

Republic Bank's journey toward unlocking and nurturing the true potential of the people we serve, the communities we bolster and the countries in which we operate, is a journey 170 years in the making.

Nurturing potential means tending our future. It means investing in the resource of possibility with the confidence that it will yield success. For Republic Bank, we recognize that in a place as fertile as the Caribbean, there is potential everywhere – in our employees, our customers, our communities, our youth, our products and technology and our performance.

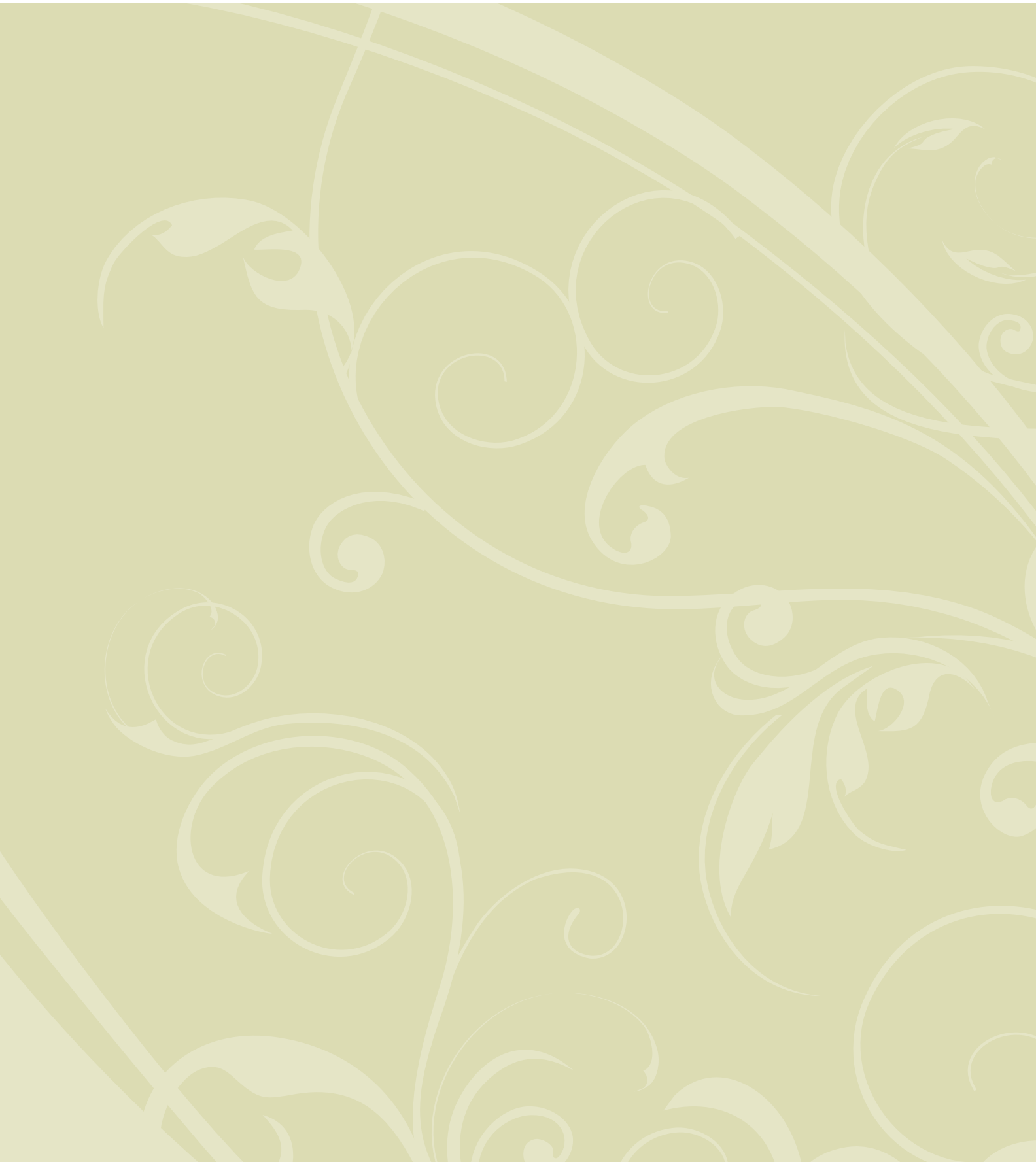
Ever mindful of the future and backed by over 4,600 highly qualified and experienced people throughout the region, we cultivate the emergent opportunities in all areas, translating them into tangible returns for all our stakeholders.

In fulfilling our mission statement to be the Financial Institution of Choice in the Caribbean, we stand committed to maximising every opportunity for the realisation of the Caribbean's unlimited potential.



**Republic Bank**

*annual report 2007*



## *vision*

Republic Bank (Grenada) Limited,  
the Financial Institution of Choice  
in the Caribbean for Customers,  
Staff and Shareholders.

We set the Standard of Excellence  
in Customer Satisfaction,  
Employee Satisfaction and Shareholder Value.

## *mission*

Our mission is to provide personalised, efficient, and  
competitively priced financial services and to implement  
sound policies which will redound to the benefit of our  
Customers, Staff and Shareholders

## *values*

Customer Focus,  
Respect for the Individual,  
Integrity,  
Professionalism and  
Results Orientation.



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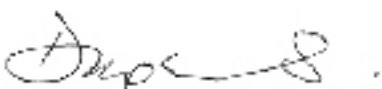
## *notice of meeting*

### **Annual Meeting**

Notice is hereby given that the twenty-fourth Annual Meeting of Republic Bank (Grenada) Limited will be held at the St. Andrew's Conference Room, Spice Island Beach Resort, Grand Anse, St. George on Thursday January 17, 2008 at 10:00 a.m. for the following purposes:

1. To receive the Audited Financial Statements of the Company for the year ended September 30, 2007 and the Reports of the Directors and Auditors thereon.
2. To take note of the Dividends paid for the twelve-month period ended September 30, 2007.
3. To elect Directors.
4. To confirm By-Law No. 2 as a by-law of the Company.
5. To re-appoint Ernst & Young as Auditors and to authorise the Directors to fix their remuneration.
6. Any other business.

