INFORMATION INCLUDED IN THE BANK'S 2018 ANNUAL REPORT

Other information consists of the information included in the Bank's 2018 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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.

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.

Partners: Henry A. Joseph FCCA (Managing), Michelle A. Millet B.A., CPA, CGA (Mrs.), Michelle K. Bain ACCA (Miss.)

PKF

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND THE MINISTER OF FINANCE, PLANNING, ECONOMIC DEVELOPMENT AND PHYSICAL DEVELOPMENT AND GRENADA DEVELOPMENT BANK

...(continued)

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

» 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

PKF

May 9th, 2019

Accountants & Business Advisers

STATEMENT OF FINANCIAL POSITION

AT 31ST DECEMBER, 2018

	Notes	2018	2017
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	5,679,304	5,815,141
Investment securities - Equity	5	25,001	25,001
Investment securities - Debt	5	950,000	1,000,000
Deferred asset	6	228,989	-
		6,883,294	6,840,142
Advances - Principal	7	61,535,916	51,785,976
TOTAL NON-CURRENT ASSETS		68,419,210	58,626,118
Current Assets			
Advances – Interest	7	242,608	233,970
Other assets	8	140,861	172,284
Investment securities - Deposits	5	1,475,450	1,406,263
Cash and cash equivalents	9	4,428,031	2,708,967
		6,286,950	4,521,484
TOTAL ASSETS		$74,706,160	$63,147,602
EQUITY AND LIABILITIES			
Government's Equity			
Capital grants	10	1,040,000	1,040,000
Capital contribution	11	16,293,047	16,293,047
Reserve fund	12	1,455,951	1,315,620
Revaluation reserve	13	3,060,353	3,060,353
Retained earnings		2,647,098	2,426,870
		24,496,449	24,135,890
Non-Current Liabilities			
Long-term borrowings	14	47,358,523	35,577,504
Current Liabilities			
Other liabilities	16	738,441	695,506
Short-term borrowings	14	2,063,163	2,665,012
Amount due to projects	17	49,584	73,690
		2,851,188	3,434,208
TOTAL LIABILITIES		50,209,711	39,011,712
TOTAL EQUITY AND LIABILITIES		$74,706,160	$63,147,602

The accompanying notes form an integral part of these financial statements

Approved by the Board of Directors on April 18th, 2019 and signed on its behalf by:

_______________: Director   _______________: Director

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER, 2018

	Notes	2018	2017
INTEREST INCOME			
Interest on loans	20	4,107,637	3,545,263
Interest on investments		92,342	88,576
		4,199,979	3,633,839
Interest expense	21	(1,705,174)	(1,259,909)
Net interest income		2,494,805	2,373,930
Other income	22	581,514	701,379
		3,076,319	3,075,309
EXPENDITURE			
Directors fees and expenses		(46,593)	(53,963)
General expenses	24	(2,144,622)	(2,091,380)
Depreciation		(148,910)	(157,377)
Commitment fees		(15,528)	(30,873)
Expected credit losses		(159,342)	(110,229)
		(2,514,995)	(2,443,822)
Surplus for the year		561,324	631,487
Transfer to reserve fund		(140,331)	(157,872)
Net surplus for the year		$420,993	$473,615

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN GOVERNMENT'S EQUITY

FOR THE YEAR ENDED 31ST DECEMBER, 2018

	Reserve Fund	Capital Grant	Revaluation Reserve	Capital Contribution	Retained Earnings	Total
Balance at 1st January, 2017	1,157,748	1,040,000	3,060,353	16,559,792	2,007,021	**23,824,914**
Net movement in capital contribution	-			(266,745)	-	**(266,745)**
Net surplus for the year	-			-	631,487	**631,487**
Allocation to reserve	157,872			-	(157,872)	**-**
Dividends	-			-	(53,766)	**(53,766)**
Balance at 31st December, 2017	1,315,620	1,040,000	3,060,353	16,293,047	2,426,870	**24,135,890**
Net impact of adopting IFRS 9 (Note 2(b)(i)	-			-	(200,765)	**(200,765)**
Restated opening balance under IFRS 9	1,315,620	1,040,000	3,060,353	16,293,047	2,226,105	**23,935,125**
at 1st January, 2018	-			-	561,324	**561,324**
Net surplus for the year	140,331				(140,331)	**-**
Allocation to reserve						
Balance at 31st December, 2018	**$1,455,951**	**$1,040,000**	**3,060,353**	**16,293,047**	**$2,647,098**	**$24,496,449**

