Grenada Development Bank

Annual Financial Report 2012

"Development Through Financing"


2012 Annual Report

Content

1

Our vision

To be the Leading Provider of Development Financing in Grenada, Carriacou and Petite Martinique.

2

Our mission

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

3

Core Values

Development Focus:
Fostering the socio-economic development of the country is the reason why we exist.

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

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

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

Result Oriented:
We work as a team and are performance driven.

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

Motivation and Recognition:
We encourage and reward all staff for their accomplishments and promote continuous personal development.

Corporate Information

Directors

Mr. Michael Archibald, MBA, FICB, AICB
Chairman

Mr. Lingham Samuel, MSc
Deputy Chairman

Mr. Mervyn Lord, MSc, BSc (Hons)
Manager/Director

Mr. Gabriel Clarke, MSc
Director

Mr. Archelaus Joseph, LLB
Director

Mr. Mike Sylvester, MSc (Hons), BBA
Director

Mrs. Lucia Livingston-Andall,
MBA (Hons), BSc (Hons), CGA
Director

Mr. Ian DaBreo
Director

Corporate Information

Management/Supervisory Team 2012

Mervyn Lord	**Donald Williams**	**Peter A. Roberts**	**Janel Jeremiah**
Manager	*Credit Manager*	*Accountant*	*Asst. to the Manager Admin/Human Resource*

Solicitors

Renwick & Payne
Henry Hudson-Phillips & Co.
Danny Williams & Co.
Law Office of Alban M. John

Auditors:

PKF

Bankers:

RBTT Bank Grenada Ltd
Republic Bank (Grenada) Ltd
Eastern Caribbean Central Bank

Bank Secretary:

Mrs. Patricia Simon

Registered Office:

Grenada Development Bank
P.O Box 2300
Melville Street
St. George
Grenada

Email: gdbbank@spiceisle.com
Website: www.grenadadevelopmentbank.com
Telephones:
PABX: (473) 440-2382
Manager: (473) 440-9084
Credit Manager: (473) 442-6464
Telefax: (473) 440-6610

Chairman's
Letter of Transmittal Information

Dr. The Right Honourable Keith C. Mitchell
Minister for Finance
Ministry of Finance
Financial Complex
The Carenage
St. George

Dear Minister,

Pursuant to Cap. 129, Section 18 of the Grenada Development Bank Act, I have the honour to submit to you the Annual Report and Audited Financial Statements of the Bank for the Financial Year ended December 31, 2012.

Yours faithfully,

Mr. Michael Archibald, *MBA, FICB, AICB*

Development Through Financing

Chairman's
Message

Mr. Michael Archibald, MBA, FICB, AICB

Dear Stakeholders,

I am pleased to report that after two years of net losses, the Bank has returned to profitability in 2012 with a net profit of $135K, notwithstanding the difficult local, regional and international environment.

The Performance of the Local Economy

Preliminary information from the Ministry of Finance indicated that economic activities in Grenada contracted by 0.72% in 2012 following a slight recovery in 2011 by 0.41%. Despite robust growth in Agriculture by 15.03% and marginal growth in Education, Hotel and Restaurant and Real Estate, Renting and Business Activities by 2.86%, 0.64% and 0.43% respectively, a sharp decline in the Construction Sector by 16% contributed significantly to the overall decline in the Gross Domestic Product (GDP).

On the positive side, inflation averaged 1.8% in 2012 as compared to 3.5% in 2011. This was due in part to the Government's subsidies on petroleum prices and the dampening effect of surplus domestic production.

Marginal growth of 1% is projected for 2013 due to the positive spill off of some major public and private sector infrastructure projects such as the Parliament building, Feeder Roads, NIS Head Office, and Sandals Resort Expansion. In addition, some growth is expected in the Agriculture, Hotel & Restaurant and Transportation Sectors in 2013.

The Bank's Performance

As aforesaid, the Bank returned to profitability in 2012 after two years of net losses. It is important to note however that the loss in the previous years were due mainly to accounting for impairment of investment losses. Notwithstanding a net profit of $135K in 2012 as compared to a net loss of $1.39M in 2011, operating profits reduced by 71% from $471K in 2011 to $135K in 2012.

This was due mainly to a 61% decline in bad debt recoveries from $532K in 2011 to $205K in 2012 since the Bank's net interest income only declined by a mere 1% from $1.61M in 2011 to $1.59M and

total expenditure reduced by 3.67% from $1.81M in 2011 to $1.74M in 2012.

The Non Performing portfolio declined from 15.93% in 2011 to 14.39% in 2012 continuing its downward trend from over 25% in 2007. The reduction in the Non Performing Portfolio will continue to be a focus of the Bank's operation going forward with a target of ≤12% by the end of 2013.

The Bank also completed the due diligence needed for a Chinese investment company to consider funding a major development project in Grenada. The process is now in its final stage and the major part of the project should commence by the beginning of the second quarter of 2013. The successful implementation of this project will not only positively affect the revenue stream of the Bank but will stimulate economic activities within a rural parish in Grenada.

Strategic Initiatives During FY12

With the aim to better fulfil its mandate, the Grenada Development Bank commenced the implementation of its five-year Strategic Plan in 2012. In accordance with the Plan, the Bank formulated six new Policies/Plans and reviewed and amended an existing one so as to create better strategic links between the Bank's new vision and its day to day operations.

In addition, terms of references were completed to obtain financing to source a consultant to review the Bank Act and another to lead the change management process that is necessary to transform the Bank into the leading provider of development financing in Grenada.

The Bank also proceeded to commence the implementation of its Human Resource Plan and Customer Service Plan and has done so with some level of success. However, the effective implementation of the Marketing Plan was hindered by the Bank's inability to obtain new lines of credit.

A quasi-reorganization was carried out in 2012 thus writing off the Bank's accumulated deficit against equity and setting the stage for retained earnings going forward.

Looking Forward

With marginal growth expected in 2013, the Bank will continue to concentrate on obtaining new lines of credit or other forms of funding so as to play a more meaningful role in the financing of the critical sectors of the economy in an attempt to boost economic activities within the tri-island state.

The Bank will also proceed with the implementation of the other initiatives of the Strategic Plan, placing emphasis on its human resource development, product and process development, image enhancement, working environment and customer service delivery just to name a few.

Appreciation

I wish to thank my fellow directors for their commitment, focus and support throughout the year, the Management and Staff for their continued hard work and perseverance and most importantly, our loyal customers who throughout the difficult times continued to support the Bank.

Permit me to join with the other members of the Board of Directors to convey our sincere gratitude and appreciation to Mr. Gabriel Clarke and Mr. Ian Dabreo for their exemplary service during their 5-year and 3-year tenure respectively on the Board which ended in September of this year.

Mr. Michael Archibald, MBA, FICB, AICB
Chairman

Management Discussion & Analysis

Overview of the Implementation of the 2012 – 2016 Business Plan

In 2012, the Grenada Development Bank (GDB) commenced the implementation of its new five year Business Plan. This Plan is geared to transform the Bank, by 2016, into the premier provider of development financing in Grenada, Carriacou and Petit Martinique. The success of the Plan is pivoted on the following:

1. Government's support of the Plan in general and more specifically in assisting the Bank with its funding initiatives and providing the required equity injection in a timely manner.
2. New funding within the timeframes as specified in the Plan.
3. A Business Plan that is totally supported by the Management and Staff and executed in line with the targets set within.
4. An improved corporate image and a heightening awareness of the products and services offered by the Bank.
5. Excellent risk management and collection systems.
6. A well satisfied, motivated and productive workforce.

Based on the aforementioned, efforts were made in 2012 to lay the foundation for the successful implementation of the Plan. Consequently, in line with the priority objectives for 2012, the following were accomplished:

Resource Mobilization Efforts

- Completed all the necessary due diligence to enable the Bank to be used as a conduit for funding for a major development project.
- Engaged First Citizen's Asset Management Ltd. in Trinidad to assist the GDB to conduct a feasibility study to ascertain the viability of setting up a Unit Trust Scheme in Grenada and partner with the Bank to set up same if found viable. However, after months of engagement, First Citizen's advised the Bank of their inability to conduct same. New engagements will be sought in 2013.
- Continued to engage the traditional and non traditional institutions for lines of credit.
- Utilized First Citizen's Investment Services to conduct a read of the market to ascertain investors' interest in GDB Bond, including the preferred term and interest rate for same. However, a decision was taken to defer the issuance of GDB Bonds in 2012 to either 2013 or 2014.