**By order of the Board**



Daniel A. Roberts  
*Corporate Secretary*

30th day of October, 2007

# corporate information

## **Directors**

### ***Chairman***

Ronald F. deC. Harford, *F.C.I.B.*

### ***Managing Director/Corporate Secretary***

Daniel A. Roberts

Claudia E. Alexis, *B.Sc. (Management), MBA*

Nigel M. Baptiste, *B.Sc. (Economics), M.Sc. (Economics),  
A.C.I.B.*

Margaret A. Blackburn, *L.L.B. (Honours)*

Leon D. Charles, *B.Sc. (Agri. Management), MBA*

Hugh D. Dolland

Cheryl F. Greaves, *B. Sc. (Management Studies), F.C.C.A.,  
C.A.*

Gordon Derrick, *B.Sc. (Mechanical Engineering), MBA*

Gregory I. Thomson, *B.Sc. (Math & Physics), MBA*

### ***Corporate Secretary***

Daniel A. Roberts

## **Registered Office**

P.O. Box 857

Republic House

Grand Anse

St. George

Grenada, West Indies

## **Attorneys-at-law**

Renwick & Payne

Chambers

Lucas Street

St. George's

Grenada, West Indies

Henry Hudson-Phillips & Co.

Chambers

Young Street

St. George's

Grenada, West Indies

## **Auditors**

Ernst & Young

P.O. Box 158

5/7 Sweet Briar Road

St. Clair

Port of Spain

Trinidad, West Indies

## **Registrar**

Pannell Kerr Forster

Pannell House

P.O. Box 1798

Grand Anse

St. George

Grenada, West Indies

## *financial summary*

|  | <b>2007</b>   | <b>2006</b>   | <b>2005</b>   | <b>2004</b>   | <b>2003</b>   |
|--|---------------|---------------|---------------|---------------|---------------|
|  | <b>\$'000</b> | <b>\$'000</b> | <b>\$'000</b> | <b>\$'000</b> | <b>\$'000</b> |
| Current, savings and<br>deposit accounts | 603,452       | 577,194       | 576,450       | 539,081       | 501,848       |
| Advances and other assets                | 371,637       | 347,946       | 292,062       | 297,438       | 297,160       |
| Stated capital                           | 15,000        | 15,000        | 15,000        | 15,000        | 15,000        |
| Shareholders' equity                     | 78,521        | 80,141        | 60,053        | 65,208        | 69,223        |
| Profit after taxation                    | 13,050        | 24,921        | 1,755         | 142           | 12,526        |
| Dividends paid during the year           | 6,000         | 2,175         | 4,155         | 6,270         | 3,975         |
| Earnings per share                       | 8.70          | 16.61         | 1.17          | 0.09          | 8.35          |



## *financial highlights*

| <b>Results for the year<br/>Ended 30th September</b> | <b>2007<br/>\$'000</b> | <b>2006<br/>\$'000</b> | <b>Change<br/>%</b> |
|--|------------------------|------------------------|---------------------|
| Profit Before Taxation                               | 13,297                 | 25,221                 | (47.28)             |
| Profit After Taxation                                | 13,050                 | 24,921                 | (47.63)             |
| <b>At Year End</b>                                   |                        |                        |                     |
| Assets   | 681,973                | 657,335                | 3.75                |
| Advances   | 364,048                | 339,410                | 7.26                |
| Deposits and other liabilities                       | 603,452                | 577,194                | 4.55                |
| Stated Capital                                       | 15,000                 | 15,000                 | 0.00                |
| Total Shareholders Equity                            | 78,521                 | 80,141                 | (2.02)              |
| <b>Information Per Share</b>                         |                        |                        |                     |
| Earnings   | \$8.70                 | \$16.61                | (47.62)             |
| Dividends paid during the year                       | 4.00                   | 1.45                   | 175.86              |
| Net asset value                                      | 52.35                  | 53.43                  | (2.02)              |
| <b>Other Statistics at year end</b>                  |                        |                        |                     |
| Number of Shareholders                               | 1,517                  | 1,538                  | (1.37)              |
| Number of Branches                                   | 8                      | 8                      | 0.00                |
| Number of Employees                                  | 249                    | 247                    | 0.81                |

Nigel M. Baptiste, Gregory I. Thomson, Ronald F. deC. Harford



## *board of directors*

**Nigel M. Baptiste**, *B.Sc. (Hons.) (Econ), M.Sc. (Econ.), A.C.I.B.*

Nigel M. Baptiste is an Executive Director of Republic Bank Limited. He is a First Class Honours Graduate of The University of the West Indies, an Associate of the Chartered Institute of Banking in England and a graduate of the Stonier Graduate School of Banking in the United States of America.

**Gregory I. Thomson**, *B.Sc. (Maths & Physics), MBA*

Gregory I. Thomson is the Deputy Managing Director of Republic Bank Limited. Mr. Thomson is a career banker with over thirty-one years experience in banking and finance in Trinidad and Tobago. Mr. Thomson holds a Bachelor of Science Degree in Mathematics and Physics from The University of the West Indies and a Master of Business Administration (MBA) degree from the University of Western Ontario, Canada.

**Ronald F. deC. Harford**, *F.C.I.B., F.I.B.A.F., F.C.A.B.F.I.*

Ronald F. deC. Harford, Chairman of Republic Bank Limited, is a career banker, who has celebrated over forty-four years of service with Republic Bank Limited.

Mr. Harford is a Fellow of the UK Chartered Institute of Bankers, the Institute of Banking of Trinidad and Tobago and the Caribbean Association of Banking and Finance. He is the Chairman of The University of the West Indies (UWI) Development and Endowment Fund, serves as the Financial Advisor of the Red Cross Society of Trinidad and Tobago and is Campaign Chairman for 2007 for the International Charity Body, United Way. Mr. Harford is a member of the Board of Directors of the Arthur Lok Jack Graduate School of Business-UWI and the Caribbean Information & Credit Rating Services Limited. He is a past President of the Bankers Association of Trinidad and Tobago.

Leon D. Charles, Margaret A. Blackburn, Daniel A. Roberts

**Leon D. Charles, B.Sc. (Agriculture Mgmt), MBA**

Leon Derek Charles is the owner and manager of the Management Consulting firm, Charles and Associates (CAA), Inc. His professional training is in business and he holds a Master of Business Administration Degree (MBA) from the University of Western Ontario, and a First Class Honours degree in Agriculture Management from the University of the West Indies. Mr. Charles is active in a wide range of business and sustainable development fields at the local, regional and international levels. Core activities include Strategic Planning, Project Development and Evaluation, Management Training and Facilitation, while the main areas of focus for Sustainable Development Programming are Poverty Reduction, Climate Change and Early Childhood Development.

**Margaret A. Blackburn, LL.B (Honours)**

A Barrister-At-Law, Margaret Blackburn is a Senior Partner at the law firm of Renwick and Payne, Attorneys-at-Law. She earned her qualifications in London in 1975 and returned to Grenada in 1990.

**Daniel A. Roberts**

Daniel A. Roberts is the Managing Director and Corporate Secretary of Republic Bank (Grenada) Limited. Mr. Roberts joined the Bank in 1983, bringing with him ten years of experience in the field of Banking and Finance. His senior managerial positions at Republic Bank (Grenada) Limited have included that of General Manager Credit, and Senior Manager, Retail Services and Marketing. Mr. Roberts has also completed the Senior Management Financial Services Programme of the Canadian Institute of Bankers.



