Annual Report 2011

"Development Through Financing"

Grenada Development Bank

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Mission Statement

To be a Profitable and Viable Organisation,

Providing High

Quality Financial and Related Services

To

Corporations and individuals in

Grenada, Carriacou and Petite Martinique.

Corporate Information

DIRECTORS

From Left to Right:

Mr. Michael Archibald, ***MBA, FICB, AICB***	-	Chairman
Mr. Lingham Samuel, ***MSc***	-	Deputy Chairman
Mr. Mervyn Lord, ***MSc, BSc (Hons)***	-	Manager/ Director
Mrs. Lucia Livingston-Andall, ***MBA(Hons), BSc(Hons), CGA***	-	Director
Mr. Archelaus Joseph, ***LLB***	-	Director
Mr. Mike Sylvester, ***MSc(Hons), BBA***	-	Director
Mr. Gabriel Clarke, ***MSc***	-	Director
Mr. Ian DaBreo	-	Director

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

Management/Supervisory Team 2011:

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

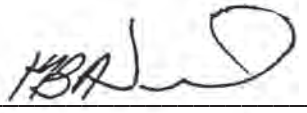
Chairman's Letter of Transmittal

The Honourable Nazim Burke
Minister of 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, 2011.

Yours faithfully,



Mr. Michael Archibald MBA, FICB, AICB

Chairman's Message

Mr. Michael Archibald
Chairman

The Economic Environment

The prolonged global depression continues to impact negatively on the Grenadian economy. However, preliminary figures from the Ministry of Finance indicated that real GDP grew by 1.1% in 2011 as compared with a decline of 1.4% in 2010. The improvement in 2011 can be attributed mainly to growth in Agriculture, Tourism, Education and Manufacturing of 8.1%, 4.1%, 1.8% and 1.5% respectively. Nevertheless, the Construction Sector continued its downward trend with a further decline of 8% in 2011 after experiencing negative growth of 6.3% in 2010. In addition, Fishing, Mining and Quarrying and Financial Intermediaries all showed declines of 5%, 1.5% and 1% in 2011 respectively. Inflation pressures had eased somewhat for 2011 falling to 3.5% as compared to 6.5% in 2010. Inflation was expected to increase in 2010 because of the introduction of the Value Added Tax (VAT) and return to normal levels between 2 to 4% thereafter.

It is projected that there will be global economic growth of about 3.25% in 2012. However, economic expansion in advanced countries is expected to be less than 2% for the said period. Consequently, the Ministry of Finance is projecting another difficult economic and fiscal year in Grenada for 2012 with growth of 1.9%.

The Banking Sector

An analysis of credit by economic activity conducted by The Eastern Caribbean Central Bank (ECCB) for the first three quarters of 2011 showed that the bulk of credit granted by financial institutions in Grenada was channelled into personal use. The distribution of commercial bank credit by economic activity indicates that lending for personal use increased by 1.5%, largely attributable to an expansion in loans for the acquisition of property. Notwithstanding a decline in the Construction Sector of 8% in 2011, credit for Construction grew by 6.3 per cent, as at September 2011, in support of small private sector construction activities. Alternatively, despite growth in Tourism and Manufacturing for 2011, credit for same declined as at September 2011. Outstanding loans for tourism-related activity fell by 5.7%, as improved tourism related income reduced the need for the industry to use credit to support its operations while lending for Manufacturing (including mining and quarrying) declined by 8.5%.

Despite the increase in the demand for credit, liquidity in the commercial banking system

improved during the period under review. The ratio of liquid assets to total deposits plus liquid liabilities rose to 25.9% at the end of September 2011, from 23.0% at the end of December 2010. The improvement was also evident by a 0.6% decline in the loans and advances to total deposit ratio to 83.0%.

The interest rate spread between deposits and lending increased by 0.52% to 7.34% on account of a larger increase in the weighted average lending rates of 0.83% from 9.46% to 10.29% as compared to an increase of 0.30% in the deposit rate from 2.65% to 2.95%.

The Bank's performance

Despite the very difficult economic times, the Grenada Development Bank's operating profit increased by 205% from $161K in 2010 to $490K in 2011. Total income increased by 9% from $2.75M in 2010 to $3.01M in 2011 while total expenses declined by 3% over the said period. The increase in revenue was largely due to a 115% increase in bad debts recoveries from $248K in 2010 to $532K in 2011 and a 62% increase in sundry income during the same period.

Notwithstanding the improved operating performance in 2011, uncertainty arose regarding one of the Bank's major investments. Being prudent, and in accordance with International Financial Reporting Standards, the Bank impaired its full investment of $1.7M in same. This accounted for the major part of an overall impairment loss of $1.88M and a net loss of $1.39M.

The Bank's non performing portfolio continued its satisfactory downward trend from 17.92% in 2010 to 15.93% in 2011. Our intention is to reduce that percentage to 11% by the end of 2012 and if successful, it will be the first time in years that such an improvement in the quality of the loan portfolio would have been achieved.

The Bank was also successful in signing a Strategic Alliance Agreement with a major financier during the latter part of the year, which will utilize it as a conduit for funding large development projects in Grenada, Carriacou and Petite Martinique. It is anticipated that the benefits of such an agreement would begin to be seen during the latter period of 2012.

Future Prospects

The Bank has completed a new five-year Strategic Plan which will take effect from 2012. The thrust will be to transform it into the premier provider of development funding in the tri-island state by the next five years. Considerable effort will continue to be made towards securing non-traditional means of funding and providing additional services at higher quality so as to better fulfil the Bank's mandate.

Our Responsibility to the tri-island state

In order to fulfil its mandate of being the premier provider of development funding in the tri-island state, the Bank has embarked on a number of objectives which will commence in 2012.

In closing, allow me to thank the members of the Board, our various committee members, management and staff who supported the Bank during these tumultuous times and most importantly, our loyal customers.

Mr. Mervyn Lord
Manager

Manager's Discussion & Analysis

Overview of the Implementation of the 2009 – 2011 Business Plan

2011 marked the final year of the three-year Business Plan. The goal of the Plan was to significantly improve the sustainability, image and staff morale/performance of the Grenada Development Bank in order for it to better execute its socio-economic development role in accordance with Government's development vision. The Plan had a 78% implementation success rate. The successful implementation can be attributed to the Management's and the Staff's thrust to propel the Bank to the next level and the close monitoring by the Board. It must be noted that all the initiatives that were not implemented can be linked directly or indirectly to the failure of the Bank to secure the much needed new lines of credit. The following are some of the key accomplishments in accordance with the Business Plan over the three years of its implementation:-

1. Sustainability

- The total Arrears Ratio was maintained within the standard of ≤3% with an average of less that 0.4% over the three years.
- The portfolio Contamination Ratio was reduced from an average of over 15% in 2008 to an average of 8% in 2011 notwithstanding that the target in the Business Plan for 2011 was 6%.