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER, 2018

	Notes	2018	2017
INTEREST INCOME			
Net surplus for the year		561,325	631,487
Adjustment for:			
Depreciation		148,910	157,377
Net impact of adopting IFRS 9		(200,765)	-
Change in non-cash items		509,470	788,864
Increase in advances		(9,749,940)	(11,778,528)
Increase in deferred asset		(228,989)	-
Decrease in other assets		72,785	54,938
Increase/(decrease) in other liabilities		96,702	(23,664)
Decrease in amounts due to project		(24,107)	(183,099)
Net cash used in operating activities		(9,324,079)	(11,141,489)
EXPENDITURE			
(Increase)/decrease in investment securities		(69,187)	443,227
Purchase of property, plant and equipment		(13,073)	(23,754)
Net cash used in investing activities		(82,260)	419,473
EXPENDITURE			
Dividends paid		(53,767)	(266,745)
Increase in Government Capital Contribution		-	6,384,547
Net movement in borrowings		11,179,170	
Net cash provided by financing activities		11,125,403	6,086,703
Net increase/(decrease) in cash and cash equivalents		1,719,064	(4,635,313)
Cash and cash equivalents – at beginning of the year		2,708,967	7,344,280
- at end of the year	9	$4,428,031	$2,708,967

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2018

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) *Changes in accounting policies and disclosures*

i. New accounting policies/improvements adopted

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Banks's annual financial statements for the year ended December 31, 2017 except for the adoption of new standards and interpretations below.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January, 2018 and are disclosed in this note.

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity (HTM) and loans and receivables (L&R) have been replaced by:

2. SIGNIFICANT ACCOUNTING POLICIES *(...CONTINUED)*

(b) Changes in accounting policies and disclosures (...Continued)

i. New accounting policies/improvements adopted (...Continued)

- Debt instruments at amortised cost (AC)
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at fair value through profit or loss (FVPL)

The accounting for financial liabilities remains largely the same as it was under IAS 39 which is at amortised cost.

The Bank's classification of its financial assets and liabilities is in Note 2(g). The quantitative impact of applying IFRS 9 as at 1st January, 2018 is disclosed in the transition disclosures in this note.

Changes to impairment calculation

The adoption of IFRS 9 has changed the Bank's accounting for financial assets impairment by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all financial assets not held at FVPL. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

IFRS 7 Financial Instruments: Disclosures Revised

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 - Financial Instruments: Disclosures revised was up-dated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January, 2018. Changes include transition disclosures as shown in this Note.

Transition disclosures

The following sets out the impact of adopting IFRS 9 on the statement of financial position, which is the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

2. SIGNIFICANT ACCOUNTING POLICIES *(...CONTINUED)*

(b) *Changes in accounting policies and disclosures (...Continued)*

i. *New accounting policies/improvements adopted (...Continued)*

			Reclassification	Remeasurement		IFRS 9
	Category	Amount	Amount	ECL	Amount	Category
Financial assets						
Cash and cash equivalents	L&R	2,708,967	-	-	2,708,967	AC
Other assets	L&R	172,284	-	-	172,284	AC
Loan receivable – interest	L&R	233,970	-	-	233,970	AC
Advances - Principal	L&R	51,785,976	-	(150,765)	51,635,211	AC
Investment security – Deposit - AC						
From loans and receivable financial assets – L&R		-	1,406,263	-	1,406,263	AC
Investment securities – Debt - AC						
From held-to-maturity financial assets – HTM		-	1,000,000	(50,000)	950,000	AC
		54,901,197	**2,406,263**	**(200,765)**	**57,106,695**	
Held to maturity and loans and receivable financial assets		2,406,263	-	-	-	
To investment security – Debt - AC		-	(1,000,000)	-	-	
To investment security – Deposit -AC		-	(1,406,263)	-	-	
		2,406,263	**(2,406,263)**	**-**	**-**	
Available for sale financial asset		25,001	-	-	-	
To investment security - equity – FVPL		-	(25,001)	-	-	FVFL
		25,001	**(25,001)**	**-**	**-**	
Investment security - FVPF		-	25,001	-	25,001	
From available to sale financial assets - AFS						
		$57,332,461	**$ -**	**$(200,765)**	**$5,713,696**	
Financial liabilities		695,506	-	-	695,506	AC
Other liabilities		73,690	-	-	73,690	AC
Amount due to project		38,242,516	-	-	38,242,516	AC
Borrowings						
		$39,011,712	**$ -**	**$ -**	**$39,011,712**	

2. SIGNIFICANT ACCOUNTING POLICIES *(...CONTINUED)*

(b) Changes in accounting policies and disclosures (...Continued)

i. New accounting policies/improvements adopted (...Continued)

As of 1 January 2018, the Bank has re-classified its previous loans and receivable and held-to-maturity financial assets portfolio as investment securities at amortised cost. These instruments met the solely payments of principle and interest (SPPI) criterion, were not actively traded and were held with the intention to collect cash flows and without the intention to sell.

The Bank has elected the option to irrevocably designate its previous available-for-sale equity securities as equity securities at FVPL since the portfolio is small and there would be minimal differences when accounting for these at FVOCI.