Sustainability and Profitability

- Further reduced the non performing ratio from 15.93% in 2011 to 14.39% as at December 31, 2012 notwithstanding the target for the year was ≤13%.
- Maintained an arrears ratio of under 0.5% (target being ≤1%).
- Negotiated the conversion of $1M of the $5.75M Business Reactivation funds outstanding from the Government to GOG 4-year 6% Bonds.
- Completed all the required architectural and engineering drawings and bidding document for the remodelling of the Bank's building to allow for rental income on the ground floor. However, delays in the financing process negatively affected the timely implementation of the project.
- Continued the implementation of the budgetary control mechanisms geared at reducing expenditure. Consequently, there was a favourable variance on the Bank's Operating Cost of 19% with an actual expenditure of $1.7M as compared to the budget of $2.1M for the year 2012.

Relevance and Image

- Commenced the articulation of the Bank's revised mission, new vision and core values.
- Commenced the implementation of the Customer Service Plan so as to create a new thrust towards delivering customer service as a competitive advantage.
- Partnered with the GIDC and other partners in the implementation of the Grenada section of CARIBBEAN YOUTH EMPOWERMENT PROGRAMME.
- Continued co-operation with the Ministry of Youth Empowerment and Sports in the implementation of the Grenada Youth Enterprise Initiative. Consistent with the objectives of this programme, six young aspiring entrepreneurs benefited from soft loans ranging from $15K to $25K thus transforming their business dreams into a reality.

New and Innovative Products and Services

- Conducted a survey among public servants to determine the demand for a special home mortgage product, coined same and prepared the funding proposal which was sent to various funding agencies for consideration.

Institutional Strengthening and Corporate Governance

- Continued to focus on training across all levels of the organization so as to address the gaps that were identified via the Performance Management System. To this end, the staff training cost increased

by 63% from $12.8K in 2011 to $20.9K in 2012.

- Completed the Terms of References to obtain grant funding for a Change Management Consultant and a Consultant to review and amend the Grenada Development Bank Act, Cap 129 to allow the Bank to effectively meet the ever changing socio-economic development needs of the country.

- Completed and approved the following Plan/Policy:
  - » The Disaster Management Plan.
  - » Policy on the use of Second and additional Mortgages, Equity Mortgage/Deposit and increasing the amount stamped to cover Existing Mortgages.

- Completed drafts of the following Plans/ Policy:
  - » Succession Plan.
  - » Reward and Recognition Plan.
  - » Health and Safety Policy.

However, access to funding remained the greatest challenge for the Bank and continued to hinder the accomplishment of some critical initiatives and targets. As a result, the following objectives for 2012 were not attained:

- Increasing the loan portfolio from $28.3M to $30.5M by December 31. Alternatively, the portfolio was reduced to $27.3M.

- Obtaining a net profit of over $400K per annum. Instead, the Bank only realized a profit of $135K.

Contracting a Public Relations Officer and implementing the Marketing Plan geared at increasing public awareness and the image of the Bank. Both of these initiatives were deferred until funding is received.

The Bank however will continue to place great emphasis on obtaining funding since that can be considered as the single most important objective geared to transform the Bank from its current situation to a viable and sustainable financial institution.

FINANCIAL ANALYSIS

Bank Performance

The Bank realized a net profit of $135k as compared with a net loss of $1.40M in 2011. However, the operating surplus was reduced by 71% from $471K in 2011 to $135K in 2012 mainly due to a drastic reduction in revenue from bad debt.

Revenue

The Bank's total revenue decreased by 16% or $493K from $3.01M in 2011 to $2.5M in 2012. A general decline was noted in all the revenue categories namely Interest Income, Investment Income and Other Income. Interest Income which represents 85% of total revenue declined by 3.7%. Other Income which comprised mainly of Bad Debts collections fell by 61% from $532k in 2011 to $205k in 2012 and Sundry Income fell by 48% from $167K in 2011 to $87k in 2012. In addition, Investment Income declined by 3.6% from $78K in 2011 to $75K in 2012.

The inability of the Bank to raise new lines of credit to grow the loan portfolio, reductions in collections from bad debts caused by the increased difficulty to sell securities in 2012, coupled with a very depressed economic environment contributed to a reduction in the total revenue.

Expenditure

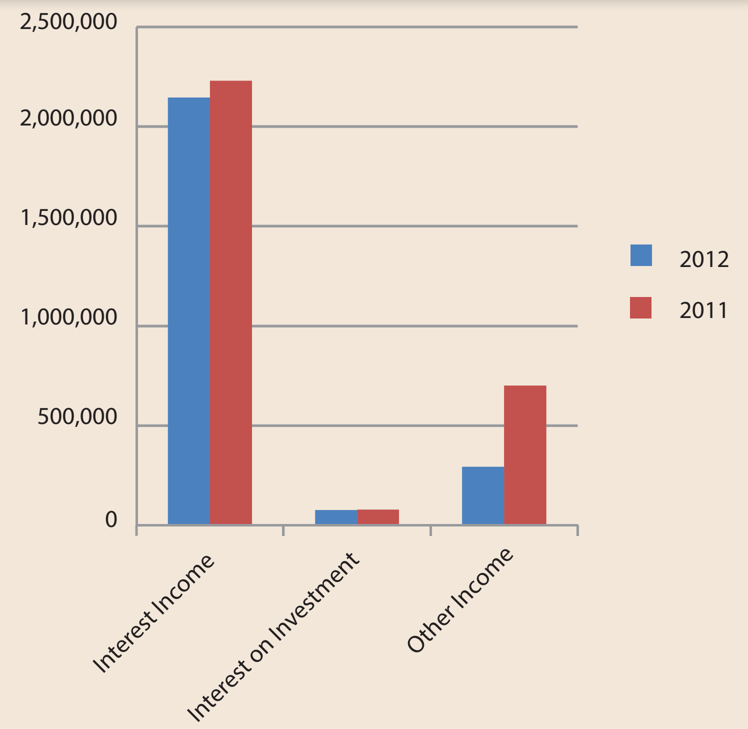
Total Expenditure of $2.38M in 2012 represented a decline of $157k or 6% when compared to the 2011 figure of $2.54M resulting mainly on account of the following:

- A decrease in Bad Debts written off this year of 96% or $139K from $146K in 2011 to $6K in 2012.
- A reduction in Interest Expense by 10% or $72K from $706K in 2011 to $634K in 2012.

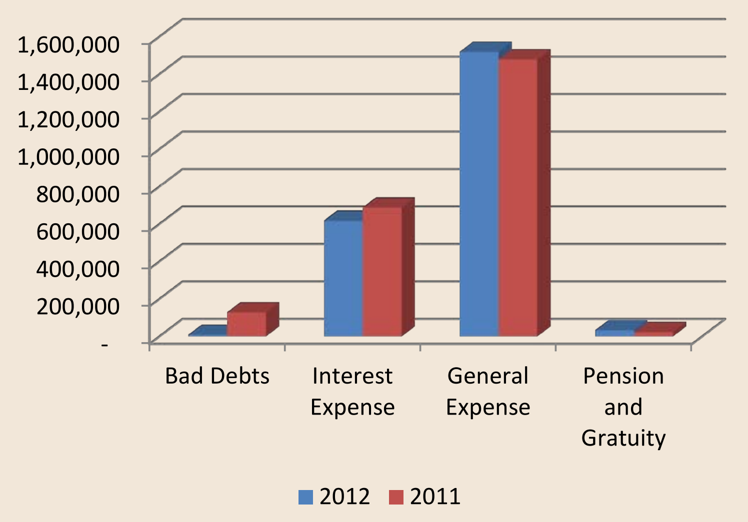
GDB'S FINANCIAL POSITION

There was a net increase in total assets by $234K to $33.2M in 2012 as compared with $32.9M in 2011 resulting from the following:

1. Revenue for 2011 and 2012



2. Expenditure for 2011 and 2012



- A contraction of the loan portfolio by $1M from $28.3M in 2011 to $27.3M
- An injection of $1M in Bonds by Government of Grenada
- A revaluation of the Bank's Property by $288K

The Bank's long term debts increased by $2.5M or 16%, from $15.28M in 2011 to $12.7M in 2012.