- The Non Performing Ratio was reduced from over 23% in 2008 to 15.93% in 2011 although the revised target in the Business Plan for 2011 was 11%.
- The Collection Ratio for the Performing Portfolio was maintained at over 95%.
- A system of budgetary control that closely monitored the Bank's financial performance against its approved budget was implemented thus resulting in favourable total expenditure variance in each of the years of the Plan.
- All charges of the Bank were reviewed with a view of aligning them closer to the market rate.

2. Image

- The Bank's website was established.
- The roof of the Bank's building was replaced.
- A customer satisfaction survey was conducted and mystery customers were used to measure the Bank's level of customer service. Consequently, a Customer Service Plan was prepared to address the gaps. This Plan will be implemented from 2012.
- The appraisal format for non business loans was reviewed and adjusted with a view to reducing the timeframe to complete same while improving the quality and relevance of the information presented.
- The entire Management and Staff were exposed to customer service training with a view to better meeting customers' expectations.

3. Staff morale/ performance

- The staff Performance Management System was implemented.
- A new salary scale was implemented.
- A new organization chart was implemented.
- The 360 degree employee recognition system was implemented.
- The cross training and job rotation exercise commenced.
- New job descriptions for each position were formulated and implemented with clear performance objectives and standards.
- All vacant positions in the Bank were filled in accordance with the new organization chart.
- A social committee was formed.
- Regular monthly staff meetings were conducted to keep staff informed.
- A Suggestion Box was established to obtain viable suggestions from the Bank's internal and external customers to better meet their needs.
- The following policies were approved and implemented:-
  - Delinquency and Collection Policy and Procedures.

- Loan Provision Policy.
- Donation Policy.
- Expenditure and Asset Disposal Policy and Procedures.
- GDB Staff Loan Policy (Revised).
- Student Loan Policy (Revised).

Notwithstanding the above accomplishments, the following initiatives were not attained:-

1. Sustainability

- New lines of credit from the Caribbean Development Bank (CDB) and the European Investment Bank (EIB).
- Capital injection of $10M by the Government - instead, only $450K was injected over the three year period.
- The growth of the loan portfolio from $32.6M in 2008 to $63.1M in 2011. Alternatively, the portfolio reduced to $28.3M as at December 31, 2011.
- Increase profitability from $250K in 2008 to $1.4M by 2011. Although the operating profit increased to $490K in 2011, it was well short of the projected increase. This can be attributed to the failure of the Bank to obtain new lines of credit resulting in a negative growth of the loan portfolio.

2. Image

- Reduction of the credit approval process in accordance with the Credit Policy. The Credit Department was staffed with only new officers throughout the implementation period whose learning curve negatively affected the realization of this objective.
- Contracting the service of a Public Relations Officer. This objective was dependent on the Bank obtaining new lines of credit.
- Repainting and remodeling the Bank's building to house its offices on one floor and renting the other floor.

Being cognizant of the failure to implement key initiatives in the 2009 to 2011 Business Plan because of the lack of finance, the 2012 to 2016 Plan will explore the possibility of sourcing funds from non-conventional sources such as:-

- deposit taking.
- establishing a unit trust fund.
- issuing shares and bonds.
- acting as a conduit for funding.

Inspite of the aforementioned, the Bank will continue with its efforts to obtain new lines of credit from its traditional sources such as the CDB and the EIB.

3. Staff morale/ performance

Based on the Bank's current financial position it was unable to reach an agreement with the Union regarding salary increases for the period 2010 to 2012 which negatively affected the staff morale.

FINANCIAL ANALYSIS

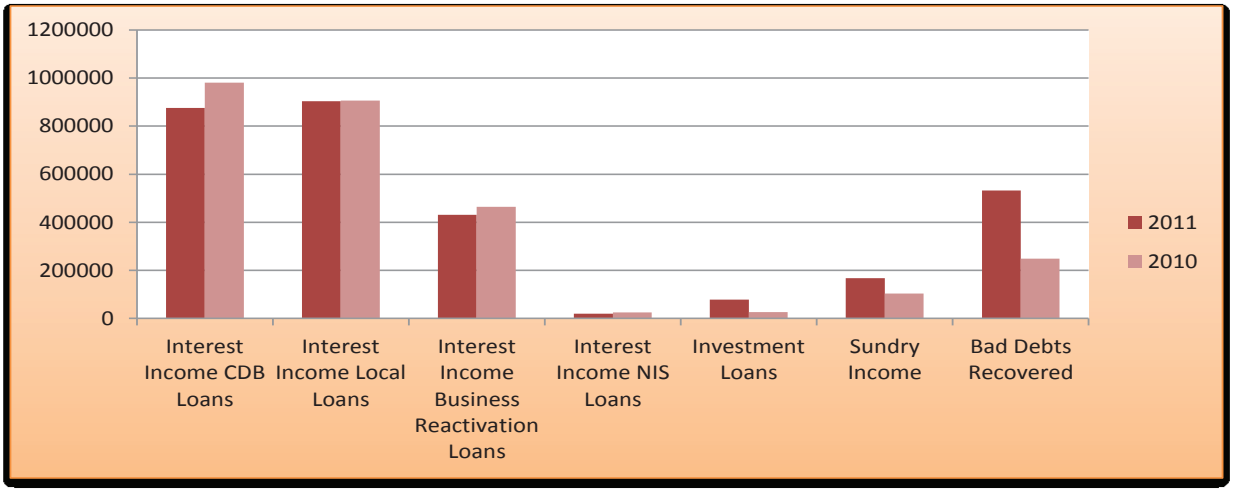
Despite the many challenges of 2011, the Bank was able to realize an operating profit of $490K. However, its ability to on-lend was affected by the cash flow constraints resulting from the following:

1. Requests from customers for moratoriums on principal or both principal and interest payments. This has affected the Bank's ability to embark on important strategic initiatives.

2. Failure to obtain new lines of credit to grow its loan portfolio, which was projected to increase to $63.10M by 2011 and later revised to $32.00M, in its quest to eventually achieve a critical mass which would enable it to achieve economies of scale from which it can seek growth from its internally generated funds. However as at December 31 2011, the loan portfolio stood at $28.3M.

Revenue

Graph showing revenue for 2011 and 2010



The operating profit of $490K in 2011 compared favourably to an operating profit of $161K in 2010. However, because of the uncertainty regarding the Bank's investments totalling $1.88M, it became prudent to impair same, resulting in a net loss of $1.39M. The Bank's total revenue for 2011 increased by $253K; from $2.75M in 2010 to $3.01M in 2011. The main revenue earners were interest income from Local Loans ($904K), interest income from CDB Loans ($875K), income from Bad Debts Recovered ($532K) and interest income from Business Reactivation Loans ($431K).