The Bank's IFRS 9 categories therefore include amortised cost (AC) and fair value through profit or loss (FVPL).

The following table reconciles the aggregate opening financial asset impairment under IAS 39 to the ECL allowances for financial assets under IFRS 9.

The impact of the transitions to IFRS 9 on retained earnings:

Balance under IAS 39 at 31st December, 2017	2,426,870
Initial recognition of IFRS 9 ECLs	(200,765)
Balance under IFRS 9 at 1st January, 2018	$2,226,105

	Financial asset impairment under IAS 39 at 31 December 2017	Remeasurement	ECLs under IFRS 9 at 1 January 2018
Reconciliation of opening impairment under IAS 39 to ECL allowance under IFRS 9.			
Advances per IAS 39 to amortised cost under IFRS 9	1,679,540	150,765	1,830,305
Other assets	1,085,047	-	1,085,047
Investment security - debt	-	50,000	50,000
	$2,764,587	$200,765	$2,965,352

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

2. SIGNIFICANT ACCOUNTING POLICIES *(...CONTINUED)*

(b) Changes in accounting policies and disclosures (...Continued)

i. New accounting policies/improvements adopted (...Continued)

IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in scope for other standards, such as IAS 17 – Leases (or IFRS once effective). It also provides a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets including property, equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 must be applied using a five-step model:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The standard is more prescriptive than the current IFRS requirements for revenue recognition and provides more application guidance. The disclosure requirements are also more extensive.

When IFRS 15 is adopted, it can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or a modified retrospective approach which is applied as an adjustment to retained earnings on the date of adoption. When the latter approach is applied it is necessary to disclose the impact of IFRS 15 on each line item in the financial statements in the reporting period.

The adoption of this standard has no impact on the Bank.

2. SIGNIFICANT ACCOUNTING POLICIES *(...CONTINUED)*

(b) Changes in accounting policies and disclosures (...Continued)

i. New accounting policies/improvements adopted (...Continued)

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (effective 1 January 2018)

The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transactions
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The adoption of this standard has no impact on the Bank.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective 1 January 2018)

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The adoption of this standard has no impact on the Bank.

ii. Standards in issue not yet effective

The following is a list of standards and interpretations that are not yet effective up to the date of issuance of the Bank's financial statements. The Bank intends to adopt these standards where appropriate, when they become effective.

- Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement (Effective 1 January 2019)
- IFRS 16 Leases (Effective 1 January 2019)
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (Effective 1 January 2019)
- IFRS 17 insurance Contracts (Effective 1 January 2021)
- IFRS 10 and IAS 28 Sale or Contribution of Assets between an investor or Joint Venture – Amendments to IFRS 10 and IAS 28 (Effective date postponed indefinitely)
- IFRS 9 – Prepayment features with negative compensation (Effective 1 January 2019)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

2. SIGNIFICANT ACCOUNTING POLICIES *(...CONTINUED)*

(b) Changes in accounting policies and disclosures (...Continued)

iii. Improvements to International Financial Reporting Standards

The annual improvements process of the International Accounting Standards Board deals with non-urgent but necessary clarifications and amendments to IFRSs.

The following amendments are applicable to annual periods beginning on or after 1 January 2019.

IFRS	Subject of Amendment
IFRS 3	- Business Combinations – Previously held interests in a joint operation.
IFRS 11	- Joint Arrangements – Previously held interests in a joint operation.
IAS 12	- Income Taxes – Income tax consequences of payments on financial instruments classified as equity.
IAS 23	- Borrowing Costs – Borrowing costs eligible for capitalization.

(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) 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:

	Per annum
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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(...CONTINUED)*

(d) Property, Plant and Equipment (...Continued)

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.

(e) Cash and Cash Equivalents

Cash and cash equivalents comprises cash on hand and at bank.

(f) 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.

(g) Financial instruments

i. Classification and measurement

Initial recognition

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Bank recognises deposits with financial institutions and loans to borrowers on the date on which they are originated. All other financial instruments (including regular-way purchases and sale of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss (FVPL) whereby transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

From 1st January, 2018 the Bank classifies all of its assets at either:

» Amortised cost or

» FVPL

Before 1st January, 2018 the Bank classified its financial assets as loans and receivables, held-to-maturity and available-for-sale.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

2. SIGNIFICANT ACCOUNTING POLICIES *(...CONTINUED)*

(g) Financial instruments (...Continued)

i. Classification and measurement (...Continued)

The Bank retained the existing requirements in IAS 39 for the classification of financial liabilities which is at amortised cost.

Amortised cost

From 1st January, 2018 the Bank measures its cash and cash equivalents, debt and deposit securities, advances and other assets at amortised cost. Financial assets are measured at amortized cost if both of the following conditions are met:

» The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and

» The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Financial assets at fair value through profit or loss

Financial assets in this category are those that are designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9.

Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by - instrument basis:

» The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a diferent basis, or

» The assets (until 31st December, 2017, under IAS 39) are part of a group of financial assets under IAS 39, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets at FVPL are recorded in the statement of financial position at fair value.

Changes in fair value are recorded in profit and loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income, using the Effective Interest Rate (EIR), taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument.

Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other income when the right to the payment has been established

ii. Impairment

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss (ECL) model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Bank to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. Therefore, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES *(...CONTINUED)*

(g) Financial instruments (...Continued)

ii. Impairment (...Continued)

From 1st January 2018 the Bank has been recording an allowance for expected credit losses for advances and investment securities.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Bank considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank.

Based on the above process, the Bank classifies its advances and investments ECLs into Stage 1, Stage 2 and Stage 3.

Stage 1
Advances and investments are first recognised, the Bank recognises an allowance based on 12 month ECLs. Stage 1 financial assets also include facilities where the credit risk have improved and the financial assets have been reclassified from Stage 2.

Stage 2
When advances and investments have shown a significant increase in credit risk since origination, the Bank records an allowance for the Lifetime ECLs. Stage 2 also include facilities, where the credit risk has improved and financial assets have been reclassified from Stage 3.

Stage 3
Advances and investments considered credit-impaired. Here the Bank records an allowance for the Lifetime ECLs.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD - The Probability of Default is an estimate of the likelihood of default over a given period of time. A default may only happen at a certain time over the asserted period, if the facility has not been previously derecognised and is still in the portfolio.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

2. SIGNIFICANT ACCOUNTING POLICIES *(...CONTINUED)*

(g) Financial instruments (...Continued)

ii. Impairment (...Continued)

EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date including repayments of principal and interest, whether scheduled by contract or otherwise.

LGD - The Loss Given Default is an estimate of the loss arising in the case were a default occurs at a given time. It is based on the difference between the contractual cash flows due and the cash flows expected to be received. It is usually expressed as a percentage of the EAD.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument.

Calculation of ECLs

Stage 1
The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD.

Stage 2
When financial assets have shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the loan.

Stage 3
For financial assets considered credit-impaired, the Bank recognises the lifetime expected credit losses for these financial assets. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Impairment of other financial assets

Cash at bank and short-term debt securities

The Bank's cash at bank and deposit investment securities are deposits placed with reputable institutions. The Bank therefore considers the risk of default to be low. The ECL on these instruments were therefore determined to be zero.

iii. Write offs

The gross carrying amount of a financial asset is written off to the extent that there is no realistic prospect of recovery. This is generally when the Bank determines that the borrower or debtor does not have assets or resources of income that would generate sufficient cash flows to repay the amount subject to the write-off.

2. SIGNIFICANT ACCOUNTING POLICIES *(...CONTINUED)*

(g) Financial instruments (...Continued)

iv. Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

v. Financial liabilities

When financial liabilities are recognised they are measured at fair value of the consideration given plus transactions costs directly attributable to the acquisition of the liability. Financial liabilities are re-measured at amortised.

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

(h) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(...CONTINUED)*

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.

Calculation of loss allowance

When measuring ECL, the Bank uses reasonable and supportive forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contract cash flows due and those that the lender would expect to receive, taking into account cash flows collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes data, assumptions and expectations of future conditions.

4. PROPERTY, PLANT AND EQUIPMENT

	Investment Securities -Debt	Investment Securities -Equity	Investment Securities -Deposits	Advances -Principal	Advances -Interest	Total $
Balance at 1st January, 2017						
Cost/Valuation	1,005,115	5,130,000	461,315	733,705	75,000	7,405,135
Accumulated depreciation	-	(256,500)	(418,016)	(706,855)	(75,000)	(1,456,371)
NET BOOK VALUE	$1,005,115	$4,873,500	$43,299	$26,850	$ -	$5,948,764
For the year ended 31st December, 2017						
Opening book value	1,005,115	4,873,500	43,299	26,850	-	5,948,764
Additions for the year	-	-	7,337	16,417	-	23,754
Depreciation charge for the year	-	(128,250)	(8,478)	(20,649)	-	(157,377)
NET BOOK VALUE	$ 1,005,115	$4,745,250	$42,158	$22,618	$ -	$5,815,141
Balance at 1stJanuary, 2018						
Cost /Valuation	1,005,115	5,130,000	468,652	750,122	75,000	7,428,889
Accumulated depreciation	-	(384,750)	(426,494)	(727,504)	(75,000)	(1,613,748)
NET BOOK VALUE	$ 1,005,115	$4,745,250	$42,158	$22,618	$ -	$5,815,141
For the year ended 31st December, 2018						
Opening book value	1,005,115	4,745,250	42,158	22,618	-	5,815,141
Additions for the year	-	-	10,045	3,028	-	13,073
Depreciation charge for the year	-	(128,250)	(8,773)	(11,887)	-	(148,910)
NET BOOK VALUE	$1,005,115	$4,617,000	$43,430	$13,759	$ -	$5,679,304
Balance at 31st December, 2018						
Cost/Valuation	1,005,115	5,130,000	478,697	753,150	75,000	7,441,962
Accumulated depreciation	-	(513,000)	(435,267)	(739,391)	(75,000)	(1,762,658)
NET BOOK VALUE	$ 1,005,115	$4,617,000	$43,430	$13,759	$ -	$5,679,304