Cheryl Greaves, Claudia E. Alexis, Hugh D. Dolland, Gordon Derrick



## *board of directors*

**Cheryl Greaves**, *B.Sc. (Mgmt Studies), F.C.C.A., C.A.*  
Cheryl F. Greaves, Managing Director and Corporate Secretary of Republic Finance and Merchant Bank Limited, is a Fellow of the U.K. Institute of Certified Chartered Accountants and a Member of the Institute of Chartered Accountants of Trinidad and Tobago. Mrs. Greaves also holds a Bachelor of Science Degree in Management Studies from the University of the West Indies. She is also a graduate of the Harvard Business School Advanced Management Program for Senior Executives. She has been a Director of Republic Bank (Grenada) Limited since 1998. Mrs. Greaves also serves on the Board of Directors of London Street Project Company Limited, The Home Mortgage Bank, Republic Securities Limited, Republic Investments Limited, Barbados National Bank Finance and Trust Corporation, and Barbados National Bank Mortgage Finance Company Limited. Mrs. Greaves is Deputy Chairman of National Library and Information System Authority in Trinidad and Tobago.

**Claudia E. Alexis**, *B.Sc. (Mgmt. Studies), MBA, Cert. Public Administration, UWI*

Claudia E. Alexis is the Customer Services Director/Corporate Secretary of Grenada Electricity Services Limited. She is a Soroptomist and a member of the Board of Directors of Bel Air Home for Children and Adolescents. Miss Alexis also served for many years on the Board of the Communal Cooperative Credit Union. She holds a Master of Business Administration Degree, a Bachelor of Science Degree in Management Studies and a Certificate in Public Administration from the University of the West Indies.

**Hugh D. Dolland**

A former President of the Chamber of Industry and Commerce and Rotary Club of Grenada, Hugh D. Dolland is a businessman with over thirty (30) years experience. He was Honourary Council for Sweden for over five (5) years. He has also been on the national Cricket and Football Teams.

**Gordon L.A. Derrick**, *B.Sc. (Mech. Engineering), MBA (Social Sciences)*

Gordon L.A. Derrick is the Managing Director of G.D.E.C. Limited. He is also the General Secretary/C.E.O. of Antigua & Barbuda Football Association. He is a Board Member of the Antigua Commercial Bank and serves on various Boards and national committees in Antigua. He holds a Bachelor of Science Degree in Mechanical Engineering from Florida Institute of Technology and a Masters of Business Administration (MBA) from the University of the West Indies.

As an Entrepreneur, he is the principal owner and Board Member of Chicken Hut Restaurant. He is also an avid sportsman with keen interest in football, cricket and horse racing.

## *directors report*

Your Directors have pleasure in submitting their Report for the year ended September 30, 2007.

### **Financial Results & Dividends**

The Directors report that the Bank's profit after taxation for the year ended September 30, 2007 amounted to \$13.05 million. The Directors have declared a dividend of \$3.65 per share. A half year dividend of \$0.65 per share was paid on May 18, 2007 making a total dividend on each share of \$4.30 (2006: \$4.00).

### **Substantial Interest In Share Capital As At September 30, 2007.**

|                       | <b>Ordinary Shares</b> |
|-----------------------|------------------------|
| Republic Bank Limited | 764,700                |

A substantial interest is a holding of five percent or more of the issued Share Capital of the Bank.

### **Directors**

Gordon Derrick was appointed on April 17, 2007 to fill the casual vacancy created by the resignation of Edmund Lawrence. In accordance with By-Law No.1, Paragraph 4.3.1 Gordon Derrick, having been appointed since the last meeting retires from the Board and being eligible, offers himself for re-election for a term expiring at the close of the next annual meeting following this appointment.

In accordance with By-Law No. 1, Paragraph 4.3.1 Nigel M. Baptiste, Claudia E. Alexis and Margaret A. Blackburn retire from the Board by rotation and being eligible, offer themselves for re-election for a term expiring at the close of the third annual meeting following this appointment.

### **Directors' Interest**

Set out are the names of the Directors with an interest in the company at September 30, 2006 together with particulars of their holdings.

| Director               | Beneficial Interest | Non-Beneficial Interest |
|------------------------|---------------------|-------------------------|
| Claudia E. Alexis      | 50                  | Nil                     |
| Nigel M. Baptiste      | Nil                 | 50                      |
| Margaret A. Blackburn  | 170                 | Nil                     |
| Leon D. Charles        | 200                 | Nil                     |
| Hugh D. Dolland        | 1,000               | Nil                     |
| Cheryl F. Greaves      | Nil                 | 50                      |
| Ronald F. deC. Harford | Nil                 | 100                     |
| Daniel A. Roberts      | 3,450               | Nil                     |
| Gregory I. Thomson     | Nil                 | 100                     |

## *directors report*

There has been no change in these interests occurring between the end of the Company's year and one month prior to the date convening the Annual Meeting.

### **Auditors**

The retiring Auditors Ernst & Young have expressed their willingness to be re-appointed and a resolution to that effect will be proposed at the Annual Meeting.

By order of the Board



Daniel A. Roberts

*Corporate Secretary*

Ronald F. deC. Harford



## *chairman's review*

I am pleased to report that for the year ended September 30, 2007 the Bank recorded a profit after tax of \$13.05 million. This is a satisfactory performance reflecting the prevailing market conditions. The Board has declared a dividend of \$ 3.65 bringing the total dividend for the year to \$4.30.

The global economy grew at a brisk pace in the first half of 2007 and continues to expand with the International Monetary Fund's (IMF) World Economic Outlook projecting global growth of 4.8 percent in 2007 and 2008. Robust expansion continues in the economies of China, India and Russia while in the Euro zone and Japan growth has remained above trend. In the United States where the rate of growth has slowed, the IMF forecast is for 2 percent in 2007 and 2.8 percent in 2008.

In the Eastern Caribbean Currency Union (ECCU) economic activity continued to be buoyant during the first quarter of 2007 with the level of activity above that in the previous year. The Eastern Caribbean Central Bank (ECCB) reports that this growth was driven by increases in agriculture, manufacturing and the expansion in construction associated with the hosting of Cricket World Cup 2007. After many years of low inflation, inflationary pressures in the ECCU are being ignited by rising food prices, record high crude oil prices and the fall in the value of the US Dollar.