Income from Local Loans made up 30% of the total revenue in 2011 compared to 32.90% in 2010 while that from external financing was 44% in 2011 as compared to 53.38% in 2010. Income from Bad Debts was 17.69% of the total revenue in 2011 and 9.01% in 2010. Sundry income and investment income as a percentage of total

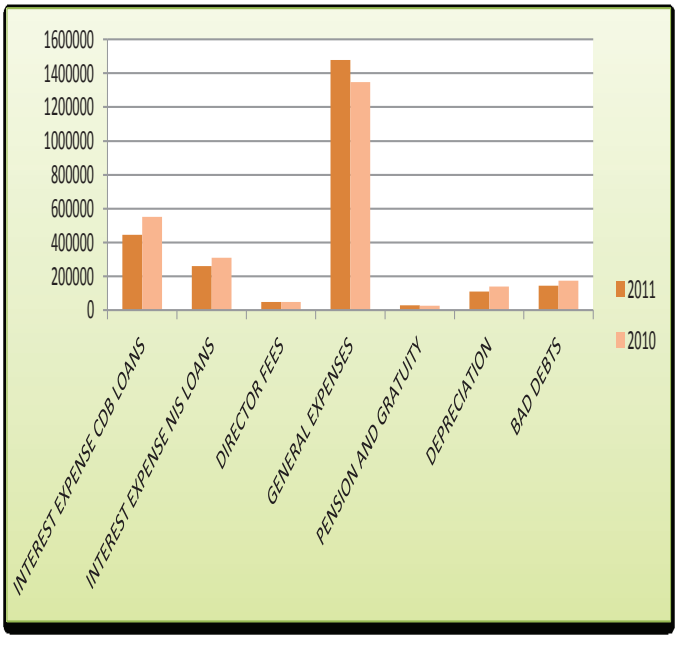
income were 5.56% and 2.60% in 2011 and 3.74% and 0.97% in 2010 respectively.

There was a decline from all the major revenue earners of the Bank with the exception of income from Bad Debts which increased by $284K or 115%, from $248K in 2010 to $532K in 2011. This decline was due to the decrease in the loan portfolio size from $29.45M in 2010 to $28.28M in 2011.

Recoveries from bad debts therefore continued to be a major source of revenue and were mainly responsible for the increase in revenue and operating profit in 2011 over 2010. This source of income however will diminish as the remaining securities become more difficult to sell.

Expenditure

Graph showing expenditure for 2011 and 2010



The Bank continued in its efforts to find ways to increase its efficiency and to get best value for money while not compromising the quality of the services it offers.

Total expenditure was $2.52M in 2011 representing a reduction of $76K when compared to the 2010 figure of $2.59M.

Reduction in expenditure was realized in all the major areas except general expenses which showed a 9% increase of $129.82K. The increase in general expenses was due mainly to the following:

- Consultancy cost to assess the demand for SME financing and strengthen the Bank's internal capacity to better provide for same,
- travel and subsistence costs to meet with a potential provider of funds,
- and the recruitment of an internal auditor.

The above expenditure was necessary in order for the Bank to lay the foundation to propel it into the future.

The Bank's total assets decreased from $36.78M in 2010 to $32.99M in 2011, representing a decrease of $3.79M or 10% resulting mainly from a decline in the loan portfolio and its impaired investments.

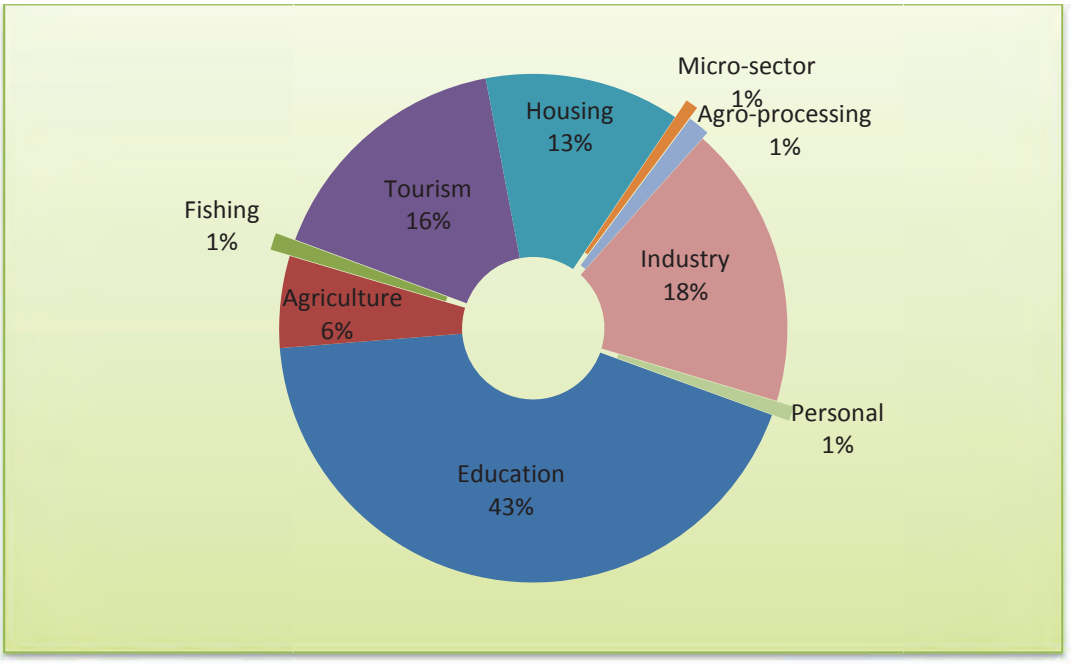
The Bank's long term debts decreased by $2.35M or 13%, from $17.63M in 2010 to $15.28M in 2011.

The debt to equity ratio (total debts to total equity) improved. It was 1.29:1 in 2011 compared to 1.35:1 in 2010. The standard requires a ratio of 4:1. This means that the Bank can borrow up to $38.88M without the need for additional equity.

There was a slight improvement in its gearing ratio (total debts to total assets), which was 56% in 2011 and 57% in 2010.