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

5. INVESTMENT SECURITIES

The fair value of the Eastern Caribbean Securities Exchange shares were estimated at cost since insufficient information was available to measure at fair value.

	2018	2017
Equity securities at fair value through profit and loss (Previously available-for-sale under IAS 39)		
Eastern Caribbean Securities Exchange (Unquoted) 2,500 class C shares at $10.00 each cost	25,000	25,000
Financial Data Systems Limited (Unquoted) 60,000 shares of common stock at $1.00 each - cost	60,000	60,000
Less: Diminution in value of shares	59,999	59,999
	1	1
Total	$25,001	$1,679,540

The fair value of the Eastern Caribbean Securities Exchange shares were estimated at cost since insufficient information was available to measure at fair value.

	2018	2017
Short-term:		
Deposit securities at amortised cost (Previously loans and receivables under IAS 39)		
ARIZA Credit Union Limited		
- Fixed deposit	370,774	359,975
- Fixed deposit	1,060,000	1,030,000
Grenada Union of Teachers- Fixed deposit	16,776	16,288
RBTT Bank Grenada Limited - Term deposit	27,000	-
Total	$1,475,450	$1,406,263
Long-term:		
Debt securities at amortized cost (Previously held-to-maturity under IAS 39)		
Government of Grenada - 3% 2023 bond	950,000	1,000,000
Total	$2,425,450	$2,406,263

RBTT Bank Grenada Limited has a lien on the above term deposit which is being held as security for a credit card facility.

6. DEFERRED ASSET

The relates to the deferred exchange difference on the Caribbean Development Bank and CARICOM Development Fund borrowings.

7. ADVANCES - PRINCIPAL

	31/12/18	01/01/18 (Under IFRS 9)	31/01/17 (Under IAS 39)
Advances – principal	63,479,653	53,465,516	53,465,516
Less: Provision for expected credit losses	1,943,737	1,830,305	1,679,540
	$61,535,916	$51,635,211	$51,785,976
Accrued interest (3 months)	$242,608	$233,970	$233,970

Advances – principal by sector

	2018		2017	
Agriculture	2,172,598	3.42%	2,244,267	4.20%
Education	11,789,940	18.57%	11,533,393	21.57%
Fishing	1,054,207	1.66%	1,119,705	2.09%
Housing	26,065,135	41.06%	19,652,403	36.76%
Tourism	5,900,904	9.30%	3,681,432	6.89%
Personal	340,732	0.54%	224,419	0.42%
Other Business	16,156,137	25.45%	15,009,897	28.07%
	$63,479,653		$53,465,516	

Movements in provision for loan losses are as follows:

	2018	2017
Balance at the beginning of the year – Under IAS 39	1,679,540	1,610,745
Impact of adopting IFRS 9	150,765	-
Restated beginning balance – Under IFRS 9	1,830,305	1,610,745
Bad debts recovered	(44,418)	(41,434)
Increase in expected credit losses	157,850	110,229
Balance at end of the year	$1,943,737	$1,679,540

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

7. ADVANCES - PRINCIPAL *(...CONTINUED)*

Expected credit loss by sector

	2018	2017
Agriculture	779,952	782,859
Education	422,267	397,079
Fishing	79,146	-
Housing	946	5,573
Tourism	331,700	155,555
Personal	104,540	28,579
Other Business	225,186	309,895
Balance at end of the year	$1,943,737	$1,679,540

8. OTHER ASSETS

Matured investment – CLICO investment	810,000	810,000
Interest receivable	115,629	114,867
Accounts receivable	198,502	256,252
Prepayments	101,777	76,212
	1,225,908	1,257,331
Less: Provision for expected credit losses	1,085,047	1,085,047
	$140,861	$172,284

9. CASH AND CASH EQUIVALENTS

Cash on hand	1,200	1,200
Cash at bank	4,426,831	2,707,767
	$4,428,031	$2,708,967

10. 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

11. GOVERNMENT CAPITAL CONTRIBUTION

	2018	2017
Balance at 1st January, 2018	**16,293,047**	16,559,792
Reduction during the year	**-**	(266,745)
Balance at 31st December, 2018	**$16,293,047**	**$16,293,047**

12. 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.

13. 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.