## *chairman's review*

Latest data from government shows that Grenada's economy declined by 3.5 percent in 2006, a significant change from the earlier estimate of 2.1 percent growth. This contraction follows the unprecedented high growth of 12.7 percent in 2005. There was a larger than expected fiscal deficit of 7.1 percent of GDP in 2006. Inefficiencies in tax revenue collection, declining grant flows and the challenges experienced in containing expenditure contributed to this deficit. Growth of 2.5 per cent in 2007 is forecasted by Standard & Poor's. For the first half of 2007, while yacht arrivals declined by 22 percent, cruise ship calls and cruise passenger arrivals increased by 9 percent and 18 percent respectively. Additionally, stay-over arrivals increased by 12 percent to 65,336 visitors. The net result has been an increase in the tourism sector.

Grenada is also poised to benefit from substantial foreign direct investment in the tourism sector. Such investment is important to the national economy and is to be encouraged, given the continued difficulties and relatively slow recovery in the agricultural sector.

Government debt to GDP is forecasted to improve from 120 percent in 2006 to 115 percent in 2007 and fiscally responsible policies will be critical in ensuring that this is achieved. In August 2007 Standard & Poor's raised its long-term credit rating on Grenada to B-minus, reflecting steps taken by the government to improve debt management and held the short-term credit rating at C, with a stable outlook.

The Grenada Authority for the Regulation of Financial Institutions (Garfin) commenced its work earlier this year following the passage of the necessary legislation. As the authorities have once again identified expansion of the offshore financial services sector as important for revenue and economic growth, adequate resources should be made available to Garfin to ensure that it functions effectively.

Looking forward we expect that next year should be a positive one for the economy, which will redound to the benefit of citizens, the business sector and to the Bank.

In closing I would like to acknowledge Mr. Edmund Lawrence who retired from the Board earlier this year. In his place our Board appointed Mr. Gordon Derrick whom I wish to welcome. I thank our management and staff, our customers, our shareholders and the Directors of our Bank for their continued support and contribution to the organization.



Daniel A. Roberts



## *managing director's report*

This year the Bank returned a profit after tax of \$13.05 million. This compares favourably with the 2006 performance, when the Bank recorded a profit of \$12.76 million before a one-off write back to profit of \$12.16 million resulting in a net profit of \$24.92 million. Excluding this one-off write back, the Bank's 2007 profit performance was 2.3 percent higher than the 2006 core performance. Total assets have increased by 3.8 percent to \$682 million. Notwithstanding this modest growth, the Bank was able to maintain its market share in all key segments.

Liquidity in the commercial banking sector tightened throughout the year. Data published by the Eastern Caribbean Central Bank (ECCB) show that total loans as a percentage of total deposits increased from 69.7 percent at the end of July 2006 to 73.7 percent a year later. The comparative figures for the Bank were 60.3 percent and 60.5 percent respectively. The quality of the loans portfolio remains good with non-performing loans within the prudential ceiling established by the ECCB. The Bank's capital base is solid with a capital adequacy ratio of 16 percent, well in excess of established norms.

The Bank continues to be focused on its key stakeholders. We continue to strive for service excellence. In order to get closer to our customers, respond to their needs and better gauge the customer experience, we have introduced additional measures to

## *managing director's report*

supplement the annual customer service survey. We continue to invest in training for our employees at all levels in the organization. During the year a dedicated Training Officer was appointed to increase the capacity of the Bank to deliver structured training locally and augment available regional training programmes. In September, the Bank received the Service Excellence Organisation designation from the Ontario Tourism Education Organisation (OTEC).

For supporting the communities we serve, the Bank received two Good Corporate Citizen Awards from the ECCB in November 2006 for outstanding contribution to Good Customer Service and Cultural Development in the Eastern Caribbean Currency Union. We are proud of these achievements which are fitting recognitions of our commitment to exceeding customers' expectations and raising the financial services industry standard, while contributing to the communities we serve. Earlier this year the Bank announced grant funding for three more major projects under the Power to Make a Difference programme; the Bishop's College expansion projects in Carriacou has been completed and the other projects are at various stages of implementation.

We begin fiscal 2008 with confidence and enthusiasm. Construction of our new building to house the St. George's branch at Melville Street commenced earlier this year and is progressing as planned. The new building will double the space available at

the existing branch and on completion, will facilitate introduction of many exciting new services while at the same time providing a more suitable environment for customers and staff. Improvements will also be made to our Grand Anse branch to better serve our customers.

I wish to thank the management and staff of the Bank for their dedication and hard work, for without their contribution this good result would not have been possible. I would also like to thank the Chairman and Directors for their guidance and counsel and all our customers for their continued loyal support.

## *bank profile*

### **Head Office**

P.O. Box 857  
 Republic House  
 Grand Anse  
 St. George  
 Grenada, West Indies  
 Telephone: 473-444-BANK (2265)  
 Fax: 473-444-5501  
 Cable: NCBGGDGD  
 Email: info@republicgrenada.com

