

GRENADA DEVELOPMENT BANK

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST DECEMBER, 2019

GRENADA DEVELOPMENT BANK
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2019

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**INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND THE MINISTER OF
FINANCE, PLANNING, ECONOMIC DEVELOPMENT AND PHYSICAL DEVELOPMENT
ON
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, 2019, 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, 2019 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 2019 Annual Report

Other information consists of the information included in the Bank's 2019 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
ON
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
ON**

**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.

GRENADA

June 19th, 2020



Accountants & Business Advisers

GRENADA DEVELOPMENT BANK

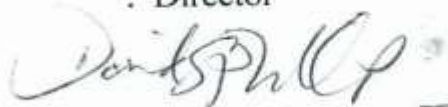
STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER, 2019

ASSETS	Notes	2019	2018
Non-Current Assets			
Property, plant and equipment	4	5,569,834	5,679,304
Investment securities - Equity	5	25,001	25,001
Investment securities - Debt	5	750,000	950,000
Deferred asset	6	<u>220,379</u>	<u>228,989</u>
		<u>6,565,214</u>	<u>6,883,294</u>
Advances - Principal	7	<u>72,223,197</u>	<u>61,535,916</u>
TOTAL NON-CURRENT ASSETS		<u>78,788,411</u>	<u>68,419,210</u>
Current Assets			
Advances – Interest	7	313,555	242,608
Other assets	8	405,487	140,861
Investment securities - Deposits	5	5,426,036	1,475,450
Cash and cash equivalents	9	<u>4,440,530</u>	<u>4,428,031</u>
		<u>10,585,608</u>	<u>6,286,950</u>
TOTAL ASSETS		<u>\$89,374,019</u>	<u>\$74,706,160</u>
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	1,716,616	1,455,951
Revaluation reserve	13	3,060,353	3,060,353
Retained earnings		<u>3,386,994</u>	<u>2,647,098</u>
		<u>25,497,010</u>	<u>24,496,449</u>
Non-Current Liabilities			
Long-term borrowings	14	<u>59,745,933</u>	<u>47,358,523</u>
Current Liabilities			
Other liabilities	16	1,176,367	738,441
Short-term borrowings	14	2,872,793	2,063,163
Amount due to projects	17	<u>81,916</u>	<u>49,584</u>
		<u>4,131,076</u>	<u>2,851,188</u>
TOTAL LIABILITIES		<u>63,877,009</u>	<u>50,209,711</u>
TOTAL EQUITY AND LIABILITIES		<u>\$89,374,019</u>	<u>\$74,706,160</u>

The accompanying notes form an integral part of these financial statements

Approved by the Board of Directors on June 4th, 2020 and signed on its behalf by:

: Director



: Director



GRENADA DEVELOPMENT BANK

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER, 2019

	Notes	2019	2018
INTEREST INCOME			
Interest on loans	20	5,016,852	4,107,637
Interest on investments		<u>170,469</u>	<u>92,342</u>
		5,187,321	4,199,979
Interest expense	21	<u>(2,227,815)</u>	<u>(1,705,174)</u>
Net interest income		2,959,506	2,494,805
Other income	22	<u>916,597</u>	<u>581,514</u>
		<u>3,876,103</u>	<u>3,076,319</u>
EXPENDITURE			
Directors fees and expenses		(48,757)	(46,593)
General expenses	25	(2,442,816)	(2,144,622)
Depreciation		(147,218)	(148,910)
Commitment fees		(4,385)	(15,528)
Expected credit losses		<u>(190,267)</u>	<u>(159,342)</u>
		<u>(2,833,443)</u>	<u>(2,514,995)</u>
Net surplus for the year		<u>\$1,042,660</u>	<u>\$561,324</u>