The debt to equity ratio (total debts to total equity) improved to 0.9:1 in 2012 compared to 1.29:1 in 2011. The standard requires a ratio of 4:1. This means that the Bank can borrow up to $45.59M without the need for additional equity.

There was a slight improvement in its gearing ratio (total debts to total assets), which was 52% in 2012 and 56% in 2011.

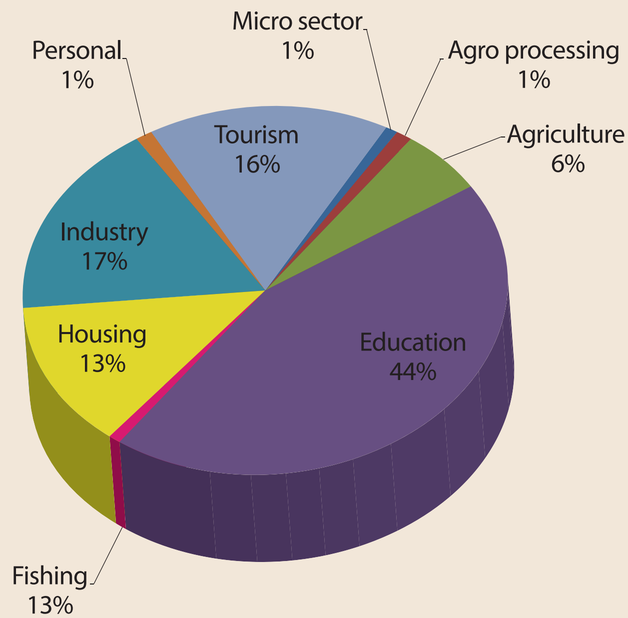
2012 marked the 1st year of a new five year Strategic Plan which is expected to transform the Bank's Operations. The successful implementation of this new strategic plan will take the Bank to another level with new non-traditional lines of credit, enhanced product offerings and improved financial viability.

LOAN PORTFOLIO ANALYSIS

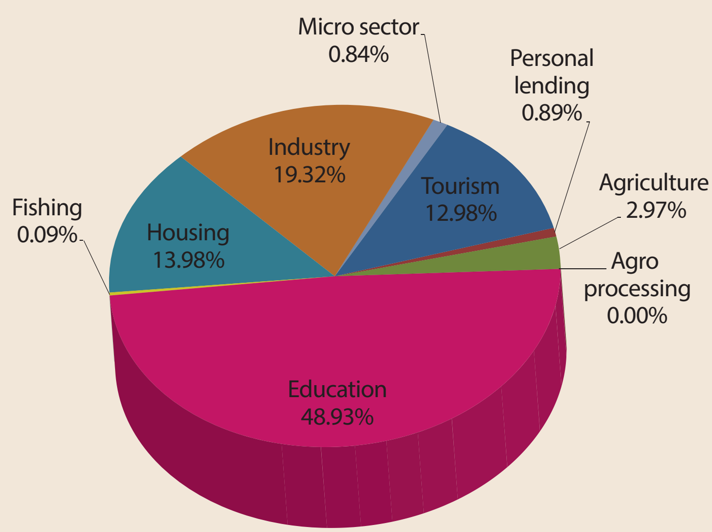
As at December 31st 2012, the total portfolio stood at XCD 27.30 million. This represents a reduction of 3% from December 2011 when it was XCD 28.28 million.

As at December 31st 2012, approximately XCD 3,940,121 representing 14.43% of the total portfolio was nonperforming. This is compared to 15.93% as at December 31st 2011.

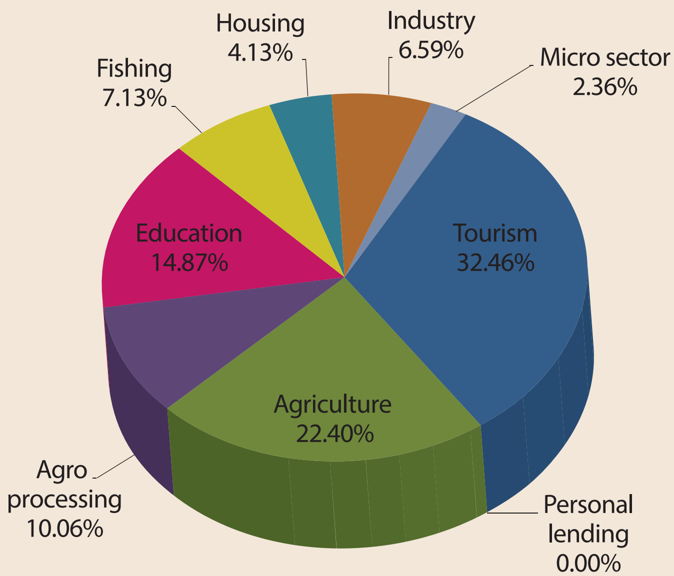
3. Distribution of total portfolio by sector (performing and non-performing)



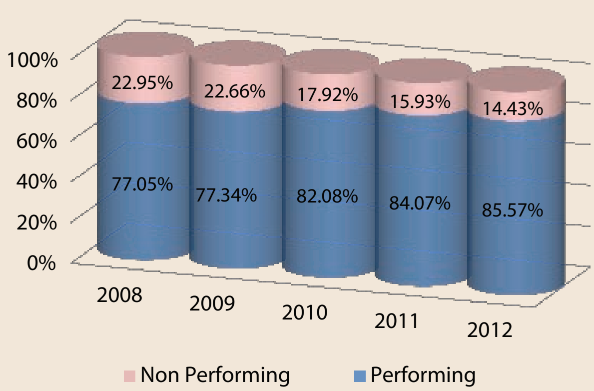
4. Distribution of Performing Portfolio by sector



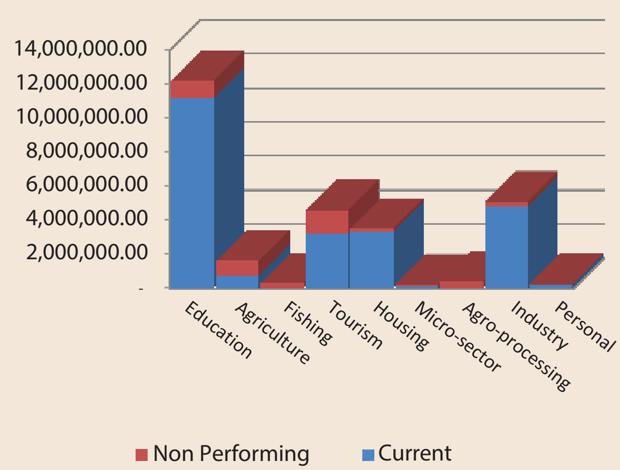
5. Distribution of Non-performing Portfolio by sector



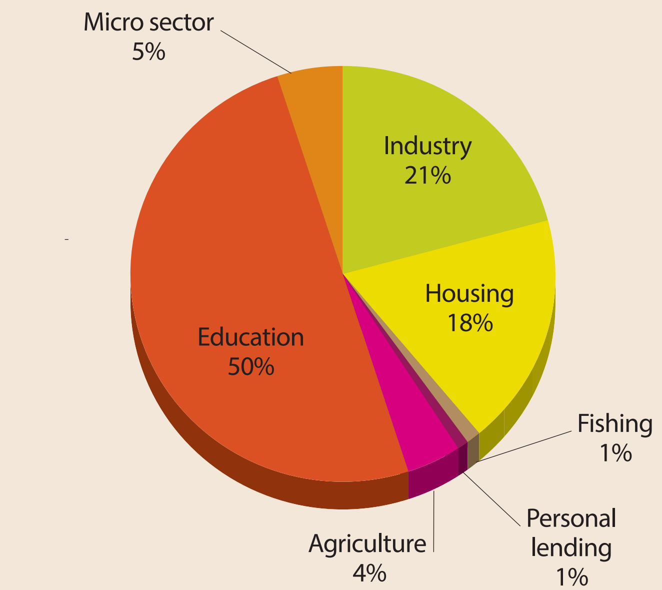
6. Portfolio Quality (2008-2012)