### ***Managing Director***

Daniel A. Roberts

### ***General Manager, Credit***

Marcia M. Le Gendre, *Dip. (Business Mgmt.)*

### ***General Manager, Operations***

Donna L. Y. Lander, *F.I.C.B., MBA (HR Mgmt.)*

### ***Manager, Information Technology Management***

Clifford Bailey, *B.Sc. (Comp. & Info Systems), M. Sc. (Info Tec)*

### ***Manager, Commercial Credit***

Valentine Antoine, *B.Sc. (Mgmt. Studies) A.C.I.B.*

### ***Manager, Corporate Credit***

Naomi De Allie, *A.C.I.B., B.Sc. (Fin. Ser. Mgmt.)*

### ***Manager, Human Resource Training & Development (Ag)***

Mc Kie Griffith, *B.Sc. (Mgmt.)*

### ***Manager, Business Support Services***

Claire Wildman, *F.I.C.B.*

### **Republic House Cluster**

#### **Republic House**

Telephone: 473-444-BANK (2265)  
 Fax: 473-444-5500/5501

#### ***Manager, Retail Services***

Jocelyn McSween

#### ***Operations Officer***

Margaret Thomas

#### **Carriacou**

Telephone: 473-443-7289/7896  
 Fax: 473-443-7860

#### ***Officer-in-Charge***

Roger Patrice

#### **Petite Martinique**

Telephone: 473-443-9005  
 Fax: 473-443-9013

#### ***Officer-in-Charge***

Roger Patrice

### **St. Georges Cluster**

#### **St. Georges**

Telephone: 473-440-3566  
 Fax: 473-440-6698  
 Fax - Credit: 473-440-6697

#### ***Manager, Retail Operations***

Garnet Ross

## *bank profile*

### ***Manager, Retail Credit***

Winefred Logie, *B.Sc (Business Mgmt.)*

### ***Operations Officer***

Jean John, *A.I.C.B.*

### **Grand Anse**

Telephone: 473-444-2627

Fax: 473-444-2835

### ***Operations Officer***

Diana Romney

### **Gouyave**

Telephone: 473-444-8353

Fax: 473-444-8899

### ***Operations Officer***

Edmond Calliste, *A.I.C.B.*

### **Grenville Cluster**

#### **Grenville**

Telephone: 473-442-7618

Fax: 473-442-8877

### ***Manager, Retail Services***

Althea Roberts, *A.I.C.B.*

### ***Operations Officer***

Valerie H. Horsford

### **Sauteurs**

Telephone: 473-442-1045/1023

Fax: 473-442-1042

### ***Officer-in-Charge***

Hesta Mc Leish

Donna L. Y. Lander, Daniel A. Roberts, Marcia M. Le Gendre

**Donna L. Y. Lander**

*General Manager, Operations*

**Daniel A. Roberts**

*Managing Director*

**Marcia M. Le Gendre**

*General Manager, Credit*



*management team*

Naomi De Allie, Winefred P. Logie, Jocelyn McSween, Valentine Antoine



**Naomi De Allie**  
*Manager, Corporate Credit*

**Winefred P. Logie**  
*Manager, Retail Services*

**Jocelyn McSween**  
*Manager, Retail Services*

**Valentine Antoine**  
*Manager, Commercial Credit*

*management team*



Clifford Bailey, Althea Roberts, Claire Wildman, Garnet K. Ross

**Clifford Bailey**

*Manager, ITMD*

**Althea Roberts**

*Manager, Retail Services*

**Claire Wildman**

*Manager, Business Support Services*

**Garnet K. Ross**

*Manager, Retail Operations*





## *seeding the future*

As a visionary institution Republic Bank believes in and continuously seeks avenues to channel positive energies to promote advancement.

In keeping with its focus on education, sport and youth development, the Bank has been instrumental in making a difference in the lives of young people throughout the tri-island state.

In the area of education, the bank's involvement includes the construction and equipping of a technical wing for Bishop's College, Carriacou, the launch of a bursary programme to assist students pursuing a Bachelors degree at home through the UWI Distance Education Programme and the ongoing scholarships to the UWI. Additionally, the Bank sponsors the annual Award for Overall Academic Excellence at the T.A. Marryshow Community College.

In sport, the Bank's main focus is the sponsorship of the increasingly popular secondary schools football competition now firmly branded Republic Bank RightStart Cup Youth Football Tournament. We also support the social development of our community through construction works at homes for the elderly and the expansion of homes for children with special needs.

The realisation of these undertakings all serve to unleash the potential of all strata of our society for the ultimate development of the people.



*We facilitate, support and reward youth development through education initiatives and sports disciplines. Further, we support social development in our communities through infrastructure and environment enhancement and by facilitating the disenfranchised groups of our communities.*





*the fruit of innovation*

Driven by the desire to fulfil our customers' financial needs Republic Bank provides a wide range of innovative products and services. Through these offerings we accomplish the goal of growing and expanding the market's potential while simultaneously minimising costs and maximising market-share, profitability and customer satisfaction.

It is the spirit of innovation that has inspired us to produce such value-focused product offerings as our Suite of Savings, our various high yield deposit accounts and credit facilities including our HOMEasy mortgages. Our product range continues to evolve with our market, hence our recently launched Visa TravelMoney Card has had tremendously favourable response and is widely used.

Even as we raise the bar on products and services for our customers' we also recognise that we must invest in the infrastructure that will facilitate higher levels of customer satisfaction. As such, our plans for the relocation of our Hillsborough Street Branch to a newly constructed state of the art site on the Esplanade in St. George's are on target for 2008.

Innovations in our products and services, as well as improved and easily accessible facilities all point to the Bank's vision to grow and expand. As we aspire to be the financial institution of choice on the island we commit to evolving our offerings on every front and setting the benchmark for service in the local banking industry.

*Even as we raise the bar on products and services for our customers' we also recognise that we must invest in the infrastructure that will facilitate higher levels of customer satisfaction.*







## *making dreams bloom*

From initial contact with a customer to the realisation of dreams, customer satisfaction is our goal. When it comes to our customers, their success is our success and so we dedicate ourselves to the mutual goal of maximising profitability through solid partnership in financial planning and implementation.

Our customer service standards set us apart in the local industry. We provide the largest and most convenient branch network in the country. We have also set the benchmark in facilitating more consumer friendly loan facilities with swifter approvals, follow up service and a wide variety of loan applications.

Our desire to delight our customers at every touch point is reflected in our consistent delivery of credible customer service, top rating in the annual customer service survey and our recent qualification as a service Excellence Provider. We believe that our standard of customer service and commitment to employee satisfaction are integral components in ensuring consistent shareholder value, and to this end, the creation of customer loyalty.

*Our customer service standards set us apart in the local industry. We provide the largest and most convenient branch network in the country. We have also set the benchmark in facilitating more consumer friendly loan facilities with swifter approvals, follow up service and a wide variety of loan applications.*





## *cultivating our resources*

The growth and development of our human resources are critical to the success of our Bank. As we establish our service paradigm of excellence we directly impact on customer satisfaction and reap the resultant rewards of profitability now and in the long term.

In this vein, we commit to consistent investment in training and in focusing on the developmental needs of our employees. Our employee empowerment strategies include initiatives of in-house training with qualified facilitators in Orientation and Anti-money Laundering as well as specialised training in Credit and Risk Management. We also implement job fit strategies to ensure that staff are ideally positioned based on their particular expertise and career goals.

Additionally, under the Bank's educational programmes, staff are acknowledged for academic achievement, and further encouragement is offered through the reimbursement of tuition fees for studies successfully completed in job related areas.

Efficiency, empowerment and excellence are our watchwords when it comes to our most valuable resource – our people. And as we facilitate them to aspire to and attain new pinnacles of success in these areas, we are unlocking the greatest potential for the future success of our bank.

*Efficiency, empowerment and excellence are our watchwords when it comes to our most valuable resource – our people. And as we facilitate them to aspire to and attain new pinnacles of success in these areas, we are unlocking the greatest potential for the future success of our bank.*





## *management discussion & analysis*

Republic Bank (Grenada) Limited was incorporated on October 12, 1979. It is well represented in Grenada with eight branches dispersed across the tri-island state. The Bank maintains a leading market share position and has consistently been rated as the Number One bank in terms of quality of service following annual independent customer service surveys. During the year the Bank introduced digital imaging technology in its process for recording cheques and vouchers. The system works alongside our core banking software and allows for quick and easy retrieval of source documents, thus improving efficiency and reducing the time in which queries are handled. Construction of our new building at Melville Street to house the St. George's branch is proceeding as planned and completion is expected during 2008.

At the last Annual Meeting in December 2006 the Shareholders appointed Ernst & Young as the Bank's Auditors until the end of the next Annual Meeting in 2007. Ernst & Young replaced Pannell Kerr Foster who had been Auditors for the Bank since its inception.