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, 2019

	Reserve Fund	Capital Grant	Revaluation Reserve	Capital Contribution	Retained Earnings	Total Equity
Balance at 31 st 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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	(200,765)	(200,765)
Restated opening balance under IFRS 9 at 1 st 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	<u>140,331</u>	<u>-</u>	<u>-</u>	<u>-</u>	(140,331)	<u>-</u>
Balance at 31 st December, 2018	1,455,951	1,040,000	3,060,353	16,293,047	2,647,098	24,496,449
Net surplus for the year	-	-	-	-	1,042,660	1,042,660
Allocation to reserve	260,665	-	-	-	(260,665)	-
Dividends paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	(42,099)	(42,099)
Balance at 31 st December, 2019	<u>\$1,716,616</u>	<u>\$1,040,000</u>	<u>\$3,060,353</u>	<u>\$16,293,047</u>	<u>\$3,386,994</u>	<u>\$25,497,010</u>

The accompanying notes form an integral part of these financial statements

GRENADA DEVELOPMENT BANK



**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER, 2019**

	Note	2019	2018
OPERATING ACTIVITIES			
Net surplus for the year		1,042,660	561,324
Adjustment for:			
Depreciation		147,218	148,910
Net impact of adopting IFRS 9		<u>-</u>	<u>(200,765)</u>
Change in non-cash items		1,189,878	509,469
Increase in advances		(10,758,228)	(9,749,940)
Decrease/(increase) in deferred asset		8,610	(228,989)
(Increase)/decrease in other assets		(264,626)	72,785
Increase in other liabilities		437,925	96,703
Increase/(decrease) in amounts due to projects		<u>32,332</u>	<u>(24,107)</u>
Net cash used in operating activities		<u>(9,354,109)</u>	<u>(9,324,079)</u>
INVESTING ACTIVITIES			
Increase in investment securities		(3,750,586)	(69,187)
Purchase of property, plant and equipment		<u>(37,748)</u>	<u>(13,073)</u>
Net cash used in investing activities		<u>(3,788,334)</u>	<u>(82,260)</u>
FINANCING ACTIVITIES			
Dividends paid		(42,099)	(53,767)
Net proceeds of borrowings		<u>13,197,041</u>	<u>11,179,170</u>
Net cash provided by financing activities		<u>13,154,942</u>	<u>11,125,403</u>
Net increase in cash and cash equivalents		12,499	1,719,064
Cash and cash equivalents – at beginning of the year		<u>4,428,031</u>	<u>2,708,967</u>
- at end of the year	9	<u>\$4,440,530</u>	<u>\$4,428,031</u>

The accompanying notes form an integral part of these financial statements

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2019

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.

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2019 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES

b) Changes in accounting policies and disclosures

(i) New accounting policies/improvements adopted

IFRS 9 - Financial Instruments Amendments - Prepayment Features with Negative Compensation (Effective 1st January, 2019)

The amendments to IFRS 9 clarify that a financial asset passes the "solely payments of principal and interest" (SPPI) criterion regardless of the event or circumstances that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract such as change in law or regulation leading to the early termination of the contract.

In the basis for conclusions to the amendments, the IASB also clarified that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability, when a modification does not result in derecognition, are consistent with those applied to the modification of a financial asset that does not result in derecognition.

This means that the gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognized in profit or loss. The amendments must be applied retrospectively.

These amendments had no impact on the Bank as there are no debt instruments with prepayment features with negative compensation.

IAS 16 – Lease (Effective 1st January, 2019)

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an arrangement contains a lease*, SIC15 *Operating leases-incentives* and SIC 27 *Evaluating the Substance of Transactions involving the legal form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Bank is a Lessor.

The adoption of this standard had no material impact on the Bank.

GRENADA DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2019
(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Changes in accounting policies and disclosures

(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.

- IFRS 17 – Insurance Contracts (Effective 1 January, 2022)
- Amendments to IFRS 3 – Definition of Business (Effective 1 January, 2020)
- Amendments to IAS 1 and IAS 8 – Definition of Material (Effective 1st January, 2020)
- Amendments to References in the Conceptual Framework in IFRS Standards (Effective 1st January, 2020)

(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	33 $\frac{1}{3}$ %

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.

