PKF

Accountants & business advisers

GRENADA DEVELOPMENT BANK

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST DECEMBER, 2018

GRENADA DEVELOPMENT BANK

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2018

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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.

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND THE MINISTER OF FINANCE, PLANNING, ECONOMIC DEVELOPMENT AND PHYSICAL DEVELOPMENT AND

GRENADA DEVELOPMENT BANK
(continued)

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.

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.

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND THE MINISTER OF FINANCE, PLANNING, ECONOMIC DEVELOPMENT AND PHYSICAL DEVELOPMENT AND

GRENADA DEVELOPMENT BANK (continued)

- 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.

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GRENADA

May 9th, 2019

Accountants & Business Advisers

GRENADA DEVELOPMENT BANK

STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER, 2018

ASSETS	Notes	2018	2017
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

GRENADA DEVELOPMENT BANK

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

GRENADA DEVELOPMENT BANK

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 at 1st January, 2018	1,315,620	1,040,000	3,060,353	16,293,047	2,226,105	23,935,125
Net surplus for the year	-	-	-	-	561,324	561,324
Allocation to reserve	140,331	-	-	-	(140,331)	-
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

GRENADA DEVELOPMENT BANK

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER, 2018

	Note	**2018**	2017
OPERATING ACTIVITIES			
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)
INVESTING ACTIVITIES			
(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
FINANCING ACTIVITIES			
Dividends paid		(53,767)	(31,099)
Increase in Government Capital Contribution		-	(266,745)
Net movement in borrowings		11,179,170	6,384,547
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

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.

2. SIGNIFICANT ACCOUNTING POLICIES

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:

- 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Changes in accounting policies and disclosures (continued)

(i) New accounting policies/improvements adopted (continued)

IFRS 9 Financial Instruments (continued)

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in accounting policies and disclosures (continued)

(i) New accounting policies/improvements adopted (continued)

Transition disclosures

			Reclassification	Remeasurement		IFRS 9
Financial assets	**Category**	**Amount**	**Amount**	**ECL**	**Amount**	**Category**
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						
From available to sale financial assets - AFS		-	25,001	-	25,001	
		$57,332,461	$ -	$(200,765)	$5,713,696	
Financial liabilities						
Other liabilities		695,506	-	-	695,506	AC
Amount due to project		73,690	-	-	73,690	AC
Borrowings		38,242,516	-	-	38,242,516	AC
		$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)

IFRS 9 Financial Instruments (continued)

Transition disclosures (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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Changes in accounting policies and disclosures (continued)

(i) New accounting policies/improvements adopted (continued)

IFRS 9 Financial Instruments (continued)

Transition disclosures (continued)

	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

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

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)

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in accounting policies and disclosures (continued)

(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)

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign Currency Transactions

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

(d) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, Plant and Equipment (continued)

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

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

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

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

(i) Classification and measurement (continued)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

(i) Classification and measurement (continued)

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 different 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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Financial instruments (continued)*

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

(ii) Impairment (continued)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

(ii) Impairment (continued)

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Valuation of property

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

Property, plant and equipment

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

Impairment of loans receivable

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

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.

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4. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Furniture, Fixtures and Equipment	Computers	Motor Vehicles	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 1st January, 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**

5. INVESTMENT SECURITIES

	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	$25,001

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	

7. ADVANCES – PRINCIPAL (continued)

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

Expected credit loss by sector

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
	$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

	2018	2017
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.

11. GOVERNMENT CAPITAL CONTRIBUTION

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

	2018	2017
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	5,000,000
	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

14. BORROWINGS (continued)

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

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

(i) Loan A- Renovation loan

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

(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. 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.

(e) 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

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).

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.

19. FINANCIAL RISK MANAGEMENT (continued)

Audit Committee

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

Internal Loan Committee

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

Credit Risk

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

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

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

Management of credit risk

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.

19. FINANCIAL RISK MANAGEMENT (continued)

Management of credit risk (continued)

Advances (continued)

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

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

Other financial assets

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

Exposure to credit risk

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

	Maximum exposure	
	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)

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

19. FINANCIAL RISK MANAGEMENT

Credit Risk (continued)

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	1,406,263	-	-	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

19. FINANCIAL RISK MANAGEMENT (continued)

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%
	100.00%	100.00%

19. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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
Balance at 31st December, 2018				
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%
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 percentage of gross investments	-	5%	-	2%

Stages as a percentage of total gross advances:

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

19. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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 other assets	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 other assets	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%

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

19. FINANCIAL RISK MANAGEMENT (continued)

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.

19. FINANCIAL RISK MANAGEMENT (continued)

Past due and not impaired

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

Write off policy

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

Liquidity risk

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

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.

19. FINANCIAL RISK MANAGEMENT (continued)

Management of liquidity risk (Continued)

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

19. FINANCIAL RISK MANAGEMENT (continued)

Currency risk

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

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

	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)

Currency risk

	EC$	USD$	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.

19. FINANCIAL RISK MANAGEMENT (continued)

Operational risk

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

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

20. INTEREST INCOME

	2018	2017
CARICOM Development Fund loan	421,820	417,266
Caribbean Development Bank loans	1,591,639	1,424,145
Local loans	945,305	879,596
Business reactivation loans	143,174	193,707
National Insurance Scheme loans	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	309679	316,683
	$1,705,174	$1,259,909

22. OTHER INCOME

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

23. RELATED PARTY TRANSACTIONS

a. Compensation of key management personnel of the Bank.

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. 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