Following is a discussion and analysis of the financial condition and results of the Bank. This discussion should be read in conjunction with the directors' report and audited financial statements presented on pages 41 to 82 of this report.

These statements are published in Eastern Caribbean dollars (EC). Foreign amounts have been converted to EC dollars at the prevailing mid-rate on September 30th for each financial year. The following are the mid-rates for the major currencies as at September 30th:

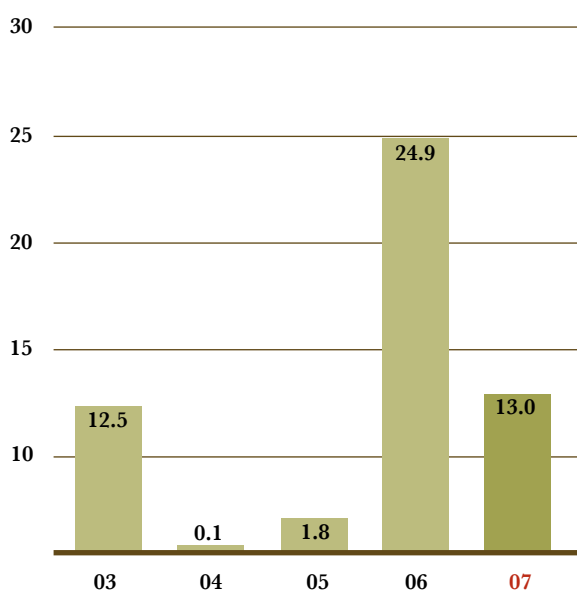
|                             | <b>2006</b> | <b>2007</b>   |
|-----------------------------|-------------|---------------|
| United States dollars       | 2.70        | <b>2.70</b>   |
| Canadian dollars            | 2.4281      | <b>2.7105</b> |
| Pounds Sterling             | 5.0600      | <b>5.4969</b> |
| Euro                        | 3.4356      | <b>3.8289</b> |
| Trinidad and Tobago dollars | 0.4403      | <b>0.4364</b> |



## Financial Summary

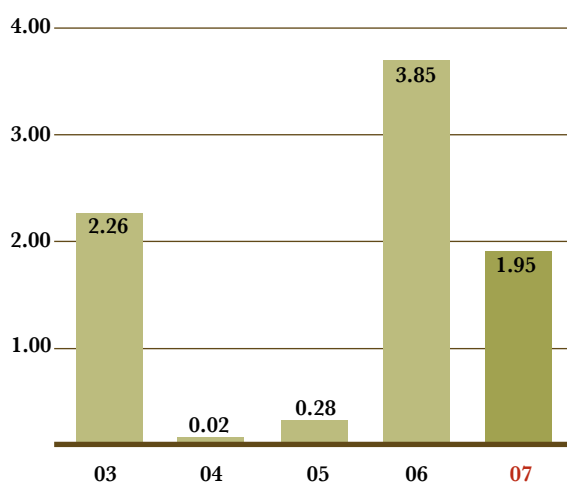
Fiscal 2007 saw the Bank adopting additional International Accounting Standards (IAS's) and returning a profit after tax of \$13.05 million, which is 47.6 percent less than the \$24.92 million reported for 2006. Core profit in 2006 was \$12.76 million excluding the one-off write back of the general provision of \$12.16 million. The Bank's 2.3 percent performance improvement over 2006 core profit would have been 5.3 percent had the additional Standards not been adopted. The 2007 performance was the result of strong non-interest income growth and continued focus on prudent risk management techniques.

### Profit after Tax (Millions)

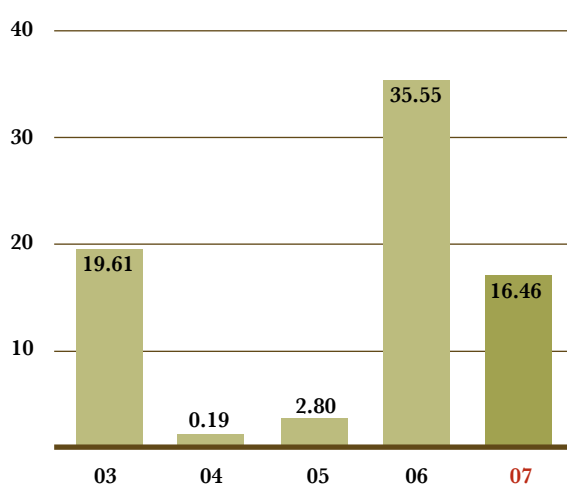


The Bank's return on average assets and return on average shareholders' equity both reflected healthy levels at the end of fiscal 2007.

### Return on Assets (%)



### Return on Equity (%)

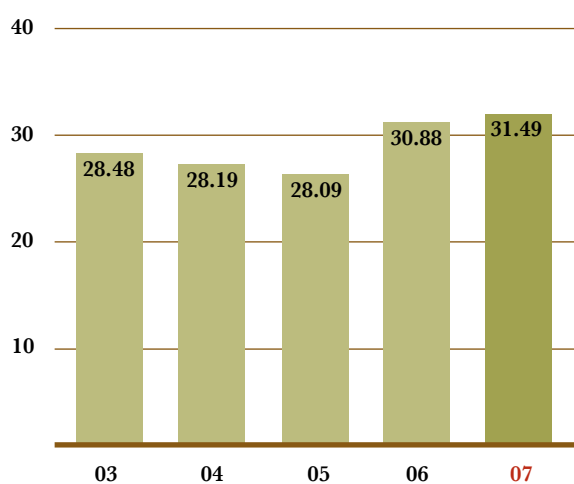


## management discussion & analysis

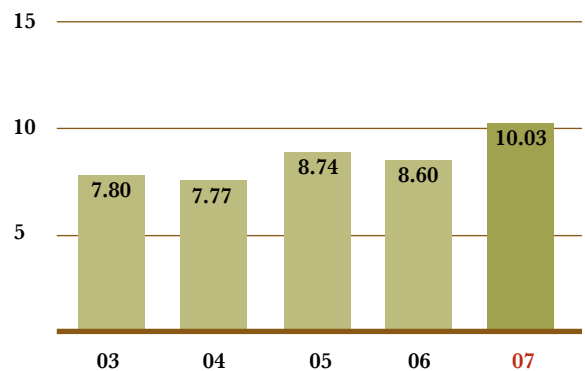
### Net Interest and Other Income

The narrowing of interest margins continued in 2007 due to prevailing market conditions. However, this was compensated for by strong growth in other income which led to a good overall performance. Net interest income grew by 2.0 percent to \$31.49 million. Other income increased by 16.6 percent as exchange earnings increased by 11.3 percent and fees and commissions grew by 26.9 percent. Overall, total income grew by 5.2 percent. Operating expenses, excluding impairment adjustments and staff profit sharing, increased by 4.05 percent reflecting increased cost of stationery, repairs and maintenance and professional services.