GRENADA DEVELOPMENT BANK

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2019
(continued)**

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.

GRENADA DEVELOPMENT BANK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2019
(continued)**

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

The Bank classifies all of its assets at either:

- Amortised cost or
- FVPL

The Bank's financial liabilities are at amortised cost.

Amortised cost

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.

GRENADA DEVELOPMENT BANK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2019
(continued)**

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 were part of a group of financial assets under IAS 39, which were 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

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2019 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

(ii) Impairment

In relation to the impairment of financial assets, the Bank uses an expected credit loss (ECL) model which 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.

The Bank records 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.

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2019 (continued)

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.

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2019 (continued)

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.

GRENADA DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2019
(continued)

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 is 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 income.

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2019

(continued)

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.

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 valuers 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.

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2019 (continued)

4. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Furniture, Fixtures and Equipment	Computers	Motor Vehicles	Total
Balance at 1st January, 2018						
Cost /Valuation	1,005,115	5,130,000	468,652	750,122	75,000	7,428,889
Accumulated depreciation	<u>-</u>	<u>(384,750)</u>	<u>(426,494)</u>	<u>(727,504)</u>	<u>(75,000)</u>	<u>(1,613,748)</u>
NET BOOK VALUE	<u>\$1,005,115</u>	<u>\$4,745,250</u>	<u>\$42,158</u>	<u>\$22,618</u>	<u>\$-</u>	<u>\$5,815,141</u>
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	<u>-</u>	<u>(128,250)</u>	<u>(8,773)</u>	<u>(11,887)</u>	<u>-</u>	<u>(148,910)</u>
NET BOOK VALUE	<u>\$1,005,115</u>	<u>\$4,617,000</u>	<u>\$43,430</u>	<u>\$13,759</u>	<u>\$-</u>	<u>\$5,679,304</u>
Balance at 31st December, 2018						
Cost/Valuation	1,005,115	5,130,000	478,697	753,150	75,000	7,441,962
Accumulated depreciation	<u>-</u>	<u>(513,000)</u>	<u>(435,267)</u>	<u>(739,391)</u>	<u>(75,000)</u>	<u>(1,762,658)</u>
NET BOOK VALUE	<u>\$1,005,115</u>	<u>\$4,617,000</u>	<u>\$43,430</u>	<u>\$13,759</u>	<u>\$-</u>	<u>\$5,679,304</u>
For the year ended 31st December, 2019						
Opening book value	1,005,115	4,617,000	43,430	13,759	-	5,679,304
Additions for the year	-	-	20,900	16,848	-	37,748
Depreciation charge for the year	<u>-</u>	<u>(128,250)</u>	<u>(9,976)</u>	<u>(8,992)</u>	<u>-</u>	<u>(147,218)</u>
NET BOOK VALUE	<u>\$1,005,115</u>	<u>\$4,488,750</u>	<u>\$54,354</u>	<u>\$21,615</u>	<u>\$-</u>	<u>\$5,569,834</u>
Balance at 31st December, 2019						
Cost/Valuation	1,005,115	5,130,00	499,597	769,998	75,000	7,479,710
Accumulated depreciation	<u>-</u>	<u>(641,250)</u>	<u>(445,243)</u>	<u>(748,383)</u>	<u>(75,000)</u>	<u>(1,909,876)</u>
NET BOOK VALUE	<u>\$1,005,115</u>	<u>\$4,488,750</u>	<u>\$54,354</u>	<u>\$21,615</u>	<u>\$-</u>	<u>\$5,569,834</u>

GRENADA DEVELOPMENT BANK

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2019**

(continued)

5. INVESTMENT SECURITIES

	2019	2018
<i>Equity securities at fair value through profit and loss</i>		
Eastern Caribbean Securities Exchange (Unquoted) 2,500 class C shares at \$10.00 each - cost	<u>25,000</u>	<u>25,000</u>
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	<u>59,999</u>	<u>59,999</u>
	<u>1</u>	<u>1</u>
Total	<u>\$25,001</u>	<u>\$25,001</u>