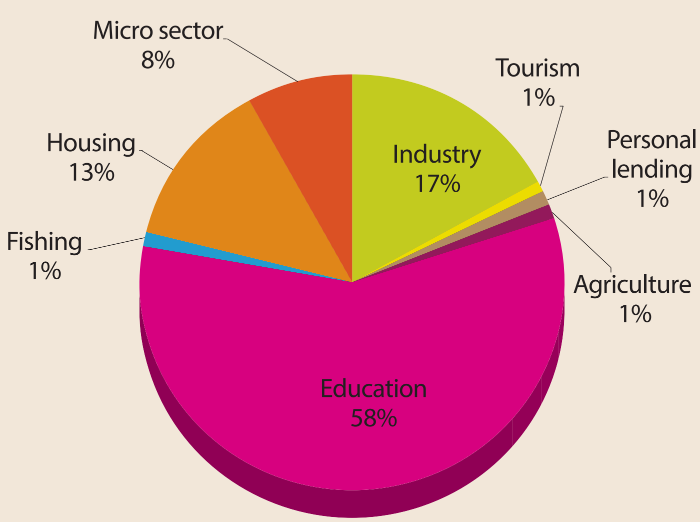
7. Portfolio Quality by Sector (December 2012)



8. Approvals by sector (2012)



9. Disbursements by sector (2012)



We have seen a progressive improvement in the portfolio quality over the past years with the non performing percentage moving from a high of 22.90% percent in 2008 to 14.93% in 2012.

Micro Sector, Agriculture, Fishing and Agro-processing are the worst performing sectors with 40%, 54%, 92% and 100% non-performing loans respectively while Education, Housing and Industry are the best performing sectors with 8%, 6% and 5% non-performing loans respectively.

LOAN APPROVALS & DISBURSEMENTS

Loan Approvals

For the fiscal year ending December 31st 2012, the Grenada Development Bank approved loans totalling XCD 2,280,633. Approvals were 43% below that for the same period 2011 when approvals were XCD $3,986,018.

Education loans valued at XCD 1,160,881, Housing loans valued at XCD 411,805 and Industry loans valued at XCD 494,647 together accounted for 89 % of total approvals. The remaining 11% is made up of Agriculture, Tourism, Micro Sector, Fishing and Personal loans.

Loan Disbursements

For the fiscal year ending December 31st 2012, the Bank disbursed loans totalling XCD 2,322,250. This was 12% below that for the same period 2011 when disbursements were XCD 2,600,476.

Education accounted for approximately 58% of disbursements for the period with Housing and Industry jointly constituting 30%. The remaining 12% is made up of Agriculture, Tourism, Micro sector, Fishing and Personal loans.

HUMAN RESOURCE DEVELOPMENT

Overview

During the year 2012, the Human Resource Department sought to focus on strengthening the capacity of its human resource. Its focus this year however, was more strategic as it sought to align its activities with the Bank's Strategic Goals and Objectives.

For the first time in over 10 years, a Human Resource Development Plan was developed and its implementation commenced following the Board's approval. The Plan was developed out of the recently approved Strategic Plan of the Bank for the period 2012-2016. It is detailed and provides direction for the Human Resource Department as it seeks to implement Human Resource Development activities geared towards closing performance gaps, building positive cultures and increasing productivity levels.

Staffing

At the beginning of 2012, the staff complement was seventeen (17). During the year, two employees resigned decreasing the total number of employees to fifteen (15). This created opportunities internally for employees to be cross-trained and to perform in a higher position.

In addition, the Grenada Youth Enterprise Initiative (GYEI) Loan Officer, Mr. Geoffrey Grey, decided to move on in his career and was replaced by Ms. Calesha Noel. The GYEI Loan Officer is responsible for monitoring business loans extended by the Government of Grenada to persons within the age range of 18-35 years. This Officer is usually housed within the GDB and embraced as one of its staff.

Training & Development

The Bank continued its emphasis on training, approaching training from four dimensions.

1. *Staff Development Training Conducted Internally*

These sessions were conducted within the Bank by local facilitators as well as senior members of Staff, allowing them the opportunity to impart knowledge and experience gained over the years. It also allowed the Organisation the opportunity of tailoring training to meet its unique needs and to also reduce the total costs of training during the year.

The following topics were addressed:

- Professional Conduct
- Customer Service (for all employees)
- Customer Service (for Managers)
- People Skills
- Understanding the Role and Functions of Departments within the GDB
- Money Laundering
- Webinars

The Bank continued to maximize on available webinars which were mostly attended by the Bank's senior members of staff.

2. *Major Training Initiatives Organised For Financial Institutions*

In May, 2012, the Bank organized and participated in a Credit Appraisal Training Workshop which took place at the National Stadium and had a duration of three days. The Workshop was facilitated by a Regional Consulting Firm, Navigant Consulting Services and provided an opportunity for participants from various Financial Institutions to be involved in an exchange of ideas, knowledge and experience. A total of nine organizations participated. A survey conducted among the participants revealed that they were generally pleased with the quality of training provided.

3. *Locally Organised Training*

The Bank is constantly on the look-out for available training hosted by other organizations in Grenada which are in line with its needs. Quite a number of employees benefitted from locally organized training programmes. Some of the training programmes attended by the Bank's staff were as follows:

Supervisory Skills

Business Writing

Writing Project Proposals

First Aid Training

Loan Negotiations

Excel Workshop for Finance Enhancing

Customer Service Delivery

Handling Counterfeit Cash

Management of Pension Plans

Supervisory Training facilitated by High Impact Consulting Group

4. Hosting Student Trainees

As in previous years, the Bank hosted a student trainee from the T.A. Marryshow Community College and had the pleasure of coaching and nurturing Ms. Jinaele Douglas, from June, 2012. Ms. Douglas was a student of the School of Arts, Sciences & Professional Studies and graduated with honours in July, 2012.

Development of the Bank's Human Resource and Related Policies

As the GDB continued to strive towards achieving its mission, the performance of its staff, as well as the need to ensure health and safety practices were constantly kept in view and it was from this background that the under-mentioned policies were drafted/updated during the year:

- Reward and Recognition Policy (a draft was completed)
- Disaster Management Plan (enhanced and updated)
- Succession Plan (a draft was completed)
- Health and Safety Policy (a draft was completed)

In its thrust to reduce the level of lateness and absenteeism and to maximize on productivity, employees achieving a perfect attendance were recognized and rewarded on a quarterly basis. During the period under review, Management had the opportunity of awarding Miss Genevieve Gibbs, Systems Administrator for achieving a perfect attendance for the first quarter of the year, and Miss. Irva Frank, Loan Officer, for achieving perfect attendance during the second, third and fourth quarters.

Jinaele Douglas

Financial Information Month

CUSTOMER SERVICE EXCELLENCE

The Bank sought to place much emphasis during the year on improving its level of service to its customers. A Customer Service Plan was prepared for the first time in over a decade and forms part of the Bank's five year development strategy. As part of the Customer Service Plan, work commenced on developing a Customer Service Charter and the Bank was also successful in completing a Customer Service Guide for all members of staff.

Despite the progress made, the Bank encountered significant challenges while seeking to identify and promptly address gaps in its customer service with a view to improving the quality of service offered to its valuable clients. It is from this standpoint that the Bank has initiated work on creating guidelines for handling Customer Recovery.

SOCIAL ACTIVITIES

Social activities were not as many when compared to the previous period. The Bank however had a few occasions where employees were able to move away from their work stations and relax. One of its major staff socials was an Independence Staff Luncheon. The menu of the day included Grenada's National Dish, Oil Down, ice cream and a slice of attractively designed Independence cake.