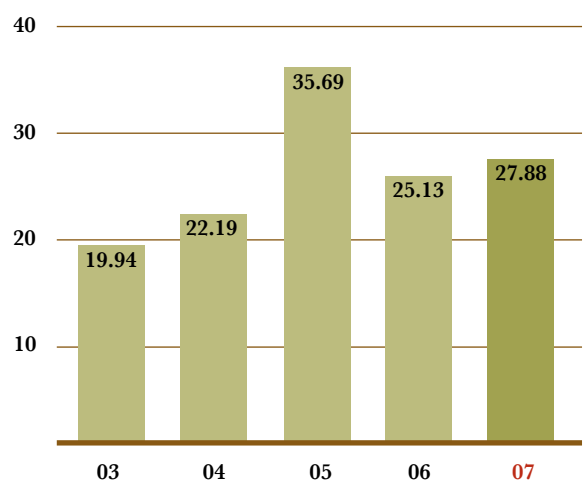
### Net Interest Income (millions)



### Other Income (millions)



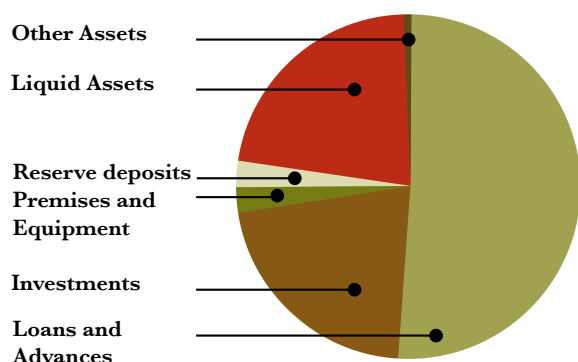
### Operating Expenses (millions)



### Balance Sheet Review

The growth in total assets in 2007 was 3.8 percent or \$24.7 million. The loans portfolio increased by 7.3 percent or \$24.6 million, financed mainly through re-allocations from lower yielding assets and new deposits.

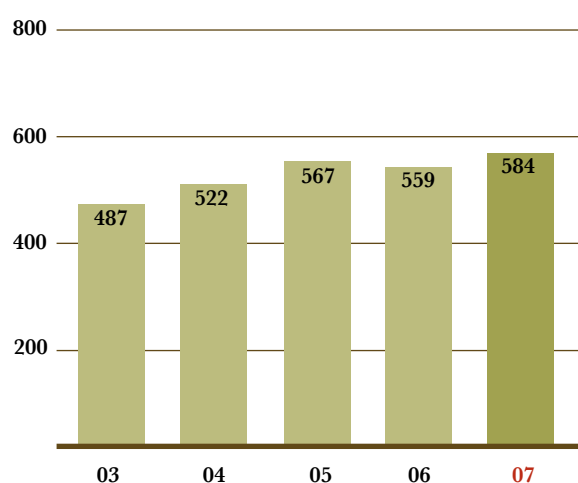
## Composition of Assets 2007



| Loans and advances                     | 2003    | 2004    | 2005    | 2006    | 2007           |
|--|---------|---------|---------|---------|----------------|
| Performing loans                       | 286,823 | 292,553 | 297,397 | 335,769 | <b>358,729</b> |
| Non-performing loans                   | 17,883  | 12,552  | 11,171  | 14,402  | <b>14,345</b>  |
| Gross loans                            | 304,706 | 305,105 | 308,568 | 350,171 | <b>373,074</b> |
| Non-performing loans<br>to gross loans | 5.87%   | 4.11%   | 3.62%   | 4.11%   | <b>3.99%</b>   |
| Provision for<br>non-performing loans  | 47.05%  | 118.85% | 178.47% | 37.30%  | <b>33.90%</b>  |

Customer deposits increased by 4.4 percent or \$24.7 million.

## Customer Deposits (millions)



## Management of Risk

### Overview

The Bank's prudent banking practices are based on solid risk management. Utilizing the resources of Republic Bank Limited, our parent company, we keep abreast of our dynamic environment and manage continually evolving risks as our business activities change in response to market, credit, product and other developments. The Bank manages a variety of risks in the ordinary course of business. Our approach to each of the major specific risks is as follows:

## *management discussion & analysis*

### ***Credit Risk***

Credit Risk is the potential that a borrower or counterparty will fail to meet its stated obligations in accordance with agreed terms. Effective management of credit risk is a key element of a comprehensive approach to risk management and is considered essential to the long term success of the Bank. The Bank's credit risk management process operates on the basis of a hierarchy of discretionary authorities. The Republic Group Risk Management Unit ensures that loans and advances are made in accordance with current legislation, sound banking practice and in accord with the applicable general policy of the Bank as laid down from time to time. In line with international best practice, the Group's Risk Management function is kept separate from and independent of the business development aspect of the operations.

As a prudent policy, loan loss provisions are set aside to cover any potential loss in respect of debts that are not performing satisfactorily. Review of these provisions is currently conducted quarterly in accordance with established guidelines and recommended provisions arising out of the reviews are submitted to the Board for approval. Non-performing debts recommended for write-off are also reviewed annually and action taken in accordance with prescribed guidelines.

### ***Interest Rate and Market Risk***

Interest Rate Risk is the exposure of interest bearing assets and liabilities to movements in interest rate. Republic Bank Limited, as the parent company, has an Asset/Liability

Committee which reviews interest rate and market risk for each subsidiary on a monthly basis. The primary tools currently in use are gap analysis, interest rate sensitivity analysis and exposure limits for both assets and liabilities.

### ***Liquidity Risk***

Liquidity risk is the risk of the Bank having insufficient cash and /or cash equivalent to meet its commitments as they fall due. Liquidity management is designed to ensure that funding requirements can be met, including the replacement of existing funds as they mature or are withdrawn, or to satisfy the demands of customers for additional borrowings. A substantial portion of the Bank is funded with "core deposits". The Bank has access to the Group's funding to provide additional liquidity and can use its investments in regional Governments securities for liquidity support. The Bank continually balances the need for short-term assets which have lower yields, with the need for higher asset returns.

### ***Currency Risk***

Currency risk is the exposure of the Bank's financial condition to unfavorable movements in foreign currency exchange rates. In recognition of these risks the bank has established limits for uncovered holdings in each foreign currency.

### ***Operational Risk***

Operational risk is inherent to all business activities and is the potential for financial or reputational loss arising from inadequate or

failed internal controls, operational processes or the systems that support them. It includes errors, omissions, disasters, and deliberate acts such as fraud. Such risks can never be entirely eliminated and the Bank manages the risk through a combination of systems and processes to monitor and document transactions. Where appropriate, some risk is transferred by the placement of adequate insurance coverage. The Bank has developed contingency arrangements to support operations in the event of disaster.