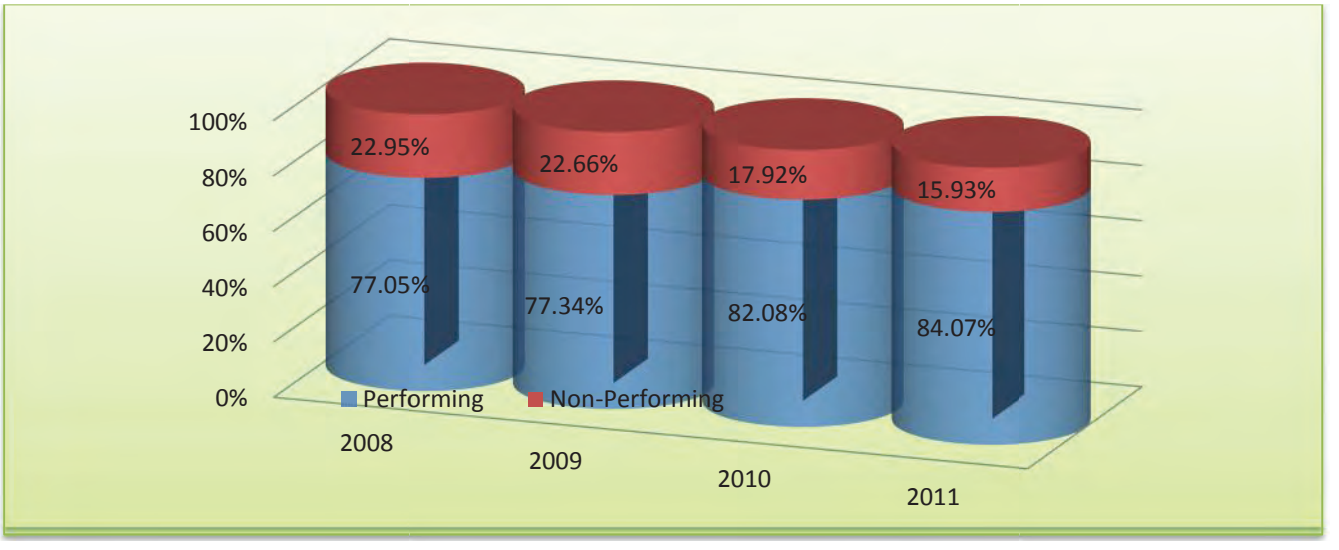
PORTFOLIO ANALYSIS

The Grenada Development Bank's portfolio is segmented into nine sectors namely Agriculture, Tourism, Fishing, Agro processing, Education, Housing, Industry, Micro-sector and Personal loans. At the end of 2011 the total value of the portfolio was EC$28.2M with Education accounting for approximately 43%, Industry 18%, Tourism 16%, Housing 13%, Agriculture 6% and the other four accounting for 1%.

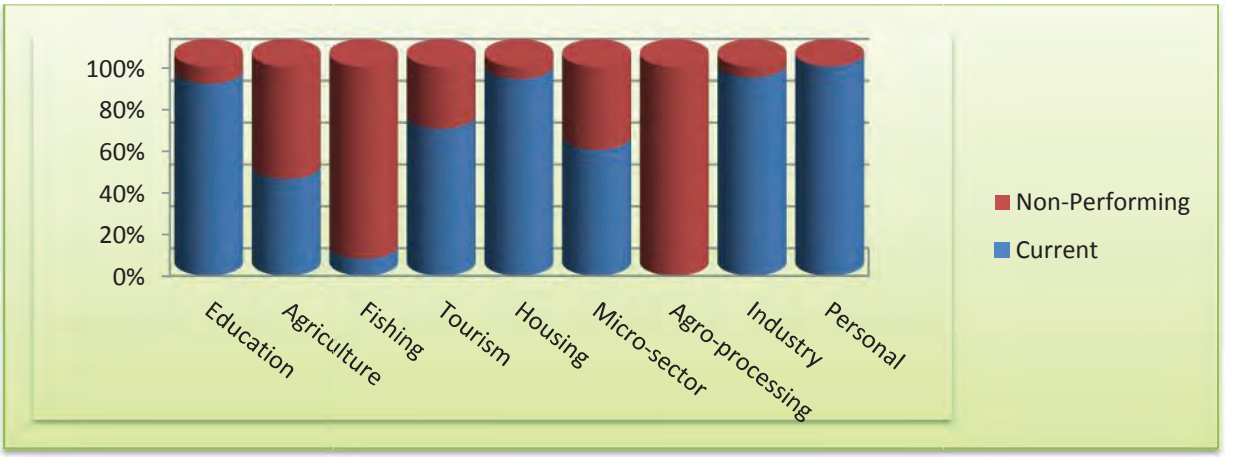


Portfolio Distribution (December 31, 2011)

As at December 31st 2011, approximately 15.93% of the portfolio was non-performing. This is compared to 17.92% as at December 31st 2010. Micro sector, Agriculture, Fishing and Agro-processing are the worst performing sectors with 40%, 54%, 92% and 100% non-performing loans respectively. Education, Housing (home mortgage) and Industry are the best performing sectors with 92%, 94% and 95% performing loans respectively. Together they constitute 74% of the total portfolio.