14. BORROWINGS

(a) Caribbean Development Bank (Note 14)	**22,816,660**	15,225,447
(b) National Insurance Board	**1,755,113**	2,310,490
(c) CARICOM Development Fund	**6,091,173**	6,776,302
(d) Eastern Caribbean Home Mortgage Bank	**8,258,740**	8,930,277
(e) Petrocaribe	**10,000,000**	5,000,00
	49,421,686	38,242,516
Less: Short-term portion	**2,063,163**	2,665,012
Long-term portion	**$47,358,523**	**$35,577,504**

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 was charged at the rate of 7% per annum until August 31st, 2017. Effective September 1st, 2017, interest is charged at the rate of 5.75%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

14. BORROWINGS *(...CONTINUED)*

b. There are two (2) National Insurance Board loans as follows *(...Continued)*

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. Interest was charged at the rate of 7% per annum until August 31st, 2017. Effective September 1st 2017, interest is charged at the rate of 5.75%

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

c. Payments commenced in January 2017 over forty (40) equal quarterly instalment payments of $89,079 inclusive of interest. Interest is payable at the rate of 3% per annum.

d. The sum of $9,000,000 was made available and everything was withdrawn at year end.

e. 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.

f. The sum of $10,000,000 was made available and everything was withdrawn at year end. It is to be repaid over 16 years at a rate of interest of 3%. Principal payments will commence in July 2019.

15. CARIBBEAN DEVELOPMENT BANK - LOANS

		Foreign Currency		2018 EC$	2017 EC$
(a) 07/SFR -OR-GRN	Third consolidated line of credit	US$	**58,120**	157,413	314,827
(b) 11/SFR – GR	Sixth student loan (see note below)	US$	**13,848**	37,507	1,046,806
(c) 21/SFR-OR-GRN	Fourth consolidated line of credit	US$	**8,352,437**	22,621,740	13,863,814
				$22,816,660	$15,225,447

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

15. 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.	2.5% - 3.5% per annum. Payable quarterly.
(c) 21/SFR-OR-GRN	SFR portion (i) 60 equal quarterly instalments. (ii) 32 equal quarterly instalments. Repayment of SFR part (i) and (ii) is to commence in January 2021	2.97% - 4.8% per annum. Payable quarterly.

16. OTHER LIABILITIES

	2018	2017
Other payables	-	53,767
Accrued interest	238,593	146,755
Accounts payable	499,848	494,984
	$738,441	$695,506

17. AMOUNT DUE TO PROJECTS

	2018	2017
Youth enterprise initiative	$49,584	$73,690

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

18. COMMITMENTS

At the statement of financial position date un-disbursed loans committed amounted to $4,430,180 (2017: $5,612,083).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

19. 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.

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.

19. FINANCIAL RISK MANAGEMENT *(...CONTINUED)*

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

Advances

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

19. FINANCIAL RISK MANAGEMENT *(...CONTINUED)*

Management of credit risk

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	
	2018	2017
Investment securities - Debt	950,000	1,000,000
Investment securities - Equity	25,001	25,001
Investment securities - Deposits	1,475,450	1,406,263
Advances – Principal	61,535,916	51,785,976
Advances - Interest	242,608	233,970
Other assets	140,861	172,284
Cash and cash equivalents	4,428,031	2,708,967
	$68,797,867	$57,332,461

19. FINANCIAL RISK MANAGEMENT (...CONTINUED)

Management of credit risk (...Continued)

Concentration of credit risk at 31st December, 2018

	Investment Securities -Debt	Investment Securities -Equity	Investment Securities -Deposits	Advances -Principal	Advances -Interest	Other Assets	Cash and Cash Equivalents	Total $
Education	-	-	-	11,367,673	67,785	-	-	11,435,458
Agriculture	-	-	-	1,392,646	2,272	-	-	1,394,918
Fishing	-	-	-	949,666	5,507	-	-	955,173
Tourism	-	-	-	5,569,203	21,466	-	-	5,590,669
Housing	-	-	-	25,985,989	77,361	-	-	26,063,350
Other Business	-	-	-	15,930,953	67,431	-	-	15,998,384
Personal	-	-	-	339,786	786	-	-	340,572
Other	950,000	25,001	1,475,450	-	-	140,861	4,428,031	7,019,343
	$950,000	$25,001	$1,475,450	$61,535,916	$242,608	$140,861	$4,428,031	$68,797,867