EDUCATIONAL AWARD

The Bank's support to education and development continued as it embraced yet another opportunity to present the distinguished award for excellence for the Best Graduating Student in Social Sciences at the 23rd Annual Graduation Ceremony of the T.A. Marryshow College. This year, the award was presented to Mr. Nicholas Lazarus.

OTHER DONATIONS AND SPONSORSHIPS

The GDB continued to extend a hand of giving and was able to contribute financially to a number of functions and initiatives. Some of these were:

- Concord Government School Sports
- Beaulieu RC School Fair
- Mt. Moritz RC School Fair
- T.A. Marryshow Community College Comedy Show
- Youth Diabetes Camp
- Back In Time Event for the Elderly

NETWORKING AND COLLABORATION

Financial Information Month

This year was no exception as the Bank again supported the ECCB initiated Financial Information Month held in October. This allowed the Bank to be part of an activity promoting financial literacy among the public and it was also able to promote its financial products during the Financial Fair.

GRENADA'S FIRST NUTMEG FESTIVAL

In an effort to revitalize the nutmeg sector, the Government of Grenada declared 2012 as "The Year of Nutmeg and Other Spices". As a result, varied activities were held during the period 26th October – 4th November, 2012. The Bank was able to share in the experience of the "Nutmeg Fair and Expo" which was held on November 3rd at the GCNA Shopping Complex.

Success
Story

"And that was my eureka moment...
I thought then; this is what I want to do with my ability, this is how I want to use my aptitude for social sciences. And so this dream was forged in the imaginary space constructed by my perception of the book - a dream which caused me to find myself at the tender age of 16.”

Richie Maitland

“Perhaps unlike others, I have the benefit of knowing the precise moment I wanted to become a lawyer. I don’t know who is familiar with the book ‘To Kill a Mockingbird’ by Harper Lee. It was on my form 3 booklist at the Presentation Brothers College and I was reading it during the summer vacation before the term started. I was 12 or 13 at the time.

This book involved an attorney, Atticus Finch who undertook to defend a black man, Tom Robinson, wrongly accused of raping a white woman in the extreme Jim Crow South. The Virtual Complainant had had willing intercourse but, overcome by the execration of it, implicated Tom Robinson in rape. In the book, Atticus Finch and his family were threatened and attacked for what was then considered the outrageous act of breaking a taboo which said that Atticus being white, should not have defended Tom Robinson being black. In his closing speech to the Jury, he said;-

The witnesses for the State, with the exception of the sheriff of Maycomb County have presented themselves to you gentlemen, to this court in the cynical

confidence that their testimony would not be doubted, confident that you gentlemen would go along with them on the assumption... the evil assumption that all Negroes lie, all Negroes are basically immoral beings, all Negro men are not to be trusted around our women. An assumption that one associates with minds of their caliber, and which is, in itself, gentlemen, a lie, which I do not need to point out to you..... Now, gentlemen, in this country, our courts are the great levelers. In our courts, all men are created equal. I'm no idealist to believe firmly in the integrity of our courts and of our jury system - that's no ideal to me. That is a living, working reality!"

And that was my eureka moment. I thought then; this is what I want to do with my ability, this is how I want to use my aptitude for social sciences. And so this dream was forged in the imaginary space constructed by my perception of the book - a dream which caused me to find myself at the tender age of 16, and just graduated from the PBC, at the Law office of GED Clyne, Queen's Counsel, Mrs Edwards' Law Office.

I attached myself to Mrs. Edwards' Law Office to see more intimately what law involved and to see whether it was indeed what I wanted to do before binding myself to a legal trajectory by my choice of subjects at TAMCC and beyond. That year, I learned among other things that there was a lot more to legal practice than law, strictly speaking.

After practicing at GED Clyne for about a year, I went on to TAMCC where I did Law among other things. On completion, I taught English Language at the Presentation Brothers College and applied to the Cavehill Campus UWI during that year. I was accepted and sought financing from the GDB for my course of studies which took me to Barbados for three (3) years and then Trinidad for two (2).

Beyond growing in legal knowledge, those 5 years represent a period of intense personal growth for me as an individual; and despite the many hardships I faced as a student living abroad, I graduated from Cavehill with honors and then from the Hugh Wooding Law School in Trinidad.

I was officially called to the Grenada Bar on October 30th 2012 - a proud day".

Richie Maitland

2012 Audited Financial Statements

Grenada Development Bank

Content

INDEPENDENT AUDITORS' REPORT TO THE HONORABLE MINISTER OF FINANCE

We have audited the accompanying financial statements of the Bank which comprise the statement of financial position at 31st December, 2012 and the related statements of comprehensive income, changes in Governments' equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Responsibility for the Financial Statements

Those charged with governance are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the financial position of the Bank as of 31st December, 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

GRENADA:

PKF

July 2nd, 2013

Accountants & Business Advisers:

Partners: Henry A. Joseph FCCA (Managing), Pearlena J. Sylvester FCCA (Mrs), Michelle A. Millet B. A. CGA (Mrs)

STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER, 2012

ASSETS	Notes	2012	2011
Non-Current Assets			
Property, plant and equipment	4	4,408,135	4,218,098
Available-for-sale financial assets	5	25,002	25,002
Held-to-maturity financial assets	5	1,000,000	-
		5,433,137	4,243,100
Loans receivable - Principal	6	25,628,729	26,532,760
TOTAL NON-CURRENT ASSETS		31,061,866	30,775,860
Current Assets			
Loans receivable - Interest	6	202,804	223,539
Other assets	7	116,179	71,612
Loans and receivables financial assets	5	953,080	918,540
Cash and cash equivalents	8	889,415	999,465
		2,161,478	2,213,156
TOTAL ASSETS		$33,223,344	$32,989,016
EQUITY AND LIABILITIES			
Government's Equity			
Capital grants		1,040,000	1,040,000
Capital contribution	9	11,559,315	30,415,426
Reserve fund	10	500,102	466,209
Revaluation reserve	11	2,597,791	2,309,097
Retained earnings/(accumulated deficit)	12	65,186	(19,892,605)
		15,762,394	14,338,127
Non-Current Liabilities			
Long-term borrowings	14	12,772,061	15,281,957
Deferred exchange loss	13	(102,131)	(101,532)
		12,669,930	15,180,425
Current Liabilities			
Other liabilities	16	1,619,108	227,698
Short-term borrowings	14	2,733,563	2,684,281
Amount due to projects	17	438,349	558,485
		4,791,020	3,470,464
TOTAL LIABILITIES		17,460,950	18,650,889
TOTAL EQUITY AND LIABILITIES		$33,223,344	$32,989,016

The notes on pages 31 to 57 form an integral part of these financial statements

: Director

: Director

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER, 2012

	Notes	2012	2011
INTEREST INCOME			
Interest on loans	20	2,146,796	2,229,756
Interest on investments		75,494	78,331
		2,222,290	2,308,087
Interest expense	21	(633,943)	(705,564)
Net interest income		1,588,347	1,605,523
Other income	22	292,456	699,545
		1,880,803	2,302,068
EXPENDITURE			
Directors fees and expenses		(50,781)	(48,761)
General expenses		(1,530,067)	(1,496,683)
Pension and gratuities		(39,666)	(28,491)
Depreciation		(118,278)	(110,743)
Bad debts		(6,438)	(145,750)
		(1,745,230)	(1,830,428)
Operating surplus for the year before impairment		135,573	471,640
Impairment loss	23	-	(1,877,263)
Net surplus/(deficit) for the year		135,573	(1,405,623)
Transfer to reserve fund		(33,893)	-
Net surplus/(deficit) for the year		$101,680	$(1,405,623)