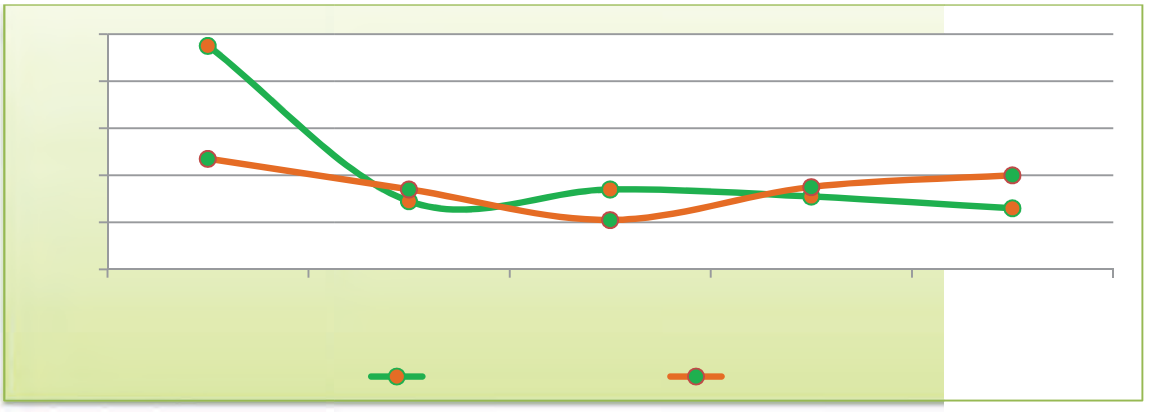


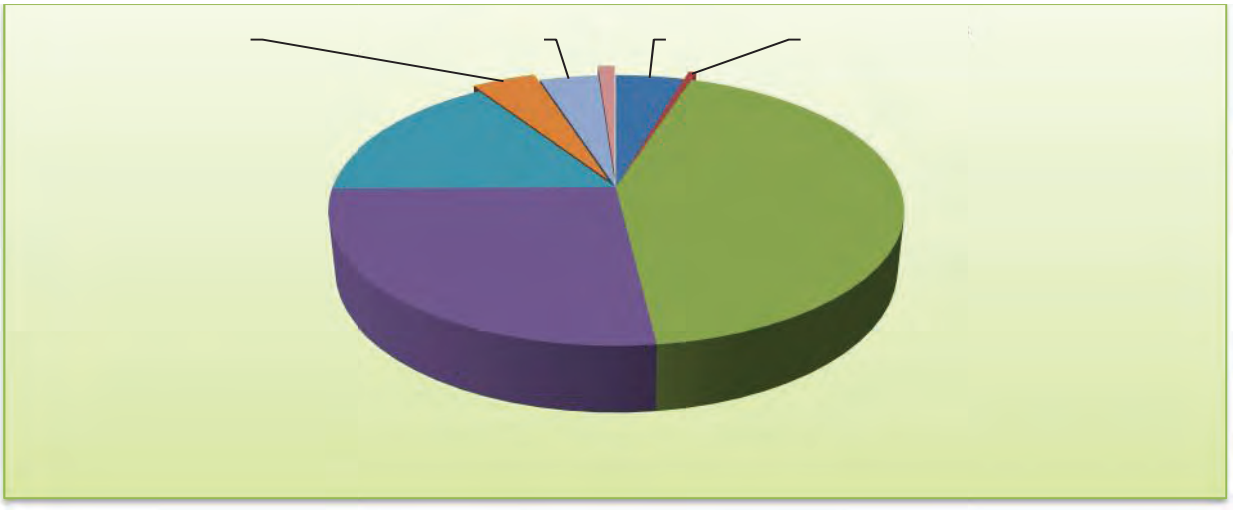
Portfolio Quality (2008-2011)



Portfolio Quality by Sector (December 2011)

A review of loan approvals for the period 2007 to 2011 shows annual average approvals of approximately $3.6M. In 2007 approvals was approximately $4.7M reducing to $2.1M in 2009 before increasing to approximately $3.5M in 2010 and approximately $4M in 2011.





Webinars:

The Bank also explored non-traditional means of training and participated in three Webinars produced by Harvard Business Review. The topics addressed were ***Learning to Live with Complexity***, ***Success without Managers*** and ***Moving beyond Bureaucracy.***

Other internal training;

The Bank was involved in other training programmes including a four-day Customer Service Training that was organized for Management Staff. This was all part of the Bank's thrust to ensure that the leaders of the organization are competent and ready to lead it towards new thinking and behaviours, consistent with the delivery of excellent Customer Service.

External Training

Additionally, the GDB organized a major leadership workshop on "Building Critical Leadership Skills" for its management team as well as representatives from other financial institutions.

"Building Critical Leadership skills"
Training – Flamboyant Hotel – June 2011

A total of five organizations were represented, namely: Grenada Public Service Co-operative Credit Union, Republic Bank of Grenada Ltd, Grenada Co-operative Bank Ltd., the Flamboyant Hotel and Grenada Development Bank. There were twenty-six (26) participants in attendance. The training was held over a three-day period, June 8th, 9th and 10th and was facilitated by ODYSSEY CONSULTINC of Trinidad and Tobago. Participants expressed satisfaction in the quality of training delivered.

The Bank anticipates seeing more and more of the principles learned practiced by its Management Team.

Further, one Loan Officer was able to participate in a similar workshop during the month of August.

Training and Internship

During the months of July and August, the Bank hosted two students on a training/internship programme. One student was from the T.A. Marryshow Community College and the other from the St. George's University.

Technical Assistance & Staff Development

The Bank received technical assistance from the Centre for Development of Enterprise to assess **the demand for SME financing in Grenada and to ensure that the GDB is able to act effectively within the Grenadian market as a point of access to finance SME's.** This entailed a thorough review of the Bank's operations and the submission of recommendations on the way forward. In addition he also conducted a two day training session with members of the Credit Department.

H.R. Policies & Guidelines

The Orientation Guidelines were adopted in 2011. These Guidelines would seek to ensure that new employees are thoroughly trained to perform their assigned tasks satisfactorily within a specified period.

Customer Service

A Customer Appreciation Day under the theme "Reconnecting with our Customers" was held on Friday, October 7th, 2011 to coincide with World Customer Service Week, which is celebrated annually during the first week of October.

The Bank served customers with light refreshments and distributed small gifts to express its appreciation and remind them of how valuable they are.

Community touch

Financial Literacy Month:

This year was no exception with the Bank's involvement in the Financial Literacy Month Celebration organized by the Eastern Caribbean Central Bank in conjunction with other financial institutions in Grenada.

The Bank participated in a number of initiatives including the Financial Fair which was held at the Esplanade Mall, Melville Street. The Bank embraced the opportunity to inform the public of the services offered and invited them to visit its office to further discuss their needs.

Sporting Activities

Basketball:

On Tuesday July 19th, 2011, the Bank presented seventeen medals, six hundred dollars ($600) cash and one trophy to the third place winners of the Grenada National Basketball Championship, **Johnsons' Sportswear Tornadoes**, during its closing ceremony which was held at the La Borie Sports Complex.

St. John's Christian Secondary School (SJCSS) Athletic Championship:

The Bank sponsored the trophy for the winning house (Smith-Davis – Yellow House) of the SJCSS Athletic Championship held 18th March 2011.

Social Club Donation:

On April 19th, 2011, the GDB's Social and Activities Club presented an Easter hamper to Ms. Lisa Charles, Manager, of the Bel Air Home for Orphans and Adolescent Children.

Educational Award:

During the period under review, the Bank accepted the honour once again, to sponsor the academic award for "the Best Graduating Student in Social Science at the 22nd Annual Graduation Ceremony of the T A Marryshow Community College. This is the third consecutive year in which the Bank has sponsored this award. Ms. Crystal Braveboy who achieved a GPA of 3.86 was the student deserving of this prestigious award in 2011.

End-of-year activities

The Bank culminated the year's activities with a luncheon at the Aquarium Restaurant.

The evening's activities included a gift exchange among staff and the presentation of awards for the Employee of the Year.

The highlight of the evening was the presentation of the Employee of the Year Award and the 1st Runner up. The winners of these awards were selected through an assessment process which included areas such as attendance, teamwork, sociability, initiative and personal development.

Ms. Hazel Herbert
Customer Service Representative
Employee of the Year

Mrs. Patricia Simon
Bank Secretary
1st Runner up

Future prospects

The year 2012 marks the first year of a new Strategic Period: 2012-2016. The Bank is expected to improve its financial performance on the realisation of new lines of credit and continue the improvement in managing its operations. The Bank will be focusing on building the capacity of its human resource and improving its ability to manage performance effectively. The new Plan articulates a new vision, a revised Mission and new Core Values. Accountability, responsibility and productivity must be the watch words as the Bank seeks to ensure that the delivery of high quality customer service is aggressively pursued.