Concentration of credit risk at 31st December, 2017

	Investment Securities -Debt	Investment Securities -Equity	Investment Securities -Deposits	Advances -Principal	Advances -Interest	Other Assets	Deferred Asset	Cash and Cash Equivalents	Total $
Education	-	-	-	11,136,314	103,098	-	-	-	11,239,412
Agriculture	-	-	-	1,461,408	1,329	-	-	-	1,462,737
Fishing	-	-	-	1,119,705	4,404	-	-	-	1,124,109
Tourism	-	-	-	3,371,538	15,347	-	-	-	3,386,885
Housing	-	-	-	19,646,830	53,232	-	-	-	19,700,062
Other Business	-	-	-	14,825,762	56,024	-	-	-	14,881,786
Personal	-	-	-	224,419	536	-	-	-	224,955
Other	1,000,000	25,001	1,475,450	-	-	172,284	-	2,708,967	5,312,515
	$1,000,000	$25,001	$1,406,263	$51,785,976	$233,970	$172,284	$ -	$2,708,967	$57,332,461

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

19. FINANCIAL RISK MANAGEMENT *(...CONTINUED)*

Management of credit risk (...Continued)

Analysis of gross carrying amount of advances and corresponding ECLs are as follows:

Balance at 31st December, 2018

	Stage 1	Stage 2	Stage 3	Total
Gross advances	58,427,418	2,225,730	2,826,505	**63,479,653**
ECL	(149,824)	(22,257)	(1,771,656)	**(1,943,737)**
Net balance	**$58,277,594**	**$2,203,473**	**$1,054,849**	**$61,535,916**
ECL as a percentage of gross advances	.26%	1.0%	62.7%	**3.0%**
Balance at 1st January, 2018				
Gross advances	47,704,852	2,775,556	2,985,108	**53,465,516**
ECL	(123,009)	(27,756)	(1,679,540)	**(1,830,305)**
Net balance	**$47,581,843**	**$2,747,800**	**$1,305,568**	**$51,635,211**
ECL as a percentage of gross advances	.26%	1.0%	56.3%	**3.4%**

Stages as a percentage of total gross advances:

	2018	2017
Stage 1	**94.7%**	92.2%
Stage 2	**3.6%**	5.3%
Stage 3	**1.7%**	2.5%
	100%	**100%**

Analysis of gross carrying amount of investments securities subject to impairment (debt and deposits) and corresponding ECLs are as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross investments	1,475,450	1,000,000	-	**2,475,450**
ECL	-	50,000	-	**50,000**
Net balance	**$1,475,450**	**$950,000**	**$ -**	**$2,425,450**
ECL as a percentage of gross investments	-	5%	-	**2%**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

19. FINANCIAL RISK MANAGEMENT *(...CONTINUED)*

Management of credit risk (...Continued)

	Stage 1	Stage 2	Stage 3	Total
Balance at 1st January, 2018				
Gross investments	1,406,263	1,000,000	-	2,406,263
ECL	-	50,000	-	50,000
Net balance	$1,406,263	$ 950,000	$ -	$2,356,263
ECL as a percentage of gross investments	-	2%	-	5%

Stages as a percentage of total gross advances:

	2018	2017
Stage 1	61%	60%
Stage 2	39%	40%
Stage 3	-	-
	100%	100%

Analysis of gross carrying amount of other asset and corresponding ECLs are as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance at 31st December, 2018				
Gross investments	140,861	-	1,085,047	1,225,908
ECL	-	-	1,085,047	1,085,047
Net balance	$140,861	$ -	$ -	$140,861
ECL as a percentage of gross balance	-	-	100%	89%
Balance at 1st January, 2018				
Gross investments	172,284	-	1,085,047	1,257,331
ECL	-	-	1,085,047	1,085,047
Net balance	$172,284	$ -	$ -	$172,284
ECL as a percentage of gross balance	-	-	100%	86%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

19. FINANCIAL RISK MANAGEMENT *(...CONTINUED)*

Management of credit risk (...Continued)

	2018	2017
Stage 1	100%	100%
Stage 2	-	-
Stage 3	-	-
	100%	100%

Analysis of advances before provision for expected credit losses:

	Current $	1 - 3 months $	3 - 6 months $	6 - 12 months $	Over 12 months $	Total $
2018	58,669,072	2,225,730	-	-	2,584,852	63,479,653
2017	44,813,080	5,667,328	-	467,572	2,517,536	53,465,516

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.

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.

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.

19. FINANCIAL RISK MANAGEMENT *(...CONTINUED)*

Management of credit risk (...Continued)

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.

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.

The aggregate value of the Bank's financial iabilities 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	-	-	15,669,906	31,688,617	47,358,523
Other liabilities	738,441	-	-	-	738,441
Short-term borrowings	-	2,063,163	-	-	2,063,163
Amount due to projects	49,584	-	-	-	49,584
Balance at 31st December, 2018	**$788,025**	**$2,063,163**	**$15,669,906**	**$31,688,617**	**$50,209,711**
Long-term borrowings	-	-	9,952,677	25,624,827	35,577,504
Other liabilities	695,506	-	-	-	695,506
Short-term borrowings	-	2,665,012	-	-	2,665,012
Amount due to projects	73,690	-	-	-	73,690
Balance at 31st December, 2017	**$769,196**	**$2,665,012**	**$9,952,677**	**$25,624,827**	**$39,011,712**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