The notes on pages 31 to 57 form an integral part of these financial statements

STATEMENT OF CHANGES IN GOVERNMENT'S EQUITY FOR THE YEAR ENDED 31ST DECEMBER, 2012

	Reserve Fund	Capital Grant	Revaluation Reserve	Capital Contribution	Retained Earnings/ (Accumulated Deficit)	Total
Balance at 1st January, 2011						
– previously reported	466,209	1,040,000	2,309,097	30,315,426	18,469,148)	15,661,584
Prior year adjustment (Note 25)	-	-	-	-	(17,834)	(17,834)
Balance at 1st January, 2011 – restated	466,209	1,040,000	2,309,097	30,315,426	(18,486,982)	15,643,750
Net movements in capital contribution	-	-	-	100,000	-	100,000
Net deficit for the year - restated	-	-	-	-	(1,405,623)	(1,405,623)
Balance at 31st December, 2011– restated	466,209	1,040,000	2,309,097	30,415,426	(19,892,605)	14,338,127
Revaluation	-	-	288,694	-	-	288,694
Net movement in capital contribution	-	-	-	(18,856,111)	19,856,111	1,000,000
Allocation to reserve	33,893	-	-	-	(33,893)	-
Net surplus for the year	-	-	-	-	135,573	135,573
Balance at 31st December, 2012	$500,102	$1,040,000	$2,597,791	$11,559,315	$65,186	$15,762,394

The notes on pages 31 to 57 form an integral part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER, 2012

	Note	2012	2011
OPERATING ACTIVITIES			
Net surplus/(deficit) for the year		135,573	(1,405,623)
Adjustment for:			
Depreciation		118,278	110,743
Change in non-cash items		253,851	(1,294,880)
Decrease in loans receivable		924,766	864,736
(Increase)/decrease in accounts receivable and prepayments		(44,567)	195,940
(Increase)/decrease in deferred loss on exchange		(599)	58,673
Increase/(decrease) in accounts payable and accruals		1,391,410	(5,041)
Decrease in amounts due to project		(120,136)	(208,740)
Net cash provided by/(used in) operating activities		2,404,725	(389,312)
INVESTING ACTIVITIES			
Decrease in available-for-sale financial assets		-	1,688,499
Increase in loans and receivable financial assets		(34,540)	(43,740)
Increase in held-to-maturity financial assets		(1,000,000)	-
Purchase of property, plant and equipment		(19,621)	(45,578)
Net cash (used in)/provided by investing activities		(1,054,161)	1,599,181
FINANCING ACTIVITIES			
Increase in Government Capital Contribution		1,000,000	100,000
Decrease in borrowings		(2,460,614)	(2,326,792)
Net cash used in financing activities		(1,460,614)	(2,226,792)
Net decrease in cash and cash equivalents		(110,050)	(1,016,923)
Cash and cash equivalents – at beginning of the year		999,465	2,016,388
- at end of the year	8	$889,415	$999,465

The notes on pages 31 to 57 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2012

1. CORPORATE INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Preparation

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

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

(b) New Accounting Standards, Amendments and Interpretations

i. There are no new standards, amendments or interpretations that are effective for the first time for the financial year beginning on or after 1st January, 2012 that would be expected to have a material impact on the Bank.

ii. New standards, amendments and interpretations issued but not effective for the financial year beginning 1st January, 2012 and not early adopted. These either do not apply to the activities of the Bank or have no material impact on its financial statements.

IAS 1 Presentation of items of other comprehensive income – Effective for annual periods beginning on or after 1st July, 2012.

IAS 19 Employee benefits – Effective for annual periods beginning on or after 1st January, 2013.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

IAS 27 Separate financial statements – Effective for annual periods beginning on or after 1st January, 2013.

IAS 28 Investments in associates and joint ventures – Effective for annual periods beginning on or after 1st January, 2013.

IFRS 9 Financial instruments - Classification and measurement - Effective for annual periods beginning on or after 1st January, 2013.

IFRS 10 Consolidated financial statements- Effective for annual periods beginning on or after 1st January, 2013.

IFRS 11 Joint arrangements - Effective for annual periods beginning on or after 1st January, 2013.

IFRS 12 Disclosure of interest in other entities - Effective for annual periods beginning on or after 1st January, 2013.

IFRS 13 Fair value measurement - Effective for annual periods beginning on or after 1st January, 2013.

(c) Foreign Currency Transactions

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

(d) Provision for Doubtful Loans (Classified debts)

Provision is made based on the specific identification of doubtful receivables. As loans become uncollectible, they are written off against the provision. The total provision at 31st December, 2012 amounted to $1,716,235 (2011: $1,764,300).

(e) Property, Plant and Equipment

Land and building are stated at 2012 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:

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, Plant and Equipment (continued)

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

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

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

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

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

(f) Cash and Cash Equivalents

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

(g) Interest

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

(h) Financial Assets

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial Assets (continued)

Available-for-sale

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

Loans and receivables

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

Fair value

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

(i) Borrowings

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

(j) Financial Instruments

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Financial Instruments (continued)

Recognition and measurement

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

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

Impairment of financial assets

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

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

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

i. Significant financial difficulty of the issuer or obligor.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Financial Instruments (continued)

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

Impairment losses are recorded in an allowance account and are measured and reognised as follows:

i. Financial assets measured at amortised cost

The difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate is recognised in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improvement in the debtor's credit rating), the previously recognised loss is reversed to the extent that the carrying amount of the financial asset does not exceed what the amortised cost would have been had the impairment not been recognised at the date that the impairment is reversed. The amount of the reversal is recognised in the statement of comprehensive income.

ii. Financial assets measured at cost

The difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the current market's rate of return for similar financial assets is recognised in the statement of comprehensive income. These losses are not reversed.

Financial liabilities

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Valuation of property

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

Property, plant and equipment

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

Impairment of loans receivable

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

4. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Furniture, Fixtures and Equipment	Computers	Motor Vehicles	Total
Balance at 1st January, 2011						
Cost	-	246,141	408,066	1,166,785	75,000	1,895,992
Valuation	900,000	3,360,000	-	-	-	4,260,000
Accumulated depreciation	-	(263,770)	(389,498)	(1,144,461)	(75,000)	(1,872,729)
	$900,000	$3,342,371	$18,568	$22,324	$ -	$4,283,263
For the year ended 31st December, 2011						
Opening book value	-	234,371	18,568	22,324	-	275,263
Cost	900,000	3,108,000	-	-	-	4,008,000
Valuation	900,000	3,342,371	18,568	22,324	-	4,283,263
Additions for the year - Cost	-	-	3,529	42,049	-	45,578
Depreciation charge for year						
- Cost	-	(6,151)	(4,886)	(15,703)	-	(26,743)
- Valuation	-	(84,000)	-	-	-	(84,000)
	-	(90,151)	(4,886)	(15,703)	-	(110,743)
NET BOOK VALUE	$900,000	$3,252,220	$17,208	$48,670	$ -	$4,218,098
Balance at 31st December, 2011						
Cost	-	246,141	411,595	1,208,834	75,000	1,941,570
Valuation	900,000	3,360,000	-	-	-	4,260,000
Accumulated depreciation	-	(353,921)	(394,387)	(1,160,164)	(75,000)	(1,983,472)
NET BOOK VALUE	$900,000	$3,252,220	$17,208	$48,670	$ -	$4,218,098

4. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Land	Building	Furniture, Fixtures and Equipment	Computers	Motor Vehicles	Total
For the year ended 31st December, 2012						
Opening book value	-	228,220	17,208	48,670	-	294,098
Cost	900,000	3,024,000	-	-	-	3,924,000
Valuation	900,000	3,252,220	17,208	48,670	-	4,218,098
Additions for the year - Cost	-	7,866	-	11,755	-	19,621
Revaluation during the year	23,780	264,914	-	-	-	288,694
	23,780	272,780	-	11,755	-	308,315
Depreciation charge for year						
- Cost	-	-	(4,281)	(25,872)	-	(30,153)
- Valuation	-	(88,125)	-	-	-	(88,125)
	-	(88,125)	(4,281)	(25,872)	-	(118,278)
NET BOOK VALUE	$923,780	3,436,875	$12,927	$34,553	$ -	4,408,135
Balance at 31st December, 2012						
Cost	-	-	411,595	668,932	75,000	1,155,527
Valuation	923,780	3,525,000	-	-	-	4,448,780
Accumulated depreciation	-	(88,125)	(398,668)	(634,379)	(75,000)	(1,196,172)
NET BOOK VALUE	$923,780	$3,436,875	$12,927	$34,553	$ -	$4,408,135