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

Short-term:

Deposit securities at amortised cost

ARIZA Credit Union Limited		
- Fixed deposit	381,897	370,774
- Fixed deposit	-	1,060,900
- Fixed deposit	2,500,000	-
- Fixed deposit	2,500,000	-
Grenada Union of Teachers- Fixed deposit	17,112	16,776
RBTT Bank Grenada Limited - Term deposit	<u>27,027</u>	<u>27,000</u>
Total	<u>\$5,426,036</u>	<u>\$1,475,450</u>

Long-term:

Debt securities at amortized cost

Government of Grenada - 3% 2023 bond	<u>750,000</u>	<u>950,000</u>
Total	<u>\$6,176,036</u>	<u>\$2,425,450</u>

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

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2019

(continued)

6. DEFERRED ASSET

This relates to the deferred exchange differences on the Caribbean Development Bank and CARICOM Development Fund borrowings. The differences are being amortised over the term of the loans.

7. ADVANCES - PRINCIPAL

	2019	2018
Advances – principal	73,254,001	63,479,653
Less: Provision for expected credit losses	<u>1,030,804</u>	<u>1,943,737</u>
	<u>\$72,223,197</u>	<u>\$61,535,916</u>
Accrued interest (3 months)	<u>\$313,555</u>	<u>\$242,608</u>

Advances – principal by sector

	2019		2018	
Agriculture	1,223,887	1.67%	2,172,598	3.42%
Education	11,494,235	15.69%	11,789,940	18.57%
Fishing	1,078,508	1.47%	1,054,207	1.66%
Housing	34,077,397	46.52%	26,065,135	41.06%
Tourism	6,820,631	9.31%	5,900,904	9.30%
Personal	246,095	0.34%	340,732	0.54%
Other Business	<u>18,313,248</u>	25.00%	<u>16,156,137</u>	25.45%
	<u>\$73,254,001</u>		<u>\$63,479,653</u>	

GRENADA DEVELOPMENT BANK

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2019**

(continued)

7. ADVANCES – PRINCIPAL (continued)

Movements in provision for loan losses are as follows:

	2019	2018
Balance at the beginning of the year	1,943,737	1,830,305
Bad debts recovered	(434,857)	(44,418)
Bad debts written-off	(668,343)	-
Increase in expected credit losses	<u>190,267</u>	<u>157,850</u>
Balance at end of the year	<u>\$1,030,804</u>	<u>\$1,943,737</u>

Expected credit loss by sector

Agriculture	51,084	779,952
Education	445,039	422,267
Fishing	110,184	79,146
Housing	102,932	946
Tourism	17,855	331,700
Personal	615	104,540
Other Business	<u>303,095</u>	<u>225,186</u>
	<u>\$1,030,804</u>	<u>\$1,943,737</u>

8. OTHER ASSETS

Matured investment – CLICO investment	810,000	810,000
Interest receivable	180,075	115,629
Accounts receivable	277,594	198,502
Prepayments	<u>222,865</u>	<u>101,777</u>
	1,490,534	1,225,908
Less: Provision for expected credit losses	<u>1,085,047</u>	<u>1,085,047</u>
	<u>\$405,487</u>	<u>\$140,861</u>

GRENADA DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2019
(continued)

9. CASH AND CASH EQUIVALENTS

	2019	2018
Cash on hand	1,200	1,200
Cash at bank	<u>4,439,330</u>	<u>4,426,831</u>
	<u>\$4,440,530</u>	<u>\$4,428,031</u>

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 31 st December, 2019	<u>\$16,293,047</u>	<u>\$16,293,047</u>
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GRENADA DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2019
(continued)

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

	2019	2018
Revaluation surplus	<u>\$3,060,353</u>	<u>\$3,060,353</u>

The Bank's property was re-valued in December 2014 by Joseph John and Associates Limited, professional valuers. The valuation was carried out using the open market value method. The excess of the revaluation over the book value totalled \$3,060,353.