19. FINANCIAL RISK MANAGEMENT *(...CONTINUED)*

Management of credit risk (...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:

	EC$	US$	Total
Balance at 31st December, 2018			
Assets			
Investment securities – Debt	950,000	-	950,000
Investment securities - Equity	25,001	-	25,001
Investment securities - Deposits	1,475,450	-	1,475,450
Advances -principal	61,535,916	-	61,535,916
Advances -Interest	242,608	-	242,608
Other assets	140,861	-	140,861
Cash and cash equivalents	4,428,031	-	4,428,031
	68,797,867	-	68,797,867
Liabilities			
Long-term borrowings	19,439,811	27,918,712	47,358,523
Other liabilities	501,726	236,715	738,441
Short-term borrowings	989,122	1,074,041	2,063,163
Amount due to projects	49,584	-	49,584
	20,980,243	29,229,468	50,209,711
Net currency exposure	$47,817,624	$(29,229,468)	$18,588,156

19. FINANCIAL RISK MANAGEMENT *(...CONTINUED)*

Management of credit risk (...Continued)

	EC$	US$	Total
Balance at 31st December, 2017			
Assets			
Investment securities – Debt	1,000,000	-	**1,000,000**
Investment securities - Equity	25,001	-	**25,001**
Investment securities - Deposits	1,406,263	-	**1,406,263**
Advances -principal	51,785,976	-	**51,785,976**
Advances -Interest	233,970	-	**233,970**
Other assets	172,284	-	**172,284**
Cash and cash equivalents	2,708,967	-	**2,708,967**
	57,332,461	-	**57,332,461**
Liabilities			
Long-term borrowings	15,513,299	20,064,205	**35,577,504**
Other liabilities	551,507	143,999	**695,506**
Short-term borrowings	727,468	1,937,544	**2,665,012**
Amount due to projects	73,690	-	**73,690**
	16,865,964	22,145,748	**39,011,712**
Net currency exposure	$40,466,497	$(22,145,748)	**$18,320,749**

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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

19. FINANCIAL RISK MANAGEMENT *(...CONTINUED)*

Management of credit risk (...Continued)

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.

20. INTEREST INCOME

	2018	2017
CARICOM Development Fund	421,820	417,266
Caribbean Development Bank	1,591,639	1,424,145
Local loans	945,305	879,596
Business reactivation loans	143,174	193,707
National Insurance Scheme	7,569	8,910
Petro Caribe	430,767	87,905
Eastern Caribbean Home Mortgage Bank	567,363	533,734
	$4,107,637	$3,545,263

21. INTEREST EXPENSE

CARICOM Development Fund	197,248	219,955
Caribbean Development Bank	792,817	488,644
National Insurance Scheme	118,170	168,874
Petro Caribe	287,260	65,753
Eastern Caribbean Home Mortgage Bank	309,679	316,683
	$1,705,174	$1,259,909

22. RELATED PARTY TRANSACTIONS

	2018	2017
Rental	176,700	156,000
Sundry	356,309	310,341
Bad debts recoveries	48,505	235,038
	$581,514	$701,379

23. OTHER INCOME

a. Compensation of key management personnel of the Bank.

i. Salaries and staff benefits	$674,883	$587,682
ii. Loans receivable from key management personnel and directors	$902,408	$534,914
iii. Interest income from key management personnel and directors	$46,728	$17,705

24. DIVIDENDS

The Board approved a dividend of $42,099 for 2018 subsequent to year-end. This amount was not recorded as a liability as at 31 st December, 2018.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2018 *(continued)*

25. GENERAL EXPENSES

	2018	2017
Salaries, wages and allowances	1,265,575	1,259,815
National Insurance contributions	53,077	50,633
Pension and gratuities	44,133	3,132
Security	48,541	41,357
Computer expenses	94,798	76,902
Subscription and donations	24,395	30,819
Postage	2,509	10,648
Office expenses	27,800	29,612
Advertising	32,343	23,164
Audit fees	23,500	23,500
Professional services	45,623	62,925
Foreign exchange loss	25,830	-
Bank charges	12,440	13,268
Entertainment	1,289	140
Motor vehicle expenses	7,134	5,785
Legal fees	10,958	48,434
Stationery and printing	56,576	53,602
Telephone and cable	51,550	49,582
Miscellaneous	4,068	11,615
Repairs and maintenance	16,044	19,969
Staff uniforms	35,173	26,195
Travelling and subsistence	87,550	102,569
Electricity	64,138	54,635
Rates and taxes	1,968	2,167
Staff training	13,022	18,980
Insurance	35,606	33,295
Recruitment cost	5,381	2,667
Staff functions and awards	38,642	22,201
Cash shortage	175	200
Corporate image and product development	14,784	13,569
	$2,144,622	$2,091,380

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