5. FINANCIAL ASSETS

	2012	2011
AVAILABLE-FOR-SALE		
Liberty Club Limited 1,688,499 ordinary shares of $1.00 each - cost	1,688,499	1,688,499
Eastern Caribbean Securities Exchange 2,500 class c shares at $10.00 each - cost	25,000	25,000
Financial Data Systems Limited 60,000 shares of common stock at $1.00 each - cost	60,000	60,000
	1,773,499	1,773,499
Less: Provision for diminution in value of shares	1,748,497	1,748,497
	$25,002	$25,002
LOANS AND RECEIVABLES		
RBTT Bank Grenada Limited – fixed deposits	$953,080	$918,540
HELD-TO-MATURITY		
Government of Grenada - 6% 2016 bond	$1,000,000	$ -

6. LOANS RECEIVABLE

	2012	2011
Loans receivable – principal	27,344,964	28,297,060
Less: Provision for doubtful debts	1,716,235	1,764,300
	$25,628,729	$26,532,760
Accrued interest (3 months)	$202,804	$223,539
Movements in provision for loan losses are as follows:		
Balance at the beginning of the year	1,764,300	1,993,114
Bad debts recovered	(54,504)	(373,926)
Increase in provision	6,439	145,112
Balance at end of the year	$1,716,235	$1,764,300

6. LOANS RECEIVABLE *(continued)*

	2012	2011
Allowance for impairment losses by sector		
Agriculture	489,613	284,836
Agro processing	176,174	376,584
Education	278,481	315,546
Fishing	152,606	147,267
Housing	29,174	44,954
Industry	217,081	228,543
Micro sector	91,243	88,983
Tourism	281,863	277,587
	$1,716,235	$1,764,300

7. OTHER ASSETS

	2012	2011
Matured investment – CLICO investment	810,000	810,000
Interest receivable	142,007	109,214
Accounts receivable	188,765	188,765
Prepayments	60,454	48,680
	1,201,226	1,156,659
Less: Impairment provision	1,085,047	1,085,047
	$116,179	$71,612

8. CASH AND CASH EQUIVALENTS

	2012	2011
Cash on hand	1,200	1,200
Cash at bank	888,215	998,265
	$889,415	$999,465

9. GOVERNMENT CAPITAL GRANTS

a. $40,000

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

b. $1,000,000

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

10. GOVERNMENT CAPITAL CONTRIBUTION

Balance at 1st January, 2012	30,415,426	30,315,426
Contribution during the year	1,000,000	100,000
Transfer of accumulated losses at 31st December, 2011 - previously reported	(19,856,111)	-
Balance at 31st December, 2012	$11,559,315	$30,415,426

The amount of $1,000,000 contributed during the year was placed on a 6% Government of Grenada Bond to mature in 2016.

During the year, the Bank received approval from the Government to write-off the accumulated losses to the Capital Contribution account.

11. RESERVE FUND

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

12. REVALUATION RESERVE

	2012	2011
Revaluation surplus	$2,597,791	$2,309,097

12. REVALUATION RESERVE (continued)

The Bank's property was last re-valued in July 2012 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 $288,694.

13. DEFERRED EXCHANGE LOSS

Loss arising on the translation of the European Investment Bank loan.

The loan due to the European Investment Bank and repayable in Euros has been translated at the rate of exchange ruling at the end of the financial year. The translation of the amount repayable resulted in a difference of $102,131 which is reflected in the statement of financial position as a deferred loss in foreign exchange. This amount would be written off to revenue on repayment of the loan.

14. BORROWINGS

a. Caribbean Development Bank (Note 15)	10,334,059	12,179,390
b. National Insurance Board	3,546,860	3,996,817
c. European Investment Bank	1,624,705	1,790,031
	15,505,624	17,966,238
Less: Short-term portion	2,733,563	2,684,281
Long-term portion	$12,772,061	$15,281,957

a. These loans are secured by guarantees from the Government of Grenada except for National Insurance Board which is secured by a mortgage on the Bank's property at Melville Street.

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

i. Loan 4 - Renovation loan

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

14. BORROWINGS (continued)

ii. Loan 2

The sum of $4,273,556.00 was authorised and $4,232,506.69 withdrawn. It is repayable over ten (10) years at rates of interest of 6% for the first five (5) years and 8% for the next five (5) years. The monthly repayment is $47,445.22 inclusive of interest. Repayment began in May 2009.

c. The sum of 500,000 Ecu's was authorised and withdrawn on the EIB loan. The loan was used for purchasing shares in Liberty Club Limited. It is repayable in five (5) equal annual instalments originally from October 2007 to 2011. The commencement date for repayment of this loan has however been extended. The date at which repayment is to commence has not yet been established. The loan is interest free.

15. CARIBBEAN DEVELOPMENT BANK - LOANS

				Foreign Currency	2012 EC$	2011 EC$
a.	3/SFR-OR-GR	Second consolidated line of credit – Agricultural and industrial credit/ student	US$	306,885	831,166	1,108,222
b.	OCR-SFR-GR	Loan/mortgage/micro sector	US$	1,245,045	3,372,080	4,127,520
c.	11/SFR - GR	Sixth student loan (see note below)	US$	2,263,629	6,130,813	6,943,648
					$10,334,059	$12,179,390

Note: This Loan is in the name of the Government of Grenada with the Bank as the executing Agency.

15. CARIBBEAN DEVELOPMENT BANK - LOANS (continued)

	Principal	Interest
a.	80 consecutive quarterly instalments as of 31st December, 1993.	2% per annum payable quarterly, as of 31st December, 1988.
b.	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%/3.66% per annum. Payable quarterly as of
c.	SFR portion – 40 equal quarterly instalments. OCR portion – 40 equal quarterly instalments. Repayments started December 2008. SF	2.5%/3.66% per annum. Payable quarterly.

16. OTHER LIABILITIES

	2012	2011
Amount due to Government of Grenada	1,400,608	-
Accrued interest	109,102	101,701
Accounts payable	109,398	125,997
	$1,619,108	$227,698

17. AMOUNT DUE TO PROJECTS

Poultry project	330,987	330,987
Youth enterprise initiative	67,688	187,824
Agricultural diversification	39,674	39,674
	$438,349	$558,485

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 $1,007,554 (2011: $1,436,612).

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.

Risk management structure (continued)

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 loans up to $300,000. The Board of Directors approves loans over $300,000 on recommendation from the Internal Loan Committee. Loans under $100,000 are approved by the Manager.

Credit Risk

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

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

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

Management of credit risk

Loans

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

19. FINANCIAL RISK MANAGEMENT (continued)

Management of credit risk (continued)

Loans (continued)

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

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

Other financial assets

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

Exposure to credit risk

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

Maximum exposure	2012	2011
Held-to-maturity financial assets	1,000,000	-
Available-for-sale financial assets	25,002	25,002
Loans and receivable financial assets	953,080	918,540
Loans receivable – Principal	25,628,729	26,532,760
Loans receivable - Interest	202,804	223,539
Accounts receivable and prepayments	116,179	71,612
Cash and cash equivalents	889,415	999,465
	$28,815,209	$28,770,918

19. FINANCIAL RISK MANAGEMENT *(continued)*

Concentration of credit risk at 31st December, 2012

	Held-to-Maturity Financial Assets	Available-for-Sale Financial Assets	Loans and Receivables Financial Assets	Loan Receivable Principal	Loan Receivable Interest	Accounts Receivables and Prepayment	Cash and Cash Equivalent	Total
Education	-	-	-	11,837,373	146,532	-	-	11,983,905
Agriculture	-	-	-	1,069,014	657	-	-	1,069,671
Fishing	-	-	-	150,300	168	-	-	150,468
Tourism	-	-	-	4,029,914	5,675	-	-	4,035,589
Housing	-	-	-	3,408,404	19,559	-	-	3,427,963
Micro- sector	-	-	-	196,792	688	-	-	197,480
Agro-processing	-	-	-	220,105	-	-	-	220,105
Industry	-	-	-	4,502,091	28,811	-	-	4,530,902
Personal	-	-	-	214,736	714	-	-	215,450
Other	1,000,000	25,002	953,080	-	-	116,179	889,415	2,983,676
	$1,000,000	$25,002	$953,080	$25,628,729	$202,804	$116,179	$889,415	$28,815,209