14. BORROWINGS

(a) Caribbean Development Bank (Note 15)	22,621,740	22,816,660
(b) National Insurance Board	1,165,997	1,755,113
(c) CARICOM Development Fund	5,296,669	6,091,173
(d) Eastern Caribbean Home Mortgage Bank	8,534,320	8,758,740
(e) Petrocaribe	<u>25,000,000</u>	<u>10,000,000</u>
	62,618,726	49,421,686
Less: Short-term portion	<u>2,872,793</u>	<u>2,063,163</u>
Long-term portion	<u>\$59,745,933</u>	<u>\$47,358,523</u>

(a) The loan is secured by a guarantee from the Government of Grenada.

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

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%

GRENADA DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2019
(continued)

14. BORROWINGS (continued)

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) There are two Eastern Caribbean Home Mortgage loans which are as follows:

Loan A

The sum of \$6,000,000 was made available and withdrawn. Interest is payable at the rate of 3.5% per annum, with principal payments commencing November 2019 over sixty-four (64) equal quarterly instalments.

Loan B

The sum of \$3,000,000 was made available and withdrawn. Interest is payable at the rate of 3.5% per annum with principal payments commencing September 2017 over fourteen (14) years.

- (e) There are two (2) Petrocaribe loans which are as follows:

Loan A

The sum of \$10,000,000 was made available and withdrawn. It is to be repaid over sixteen (16) years at a rate of interest of 3% per annum. Principal payments are to commence September 2020.

Loan B

The sum of \$15,000,000 was made available and withdrawn. It is to be repaid over sixteen (16) years at an interest rate of 2.5% per annum. Principal payments are to commence in April 2021.

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2019 (continued)

15. CARIBBEAN DEVELOPMENT BANK - LOANS

			Foreign Currency	2019 EC\$	2018 EC\$
(a) 07/SFR -OR-GRN	Third consolidated line of credit	US\$	-	-	157,413
(b) 11/SFR – GR	Sixth student loan (see note below)	US\$	-	-	37,507
(c) 21/SFR-OR-GRN	Fourth consolidated line of credit	US\$	8,352,437	<u>22,621,740</u>	<u>22,621,740</u>
				<u>\$22,621,740</u>	<u>\$22,816,660</u>

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

GRENADA DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2019
(continued)

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.
	This loan was repaid during the year.	
(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.
	This loan was repaid during the year.	
(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 December 2020	2.97% - 4.8% per annum. Payable quarterly.

16. OTHER LIABILITIES

	2019	2018
Accrued interest	554,262	238,593
Accounts payable	<u>622,005</u>	<u>499,848</u>
	<u>\$1,176,367</u>	<u>\$738,441</u>

17. AMOUNT DUE TO PROJECTS

Youth enterprise initiative	<u>\$81,916</u>	<u>\$49,584</u>
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These funds are disbursed for on-lending to the respective micro-businesses.

GRENADA DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2019
(continued)

18. COMMITMENTS

At the statement of financial position date un-disbursed loans committed amounted to \$3,199,331 (2018: \$4,430,180).

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.

GRENADA DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2019
(continued)

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.

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2019 (continued)

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	
	2019	2018
Investment securities - Debt	750,000	950,000
Investment securities - Equity	25,001	25,001
Investment securities - Deposits	5,426,036	1,475,450
Advances – Principal	72,223,197	61,535,916
Advances - Interest	313,555	242,608
Other assets	405,487	140,861
Cash and cash equivalents	<u>4,440,530</u>	<u>4,428,031</u>
	<u>\$83,583,806</u>	<u>\$68,797,867</u>

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2019

(continued)

19. FINANCIAL RISK MANAGEMENT

Credit Risk (continued)