SUCCESS STORY

Recipient of a Mortgage Loan – Margaret Forbes Stewart

Building my own home was quite a challenge, especially as a single parent. As a financial Institution, The Grenada Development Bank provided me with the funds needed at a competitive interest rate. They recognized my potential and helped me conquer my dream and overcome my hurdles. During the preliminary stages, an officer at the GDB advised me of all the relevant documents that I needed to be able to apply, guided me through getting all my paperwork together and then directed me to a loan officer to get my application submitted in a timely manner. The Loan application process was detailed and extensive, but the loan officer walked me through the process, step-by-step. It was comforting to know that the Grenada Development Bank had experience working with persons like myself, whose dream was to acquire a home.

In fact, I felt that the Officers at the GDB were working full-time on my project alone, as they were always available to answer any question I had. Though there were a few mishaps along the way, it was a great experience and I would recommend anyone to the GDB.

GRENADA DEVELOPMENT BANK

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST DECEMBER, 2011

GRENADA DEVELOPMENT BANK

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2011

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Grenada | West Indies
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PKF
Accountants & business advisers

GRENADA DEVELOPMENT BANK

INDEPENDENT AUDITORS' REPORT
TO THE HONOURABLE MINISTER OF FINANCE

We have audited the accompanying financial statements of the Bank which comprise the statement of financial position at 31st December, 2011 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, 2011 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

GRENADA:

March 16th, 2012

PKF

Accountants & business advisers:

GRENADA DEVELOPMENT BANK

STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER, 2011

ASSETS	Notes	2011	2010
Non-Current Assets			
Property, plant and equipment	4	4,218,098	4,283,263
Available-for-sale financial assets	5	25,002	1,713,500
Loans and receivable financial assets	5	918,540	874,800
		5,161,640	6,871,563
Loans receivable - Principal	6	26,532,760	27,458,748
TOTAL NON-CURRENT ASSETS		31,694,400	34,330,311
Current Assets			
Loans receivable – Interest	6	223,539	162,287
Other assets	7	71,612	267,552
Cash and cash equivalents	8	999,465	2,016,388
		1,294,616	2,446,227
TOTAL ASSETS		$32,989,016	$36,776,538
EQUITY AND LIABILITIES			
Government's Equity			
Capital grants	9	1,040,000	1,040,000
Capital contribution	10	30,415,426	30,315,426
Reserve fund	11	466,209	466,209
Revaluation reserve	12	2,309,097	2,309,097
Accumulated deficit		(19,856,111)	(18,469,148)
		14,374,621	15,661,584
Non-Current Liabilities			
Long-term borrowings	14	15,281,957	17,628,980
Deferred exchange loss	13	(101,532)	(160,205)
		15,180,425	17,468,775
Current Liabilities			
Other liabilities	16	191,204	214,905
Short-term borrowings	14	2,684,281	2,664,050
Amount due to projects	17	558,485	767,224
		3,433,970	3,646,179
TOTAL LIABILITIES		18,614,395	21,114,954
TOTAL EQUITY AND LIABILITIES		$32,989,016	$36,776,538

Director

Director

GRENADA DEVELOPMENT BANK

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2011

	Notes	2011	2010
INTEREST INCOME			
Interest on loans	20	2,229,756	2,376,396
Interest on investments		78,331	26,743
		2,308,087	2,403,139
Interest expense	21	(705,564)	(860,345)
Net interest income		1,605,523	1,542,794
Other income	22	699,545	351,042
		2,302,068	1,893,836
EXPENDITURE			
Directors fees and expenses		(48,761)	(47,619)
General expenses		(1,478,023)	(1,348,206)
Pension and gratuities		(28,491)	(25,063)
Depreciation		(110,743)	(138,781)
Bad debts		(145,750)	(173,314)
		(1,811,768)	(1,732,983)
Operating surplus for the year before impairment loss		490,300	160,853
Less: Impairment loss	23	1,877,263	896,282
Net loss for the year		$(1,386,963)	$(735,429)

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GRENADA DEVELOPMENT BANK

STATEMENT OF CHANGES IN GOVERNMENT'S EQUITY
FOR THE YEAR ENDED 31ST DECEMBER, 2011

	Reserve Fund	Capital Grant	Revaluation Reserve	Capital Contribution	Accumulated Deficit	Total
Balance at 1st January, 2010	466,209	1,040,000	2,309,097	30,215,426	(17,733,719)	16,297,013
Net movements in capital contribution	-	-	-	100,000	-	100,000
Net loss for the year	-	-	-	-	(735,429)	(735,429)
Balance at 31st December, 2010	466,209	1,040,000	2,309,097	30,315,426	(18,469,148)	15,661,584
Net movement in capital contribution	-	-	-	100,000	-	100,000
Net loss for the year	-	-	-	-	(1,387,963)	(1,386,963)
Balance at 31st December, 2011	$466,209	$1,040,000	$2,309,097	$30,415,426	$(19,856,111)	$14,374,621

GRENADA DEVELOPMENT BANK

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER, 2011

	Note	2011	2010
OPERATING ACTIVITIES			
Net loss for the year		(1,386,963)	(735,429)
Adjustment for:			
Depreciation		110,743	138,781
Change in non-cash items		(1,276,220)	(596,648)
Decrease in loans receivable		864,736	1,532,064
Decrease in accounts receivable and prepayments		195,940	868,052
Decrease in deferred loss on exchange		58,673	137,947
Decrease in accounts payable and accruals		(23,701)	(25,942)
(Decrease)/increase in amounts due to project		(208,740)	28,799
Net cash (used in)/provided by operating activities		(389,312)	1,944,272
INVESTING ACTIVITIES			
Decrease in available-for-sale financial assets		1,688,499	-
Increase in loans and receivable financial assets		(43,740)	(874,800)
Purchase of property, plant and equipment		(45,578)	(34,129)
Net cash provided by/(used in) investing activities		1,599,181	(908,929)
FINANCING ACTIVITIES			
Increase in Government Capital Contribution		100,000	100,000
Decrease in long-term borrowings		(2,326,792)	(1,873,963)
Net cash used in financing activities		(2,226,792)	(1,773,963)
Net decrease in cash and cash equivalents		(1,016,923)	(738,620)
Cash and cash equivalents – at beginning of the year		2,016,388	2,755,008
- at end of the year	8	$999,465	$2,016,388

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, 2011 that would be expected to have a material impact on the Bank.