19. FINANCIAL RISK MANAGEMENT *(continued)*

Concentration of credit risk at 31st December, 2012

	Available-for-Sale Financial Assets	Loans and Receivables Financial Assets	Loan Receivable Principal	Loan Receivable Interest	Accounts Receivables and Prepayment	Cash and Cash Equivalent	Total
Education	-	-	11,916,343	181,079	-	-	12,097,420
Agriculture	-	-	1,365,774	3,763	-	-	1,369,537
Fishing	-	-	158,555	498	-	-	159,053
Tourism	-	-	4,337,959	4,089	-	-	4,342,048
Housing	-	-	3,466,646	14,716	-	-	3,481,362
Micro-processing	-	-	138,146	1,154	-	-	139,302
Agro-processing	-	-	18,266	-	-	-	18,266
Industry	-	-	4,868,751	16,483	-	-	4,885,234
Personal			262,320	1,757	-	-	264,077
Other	25,002	918,540	-	-	71,612	999,465	2,014,619
	$25,002	$918,540	$26,532,760	$223,539	$71,612	$999,465	$28,770,918

19. FINANCIAL RISK MANAGEMENT (continued)

Concentration of credit risk at 31st December, 2012

	Neither past due nor impaired $	Past due but not impaired 1-3 months $	3-6 months $	6-12 months $	Over 12 months $	Total $
2012	21,328,371	2,088,024	65,638	56,089	3,806,842	27,344,964
2011	20,075,127	3,859,806	103,225	118,436	4,140,466	28,297,060

Individually impaired financial assets at 31st December, 2011:

	Carrying Value	Provision for Impairment	Net book value 2012	2011
Loans	$2,456,793	$1,716,235	$740,558	$679,781
Available-for-sale financial assets	$1,748,499	$1,748,497	$ 2	$ 2
Matured financial assets	$810,000	$810,000	$ -	$ -
Interest receivable	$86,282	$86,282	$ -	$ -
Other receivable	$188,765	$188,765	$ -	$ -

Collateral

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

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

19. FINANCIAL RISK MANAGEMENT *(continued)*

Collateral (continued)

Management monitors the market value of collateral, request additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of repossessed properties of which the proceeds are used to repay outstanding balances on loans.

Impairment

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

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

Past due and not impaired

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

Write off policy

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

Liquidity risk

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

19. FINANCIAL RISK MANAGEMENT *(continued)*

Management of liquidity risk

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

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

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

	EC$	US$	EURO	Total
Balance at 31st December, 2012				
Assets	1,000,000	-	-	1,000,000
Held –to-maturity financial assets	25,002	-	-	25,002
Available-for-sale financial assets	953,080	-	-	953,080
Loans and receivable financial assets	25,628,729	-	-	25,628,729
Loans receivable-principal	202,804	-	-	202,804
Loans receivable-interest	116,179	-	-	116,179
Accounts receivable and prepayments	874,821	14,594	-	889,415
Cash and cash equivalents	28,800,615	14,594	-	28,815,209
Liabilities				
Long-term borrowings	3,086,263	8,061,093	1,624,705	12,772,061
Accounts payable and accruals	1,619,108	-	-	1,619,108
Short-term borrowings	437,889	2,295,674	-	2,733,563
Amount due to projects	438,349	-	-	438,349
Net currency exposure	5,581,609	10,356,767	1,624,705	17,563,081
	$23,219,006	$(10,342,173)	$(1,624,705)	$11,252,128

19. FINANCIAL RISK MANAGEMENT *(continued)*

Management of liquidity risk

	EC$	US$	EURO	Total
Balance at 31st December, 2011				
Assets				
Available-for-sale financial assets	25,002	-	-	25,002
Loans and receivable financial assets	918,540	-	-	918,540
Loans receivable-principal	26,532,760	-	-	26,532,760
Loans receivable-interest	223,539	-	-	223,539
Accounts receivable and prepayments	71,612	-	-	71,612
Cash and cash equivalents	987,590	11,875	-	999,465
	28,759,043	11,875	-	28,770,918
Liabilities				
Long-term borrowings	3,585,502	9,906,424	1,790,031	15,281,957
Accounts payable and accruals	227,698	-	-	227,698
Short-term borrowings	411,315	2,272,966	-	2,684,281
Amount due to projects	558,485	-	-	558,485
Net currency exposure	4,783,000	12,179,390	1,790,031	18,752,421
	$23,976,043	$(12,167,515)	$(1,790,031)	$10,050,178

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 is to manage operational risk 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 is assigned to senior management. 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

	2012	2011
Caribbean Development Bank loans	759,015	875,998
Local loans	969,293	903,590
Business reactivation loan	398,480	430,716
National Insurance Scheme loans	20,008	19,452
	$2,146,796	$2,229,756

21. INTEREST EXPENSE

	2012	2011
Caribbean Development Bank	398,641	444,406
National Insurance Scheme	235,302	261,158
	$633,943	$705,564

22. OTHER INCOME

Sundry income	87,093	167,297
Bad debts recoveries	205,363	532,248
	$292,456	$699,545

23. IMPAIRMENT LOSS

Impairment of investments	$ -	$1,877,263

24. RELATED PARTY TRANSACTIONS

i. Compensation of key management personnel of the Bank.		
Salaries and staff benefits	$359,496	$241,880
ii. Loans receivable from key management personnel and directors	$39,361	$258,256
iii. Interest income from key management personnel and directors	$4,287	$12,953

25. PRIOR YEAR ADJUSTMENT

Under-accrual of expense	$ 17,834	$ -

26. GENERAL EXPENSES

	2012	2011
Salaries, wages and allowances	760,424	732,394
National Insurance contributions	32,556	30,290
Security	25,667	21,051
Computer expenses	50,849	48,499
Subscription and donations	15,709	16,385
Postage	3,181	3,725
Office expenses	28,215	25,169
Advertising	14,284	17,362
Audit fees	23,500	23,500
Professional services	78,867	60,589
Bank charges	9,620	1,155
Entertainment	4,436	5,577
Motor vehicle expenses	8,954	9,181
Legal fees	46,550	56,427
Stationery and printing	59,556	40,498
Telephone and cables	54,283	59,514
Miscellaneous	4,606	4,564
Commitment fees	1,022	9,082
Repairs and maintenance	10,453	20,095
Staff uniforms	22,137	17,951
Travelling and subsistence	65,409	86,275
Electricity	136,964	128,021
Water and sewerage	2,198	2,139
Staff training	20,878	13,908
Insurance	47,259	45,427
Recruitment cost	2,645	2,564
Library expenses	(2,631)	-
Corporate image and product development	2,476	15,341
	$1,530,067	$1,496,683

Acknowledgements

The Board wishes to recognise all the public, private, local, regional and international organisations that have contributed to the GDB's operations during the year. In particular, the Board of Directors wishes to thank the Government of Grenada for its sustained financial support, the European Investment Bank, the Caribbean Development Bank and the National Insurance Scheme of Grenada for continued financial and technical assistance.

The Board also recognises its Bankers, Republic Bank of Grenada Ltd. and the RBTT Bank Grenada Ltd for their continued service. It also recognises the firms of Renwick & Payne, Henry Hudson - Phillips & Co., Danny Williams & Co., and the Law Office of Alban M. John, for their legal services. The Bank also acknowledges its External Auditors, PKF.

Finally, a special thank you is expressed to the Management and Staff of the Grenada Development Bank for their efforts over the past year and to the Bank's clientele for their continued support.

Notes

Notes

GRENADA DEVELOPMENT BANK
P.O Box 2300, Melville Street
St. George, Grenada

E: gdbbank@spiceisle.com W: www.grenadadevelopmentbank.com