Concentration of credit risk at 31st December, 2019

	Investment Securities- Debt	Investment Securities - Equity	Investment Securities - Deposits	Advances - Principal	Advances - Interest	Other Assets	Cash and Cash Equivalents	Total
Education	-	-	-	11,049,196	68,390	-	-	11,117,586
Agriculture	-	-	-	1,172,804	4,885	-	-	1,177,689
Fishing	-	-	-	968,323	6,777	-	-	975,100
Tourism	-	-	-	6,802,776	55,012	-	-	6,857,788
Housing	-	-	-	33,974,465	108,894	-	-	34,083,359
Other Business	-	-	-	18,010,152	69,070	-	-	18,079,222
Personal	-	-	-	245,481	527	-	-	246,008
Other	<u>750,000</u>	<u>25,001</u>	<u>5,426,036</u>	<u>-</u>	<u>-</u>	<u>405,487</u>	<u>4,440,530</u>	<u>11,047,054</u>
	<u>\$750,000</u>	<u>\$25,001</u>	<u>\$5,426,036</u>	<u>\$72,223,197</u>	<u>\$313,555</u>	<u>\$405,487</u>	<u>\$4,440,530</u>	<u>\$83,583,806</u>

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2019

(continued)

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	<u>950,000</u>	<u>25,001</u>	<u>1,475,450</u>	<u>-</u>	<u>-</u>	<u>140,861</u>	<u>4,428,031</u>	<u>7,019,343</u>
	<u>\$950,000</u>	<u>\$25,001</u>	<u>\$1,475,450</u>	<u>\$61,535,916</u>	<u>\$242,608</u>	<u>\$140,861</u>	<u>\$4,428,031</u>	<u>\$68,797,867</u>

GRENADA DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2019
(continued)

19. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (Continued)

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

	Stage 1	Stage 2	Stage 3	Total
<i>Balance at 31st December, 2019</i>				
Gross advances	67,929,267	3,732,578	1,592,156	73,254,001
ECL	(239,781)	(37,326)	(753,697)	(1,030,804)
Net balance	<u>\$67,689,486</u>	<u>\$3,695,252</u>	<u>\$838,459</u>	<u>\$72,223,197</u>
ECL as a percentage of gross advances	.35%	1.0%	47.3%	1.40%
<i>Balance at 31st December, 2018</i>				
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	<u>\$58,277,594</u>	<u>\$2,203,473</u>	<u>\$1,054,849</u>	<u>\$61,535,916</u>
ECL as a percentage of gross advances	.26%	1.0%	62.7%	3.0%
Stages as a percentage of total gross advances:				
Stage 1			2019	2018
Stage 2			92.7%	94.7%
Stage 3			5.1%	3.6%
			<u>2.2%</u>	<u>1.7%</u>
			<u>100.00%</u>	<u>100.00%</u>

GRENADA DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2019
(continued)

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
<i>Balance at 31st December, 2019</i>				
Gross investments	5,426,036	800,000	-	6,226,036
ECL	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Net balance	<u>\$5,426,036</u>	<u>\$750,000</u>	<u>\$ -</u>	<u>\$6,176,036</u>
ECL as a percentage of gross investments	-	6%	-	2%
<i>Balance at 31st December, 2018</i>				
Gross investments	1,475,450	1,000,000	-	2,475,450
ECL	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Net balance	<u>\$1,475,450</u>	<u>\$ 950,000</u>	<u>\$ -</u>	<u>\$2,425,450</u>
ECL as percentage of gross investments	-	5%	-	2%
Stages as a percentage of total gross investment				
Stage 1			2019	2018
Stage 2			88%	61%
Stage 3			12%	39%
			<u>-</u>	<u>-</u>
			<u>100%</u>	<u>100%</u>

GRENADA DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2019
(continued)