(ii) New standards, amendments and interpretations issued but not effective for the finan-Cial year beginning 1st January, 2011 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 12 Income taxes on deferred tax – Effective for annual periods beginning on or after 1st January, 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 1	First-time adoption for International Financial Reporting Standards – Severe hyperinflation and removal of fixed dates for first-time adopters – Effective for annual periods beginning on or after 1st July, 2011.
IFRS 7	Financial instruments: Disclosures – Effective for annual periods beginning on or after 1st July, 2011.
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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) 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, 2011 amounted to $1,764,300 (2010: $1,993,114).

(e) Property, Plant and Equipment

Land and building are stated at 2008 valuation less subsequent depreciation on building. However, additions to building thereafter are stated at cost. Depreciation is provided on the straight-line basis at varying rates sufficient to write off the cost or valuation of the assets over the period of their estimated useful lives. No depreciation is charged on land. The rates used are as follows:

Building	2.5%
Furniture, fixtures and equipment	10% to 20%
Motor vehicles	25%
Computers	33 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, Plant and Equipment (continued)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Instruments (continued)

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.

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

Impairment losses are recorded in an allowance account and are measured and recognised 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Instruments (continued)

(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 judgement 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, 2010						
Cost	-	224,653	401,165	1,161,045	75,000	1,861,863
Valuation	900,000	3,360,000	-	-	-	4,260,000
Accumulated depreciation	-	(173,616)	(383,207)	(1,102,125)	(75,000)	(1,733,948)
NET BOOK VALUE	900,000	3,411,037	17,958	58,920	-	4,387,915
For year ended 31st December, 2010						
Opening book value						
Cost	-	219,037	17,958	58,920	-	295,915
Valuation	900,000	3,192,000	-	-	-	4,092,000
	900,000	3,411,037	17,958	58,920	-	4,387,915
Additions for the year - Cost	-	21,488	6,901	5,740	-	34,129
Depreciation charge for year						
- Cost	-	(6,154)	(6,291)	(42,336)	-	(54,781)
- Valuation	-	(84,000)	-	-	-	(84,000)
	-	(90,154)	(6,291)	(42,336)	-	(138,781)
NET BOOK VALUE	$900,000	$3,342,371	$18,568	$22,324	$ -	$4,283,263
Balance at 1st January, 2010						
Cost	-	246,141	408,066	1,116,785	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)
NET BOOK VALUE	$900,000	$3,342,371	$18,568	$22,324	$ -	$4,283,263

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GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2011
(continued)

4. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Building	Furniture, Fixtures and Equipment	Computers	Motor Vehicles	Total
Balance at 31st December, 2011						
Cost	-	234,371	18,568	22,324	-	275,263
Valuation	900,000	3,108,000	-	-	-	4,008,000
	900,000	3,342,371	18,568	58,920	-	4,283,263
Additions for the year - Cost	-	-	3,529	42,049	-	45,578
Depreciation charge for year						
- Cost	-	(6,154)	(4,886)	(15,703)	-	(26,743)
- Valuation	-	(84,000)	-	-	-	(84,000)
	-	(90,154)	(4,886)	(15,703)	-	(110,743)
NET BOOK VALUE	$900,000	$3,252,217	$17,211	$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	-	(353,924)	(394,384)	(1,160,164)	(75,000)	(1,983,472)
NET BOOK VALUE	$900,000	$3,252,217	$17,211	$48,670	$ -	$4,218,098

5. FINANCIAL ASSETS

	2011	2010
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	59,999
	$25,002	$1,713,500
LOANS AND RECEIVABLES		
RBTT Bank Grenada Limited – fixed deposits	$918,540	$874,800

6. LOANS RECEIVABLE - INTEREST

Loans receivable – principal	28,297,060	29,451,862
Less: Provision for doubtful debts	1,764,300	1,993,114
	$26,532,760	$27,458,748
Accrued interest (3 months)	$223,539	$162,287

6. LOANS RECEIVABLE (continued)

Movements in provision for loan losses are as follows:

	2011	2010
Balance at the beginning of the year	1,993,114	1,933,324
Bad debts recovered	(373,926)	(113,345)
Increase in provision	145,112	173,135
Balance at end of the year	$1,764,300	$1,993,114

Allowance for impairment losses by sector

Agriculture	284,836	316,436
Agro processing	376,584	383,364
Education	315,546	241,486
Fishing	147,267	177,011
Housing	44,954	52,751
Industry	228,543	447,624
Micro sector	88,983	91,867
Tourism	277,587	282,575
	$1,764,300	$1,993,114

7. OTHER ASSETS

Matured investment – CLICO investments	810,000	810,000
Interest receivable	109,214	105,988
Accounts receivable	188,765	188,765
Prepayments	48,680	59,081
	1,156,659	1,163,834
Less: Impairment provision	1,085,047	896,282
	$71,612	$267,552

8. CASH AND CASH EQUIVALENTS

	2011	2010
Cash on hand	1,200	1,200
Cash at bank	998,265	2,015,188
	$999,465	$2,016,388

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

During the year $100,000 was received from the Government of Grenada.

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

	2011	2010
Revaluation surplus	$2,309,097	$2,309,097

In August 2008, the Bank's property was re-valued by Joseph John and Associates Limited. The excess of the revaluation over the carrying value totalled $296,300.

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 $101,532 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)	12,179,390	14,022,571
(b) National Insurance Board	3,996,817	4,421,755
(c) European Investment Bank	1,790,031	1,848,704
	17,966,238	20,293,030
Less: Short-term portion	2,684,281	2,664,050
Long-term portion	$15,281,957	$17,628,980

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.

14. BORROWINGS (Continued)

(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 twenty-five (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.

(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.

GRENADA DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2011
(continued)

15. CARIBBEAN DEVELOPMENT BANK - LOANS

			Foreign Currency	**2011 EC$**	2010 EC$
(a) 3/SFR-OR-GR	Second consolidated line of credit – Agricultural and industrial credit/ student	US$	409,179	1,108,222	1,662,333
(b) OCR-SFR-GR	Loan/mortgage/micro sector		1,523,970	4,127,520	4,922,314
(c) 11/SFR - GR	Sixth student loan (see note below)	US$	2,563,745	6,943,648	7,437,924
		US$		$12,179,390	$14,022,571

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

	2011	2010
Accrued interest	101,701	133,960
Accounts payable	89,503	80,945
	$191,204	$214,905

17. AMOUNT DUE TO PROJECTS

Poultry project	330,987	330,987
Youth enterprise initiative	187,824	402,830
Agricultural diversification	39,674	33,407
	$558,485	$767,224

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 $1,436,612 (2010: $618,874).

19. FINANCIAL RISK MANAGEMENT

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

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

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

Risk management structure

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

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

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

19. FINANCIAL RISK MANAGEMENT (continued)

Audit Committee

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

Internal Loan Committee

This committee reviews application for loans over $50,000 and approves loans up to $100,000. The Board of Directors approves loans over $100,000 based on recommendation from the Internal Loan Committee. Loans under $50,000 are approved by the Manager of the Bank.