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
<i>Balance at 31st December, 2019</i>				
Gross other assets	405,487	-	1,085,047	1,490,534
ECL	<u>-</u>	<u>-</u>	<u>1,085,047</u>	<u>1,085,047</u>
Net balance	<u>\$405,487</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$405,487</u>
ECL as a percentage of gross balance	-	-	100%	73%
<i>Balance at 31st December, 2018</i>				
Gross other assets	140,861	-	1,085,047	1,225,908
ECL	<u>-</u>	<u>-</u>	<u>1,085,047</u>	<u>1,085,047</u>
Net balance	<u>\$140,861</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$140,861</u>
ECL as a percentage of gross balance	-	-	100%	89%
Stages as a percentage of total gross other assets				
			2019	2018
Stage 1			-	-
Stage 2			-	-
Stage 3			<u>100%</u>	<u>100%</u>
			<u>100%</u>	<u>100%</u>

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2019 (continued)

19. FINANCIAL RISK MANAGEMENT (continued)

Analysis of advances before provision for expected credit losses:

	Current	1-3 months	3-6 months	6-12 month	Over 12 months	Total
	\$	\$	\$	\$	\$	\$
2019	<u>67,929,267</u>	<u>3,732,578</u>	<u>289,013</u>	<u>323,310</u>	<u>979,833</u>	<u>73,254,001</u>
2018	<u>58,669,072</u>	<u>2,225,730</u>	<u>-</u>	<u>-</u>	<u>2,584,851</u>	<u>63,479,653</u>

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.

GRENADA DEVELOPMENT BANK

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2019
(continued)**

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.

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2019 (continued)

19. FINANCIAL RISK MANAGEMENT (continued)

Management of liquidity risk (Continued)

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

	On Demand	Up to 1 year	1 to 5 years	Over 5 years	Total
Long-term borrowings	-	-	22,221,355	37,524,578	59,745,933
Other liabilities	1,176,367	-	-	-	1,176,367
Short-term borrowings	-	2,872,793	-	-	2,872,793
Amount due to projects	<u>81,916</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,916</u>
Balance at 31st December, 2019	<u>\$1,258,283</u>	<u>\$2,872,793</u>	<u>\$22,221,355</u>	<u>\$37,524,578</u>	<u>\$63,877,009</u>
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	<u>49,584</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,584</u>
Balance at 31st December, 2018	<u>\$788,025</u>	<u>\$2,063,163</u>	<u>\$15,669,906</u>	<u>\$31,688,617</u>	<u>\$50,209,711</u>

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2019 (continued)

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:

Currency risk

	EC\$	USD\$	Total
Balance at 31st December, 2019			
Assets			
Investment securities – Debt	750,000	-	750,000
Investment securities- Equity	25,001	-	25,001
Investment securities - Deposits	5,426,036	-	5,426,036
Advances - Principal	72,223,197	-	72,223,197
Advances - interest	313,555	-	313,555
Other assets	405,487	-	405,487
Cash and cash equivalents	<u>4,440,530</u>	<u>-</u>	<u>4,440,530</u>
	<u>83,583,806</u>	<u>-</u>	<u>83,583,806</u>
Liabilities			
Long-term borrowings	33,022,887	26,723,046	59,745,933
Other liabilities	904,761	271,606	1,176,367
Short-term borrowings	1,677,451	1,195,342	2,872,793
Amount due to projects	<u>81,916</u>	<u>-</u>	<u>81,916</u>
	<u>35,687,015</u>	<u>28,189,994</u>	<u>63,877,009</u>
Net currency exposure	<u>\$47,896,791</u>	<u>\$(28,189,994)</u>	<u>\$19,706,797</u>

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2019 (continued)

19. FINANCIAL RISK MANAGEMENT (continued)

	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	<u>4,428,031</u>	<u>-</u>	<u>4,428,031</u>
	<u>68,797,867</u>	<u>-</u>	<u>68,797,867</u>
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	<u>49,584</u>	<u>-</u>	<u>49,584</u>
	<u>20,980,243</u>	<u>29,229,468</u>	<u>50,209,711</u>
Net currency exposure	<u>\$47,817,624</u>	<u>\$(29,229,468)</u>	<u>\$18,588,156</u>

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.

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2019
 (continued)

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

	2019	2018
CARICOM Development Fund loan	518,903	421,820
Caribbean Development Bank loans	1,822,925	1,591,639
Local loans	1,284,113	945,305
Business reactivation loans	122,960	143,174
National Insurance Scheme loans	6,814	7,569
Petro Caribe	720,741	430,767
Eastern Caribbean Home Mortgage Bank	<u>540,396</u>	<u>567,363</u>
	<u>\$5,016,852</u>	<u>\$4,107,637</u>

21. INTEREST EXPENSE

CARICOM Development Fund	173,852	197,248
Caribbean Development Bank	1,088,753	792,817
National Insurance Scheme	85,343	118,170
Petro Caribe	575,342	287,260
Eastern Caribbean Home Mortgage Bank	<u>304,525</u>	<u>309,679</u>
	<u>\$2,227,815</u>	<u>\$1,705,174</u>

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2019 (continued)

22. OTHER INCOME

	2019	2018
Rental	183,600	176,700
Sundry	298,140	356,309
Bad debts recoveries	<u>434,857</u>	<u>48,505</u>
	<u>\$916,597</u>	<u>\$581,514</u>

23. TOTAL INCOME

	% Change in income	% Of total income 2019	2019	% Of total income 2018	2018
Interest income:					
Interest loans	22%	82%	5,016,852	86%	4,107,637
Interest investments	85%	3%	170,469	2%	92,342
Other income:					
Rental	4%	3%	183,600	4%	176,700
Sundry	-16%	5%	298,140	7%	356,309
Bad debt recoveries	797%	<u>7%</u>	<u>434,857</u>	<u>1%</u>	<u>48,505</u>
Total income		<u>100%</u>	<u>\$6,103,918</u>	<u>100%</u>	<u>\$4,781,493</u>

24. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Bank.

i) Salaries and staff benefits	<u>\$677,973</u>	<u>\$674,883</u>
ii) Loans receivable from key management personnel and directors	<u>\$873,179</u>	<u>\$902,408</u>
iii) Interest income from key management personnel and directors	<u>\$56,445</u>	<u>\$46,728</u>

GRENADA DEVELOPMENT BANK

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2019
(continued)**

25. DIVIDENDS

The Board approved a dividend of \$89,064 for 2019 subsequent to year-end. This amount was not recorded as a liability as at 31st December, 2019.

26. SUBSEQUENT EVENTS

Beginning in January 2020, financial markets have experienced and may continue to experience significant volatility resulting from the spread of the COVID-19 pandemic. The extent of the impact on local the local economy is uncertain at this point and has the potential to adversely affect the results of the operation of the Bank, the impact of which is still under assessment.

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2019 (continued)

27. GENERAL EXPENSES

	2019	2018
Salaries, wages and allowances	1,435,467	1,265,575
National Insurance contributions	54,081	53,077
Pension and gratuities	61,196	44,133
Security	48,341	48,541
Computer expenses	88,635	94,798
Subscription and donations	27,269	24,395
Postage	3,142	2,509
Office expenses	35,604	27,800
Advertising	40,190	32,343
Audit fees	40,450	23,500
Professional services	52,458	45,623
Foreign exchange loss	8,610	25,830
Bank charges	28,003	12,440
Entertainment	133	1,289
Motor vehicle expenses	14,028	7,134
Legal fees	33,126	10,958
Stationery and printing	74,185	56,576
Telephone and cable	73,677	51,550
Miscellaneous	2,344	4,068
Repairs and maintenance	20,957	16,044
Staff uniforms	29,797	35,173
Travelling and subsistence	90,589	87,550
Electricity	69,325	64,138
Rates and taxes	1,807	1,968
Staff training	17,155	13,022
Insurance	36,089	35,606
Recruitment cost	300	5,381
Staff functions and awards	43,241	38,642
Cash shortage	322	175
Corporate image and product development	<u>12,295</u>	<u>14,784</u>
	<u>\$2,442,816</u>	<u>\$2,144,622</u>