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

	2011	2010
Available-for-sale financial assets	25,002	1,713,500
Loans and receivable financial assets	918,540	874,800
Loans receivable – Principal	26,532,760	27,458,748
Loans receivable - Interest	223,539	162,287
Accounts receivable and prepayments	71,612	267,552
Cash and cash equivalents	999,465	2,016,388
	$28,770,918	$32,493,275

19. FINANCIAL RISK MANAGEMENT (continued)

Concentration of credit risk at 31st December, 2011

	Available-for-sale Financial assets	Loans and Receivable Financial Assets	Loans Receivable Principal	Loans Receivable Interest	Accounts Receivable and Prepayments	Cash and Cash Equivalents	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	1,156	-	-	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
Balance at 31st December, 2011	$25,002	$918,540	$26,532,760	$223,539	$71,612	$999,465	$28,770,918

GRENADA DEVELOPMENT BANK

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AT 31ST DECEMBER, 2011
(continued)

19. FINANCIAL RISK MANAGEMENT (continued)

Concentration of credit risk at 31st December, 2010

	Available-for-sale Financial assets	Loans and Receivable Financial Assets	Loans Receivable Principal	Loans Receivable Interest	Accounts Receivable and Prepayments	Cash and Cash Equivalents	Total
Education	-	-	12,414,952	128,563	-	-	12,543,515
Agriculture	-	-	1,440,935	479	-	-	1,441,414
Fishing	-	-	124,170	-	-	-	124,170
Tourism	1,688,499	-	4,732,809	5,696	-	-	6,427,004
Housing	-	-	3,163,803	12,539	-	-	3,176,342
Micro- sector	-	-	61,636	279	-	-	61,915
Agro-processing	-	-	23,486	-	-	-	23,486
Industry	-	-	5,084,254	13,492	-	-	5,097,746
Personal	-	-	412,703	1,239	-	-	413,942
Other	25,001	874,800	-	-	267,552	2,016,388	3,183,741
Balance at 31st December, 2010	$1,713,500	$874,800	$27,458,748	$162,287	$267,552	$2,016,388	$32,493,275

19. FINANCIAL RISK MANAGEMENT (continued)

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

		Past due but not impaired				
	Neither past due nor impaired $	1-3 months $	3-6 months $	6-12 months $	Over 12 months $	Total $
2011	20,075,127	3,859,806	103,225	118,436	4,140,466	28,297,060
2010	24,998,302	1,903,372	112,602	1,283,228	1,154,358	29,451,862

Individually impaired financial assets at 31st December, 2011:

	Carrying Value	Provision for Impairment	Net book value **2011**	2010
Loans	$2,444,081	$1,764,300	$679,781	$624,131
Available-for-sale financial assets	$1,748,499	$1,748,497	$ 2	$ 1
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, 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	-	-	71,6122
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	191,204	-	-	191,204
Short-term borrowings	411,315	2,272,966	-	2,684,281
Amount due to projects	558,485	-	-	558,485
	4,746,506	12,179,390	1,790,031	18,715,927
Net currency exposure	$24,007,724	$(12,167,515)	$(1,790,031)	$10,050,178

19. FINANCIAL RISK MANAGEMENT (continued)

Management of liquidity risk

	EC$	US$	EURO	Total
Balance at 31st December, 2010				
Assets				
Available-for-sale financial assets	1,713,500	-	-	1,713,500
Loans and receivable financial assets	874,800	-	-	874,800
Loans receivable-principal	27,458,748	-	-	27,458,748
Loans receivable-interest	162,287	-	-	162,287
Accounts receivable and prepayments	267,552	-	-	267,552
Cash and cash equivalents	2,004,537	11,851	-	2,016,388
	32,481,424	11,851	-	32,493,275
Liabilities				
Long-term borrowings	4,031,663	11,748,614	1,848,703	17,628,980
Accounts payable and accruals	214,905	-	-	214,905
Short-term borrowings	390,093	2,273,957	-	2,664,050
Amount due to projects	767,224	-	-	767,224
	5,403,885	14,022,571	1,848,703	21,275,159
Net currency exposure	$27,077,539	$(14,010,720)	$(1,848,703)	$11,218,116

Interest rate risk

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

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

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

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those rising from legal and regulatory requirements and generally accepted standards of good corporate behaviour. Operational risks arise from all the Bank's operations. The Bank's objective 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:

19. FINANCIAL RISK MANAGEMENT (continued)

Operational risk (continued)

- 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

	2011	2010
Caribbean Development Bank loans	875,998	980,589
Local loans	903,590	906,124
Business reactivation loan	430,716	464,233
National Insurance Scheme loans	19,452	25,450
	$2,229,756	$2,376,396

21. INTEREST EXPENSE

Caribbean Development Bank	444,406	551,293
National Insurance Scheme	261,158	309,052
	$705,564	$860,345

22. OTHER INCOME

Sundry income	167,297	102,930
Bad debts recoveries	532,248	248,112
	$699,545	$351,042

23. IMPAIRMENT LOSS

	2011	2010
Impairment of investments	$1,877,263	$896,282

24. RELATED PARTY TRANSACTIONS

i) Compensation of key management personnel of the Bank.

Salaries and staff benefits	$241,880	$230,372

ii) Loans receivable from key management personnel and directors	$258,256	$1,076,395

iii) Interest income from key management personnel and directors	$12,953	$57,591

25. GENERAL EXPENSES

	2011	2010
Salaries, wages and allowances	713,734	691,428
National Insurance contributions	30,290	26,960
Security	21,051	18,925
Computer expenses	48,499	48,084
Subscription and donations	16,385	13,130
Postage	3,725	4,824
Office expenses	25,169	18,291
Advertising	17,362	9,454
Audit and accounting	23,500	31,417
Professional services	60,589	10,534
Bank charges	1,155	5,342
Entertainment	5,577	7,720
Motor vehicle expenses	9,181	11,898
Legal fees	56,427	46,858
Stationery and printing	40,498	44,136
Telephone and cables	59,514	51,678
Miscellaneous	4,564	8,605
Commitment fees	9,082	13,386
Repairs and maintenance	20,095	2,162
Staff uniforms	17,951	10,533
Travelling and subsistence	86,275	67,550
Electricity	128,021	135,402
Water and sewerage	2,139	3,398
Staff training	13,908	7,334
Insurance	45,427	45,228
Recruitment cost	2,564	2,471
Library expenses	-	600
Corporate image and product development	15,341	10,858
	$1,478,023	$1,348,206

Acknowledgments

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, special thanks are 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

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