### ***Capital Structure***

The Bank is well capitalized with \$78.5 million in shareholders equity. This level of capital results in a capital adequacy (core capital to risk weighted assets) of 16.8 percent and total capital adequacy ratio (total capital to risk weighted assets) of 17.2 percent. This is well above the minimum 8 percent established by the regulators. The Bank's dividend policy is normally to distribute 40 percent to 50 percent of its earnings to shareholders.

## *corporate governance*

Republic Bank (Grenada) Limited is committed to maintaining the highest standards of corporate governance. To this end, we continuously monitor and update as necessary our internal systems in order to ensure our standards reflect best international practice while tailored to the specific needs of the Bank. The Board of Directors exercises leadership, enterprise, integrity and good judgment in directing the Bank to achieve continuing prosperity. It will act in the best interests of the Bank guided by a philosophy that is based on transparency, accountability and responsibility.

The Board provides entrepreneurial leadership to the Bank within a framework of prudent and effective controls which enables risk to be assessed and managed. It sets the Bank's strategic aims, ensuring that the necessary financial and human resources are in place for it to meet its objectives and review management performance. The Bank's values and standards are set to ensure that obligations to its shareholders and other stakeholders are met.

The Board is responsible for

- oversight of the Bank including its control and accountability systems
- appointing and removing Directors and members of senior management
- formulation of policy
- input into and final approval of management's development of corporate strategy and performance objectives
- reviewing and ratifying systems of risk management and internal compliance

- and control, codes of conduct and legal compliance
- monitoring senior management's performance and implementation of strategy and ensuring appropriate resources are available
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures
- approving and monitoring financial and other reporting
- approving credit facilities in excess of a defined amount

Our Board of Directors is currently made up of nine 9 Non-Executive Directors and a Managing Director. The Board therefore exercises independent judgment with management information to enable proper and objective assessment of corporate affairs. The Non Executive Directors, which include our parent company's Chairman and two of its Executive Directors, reflect a diverse cross-section of the professional business community and are all highly respected, independent individuals with a wealth of experience in their respective fields.

The Managing Director and our parent company's Executive Directors ensure that at Board meetings, Directors have access to the best possible banking, management and financial advice during their deliberations and this ensures the Board has a clear perspective on all matters on which decisions are required.

The Board of Directors meets formally in the first month of each quarter and also in December while a Sub-Committee of the Board meets in each of the seven months the Board does not meet. The Managing Director has explicit authorities and responsibilities that are documented and approved by the Board of Directors and reviewed as and when necessary.

At the Annual Meeting, one-third of the Directors retire and may offer themselves for re-election. At the upcoming Annual Meeting, Claudia Alexis, Nigel Baptiste, Margaret Blackburn and Gordon Derrick retire from the Board by rotation and being eligible, have offered themselves for re-election. Gordon Derrick, whose appointment became effective on April 17, 2007, filled the vacancy created by the retirement of Edmund Lawrence and in accordance with the Company's By-law, will also retire from the Board. Being eligible, he has offered himself for re-election.

The Board of Directors complies with a Model Code for Securities Transaction by Insiders of Listed Companies. Strict guidelines are provided by the Bank for the occasions when it may be perceived that Directors have special knowledge, and dealing in the Bank's shares is prohibited. The purchase or sale of shares by an insider requires the prior written consent of the Corporate Secretary, and transactions are tabled for the information of the Board of Directors.

The Bank's strategies, policies, agreed management performance criteria and business plans are defined and measurable in a manner which is precise and tangible

both to the Board and management. The Bank's affairs are subject to comprehensive assessment against accurate and relevant information, both financial and non-financial as appropriate, obtainable from the Bank's internal reporting systems as well as external sources, so that informed assessment can be made of issues facing the Board.

### **Audit Committee**

This Committee meets quarterly to review the financial reporting process, the system of internal control, management of financial risks the audit process, the Bank's process for monitoring compliance with laws and regulations and its own code of business.

The Committee comprises:

- Gregory Thomson - Chairman
- Ronald F. deC. Harford
- Claudia Alexis
- Margaret Blackburn
- Leon D. Charles

### **Financial Reporting Requirements**

The Directors of Republic Bank (Grenada) Limited are responsible for the preparation and fair presentation of the financial statements and other financial information contained in this Annual Report. The accompanying financial statements have been prepared in conformity with International Financial Reporting Standards. Where amounts are based on estimates and judgments, these represent the best estimate and judgment of the Directors.

## *corporate governance*

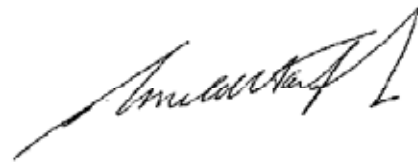
General responsibilities include:

- establishing and maintaining effective internal controls and procedures for financial reporting;
- safeguarding of assets; and
- prevention and detection of fraud and other irregularities.

The financial information appearing throughout this Annual Report is consistent with that in the financial statements. Directors have a responsibility for ensuring that the Bank keeps accounting records which disclose with reasonable accuracy the financial position of the Group.

The Directors have always recognized the importance of the Bank maintaining and reinforcing the highest possible standards of conduct in all of its actions, including the preparation and dissemination of statements presenting fairly the financial condition of the Bank. In this regard, the Directors have developed and maintained a system of accounting and reporting which provides the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The system is augmented by written policies and procedures, the careful selection and training of qualified staff, the establishment of an organizational structure that provides an appropriate and well-defined division of responsibility, and the communication of policies and guidelines of business conduct throughout the Bank.

The system of internal control is further supported by a professional staff of internal auditors from our parent company who conduct periodic audits of all aspects of the Bank's operations. External auditors have full and free access to, and meet periodically with the Audit Committee to discuss their audit and findings as to the integrity of the Banks accounting and financial reporting and the controls.



Ronald F. deC. Harford, **Chairman**

September 30, 2007



# *auditors' report*

## **To the Shareholders of Republic Bank Limited**

We have audited the accompanying financial statements of Republic Bank (Grenada) Limited, which comprise the balance sheet as at 30th September, 2007, and the statement of income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The financial statements as at 30th September, 2006 and for the year then ended, prior to the adjustments as described in Note 4 were audited by other auditors who expressed an unqualified opinion on those statements in their report dated 17th October, 2006. We have audited the adjustments to the 30th September, 2006 financial statements and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

### Management's Responsibility for the Financial Statements

Management is 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 control 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 from 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 financial statements present fairly, in all material respects, the financial position of the Bank as of 30th September, 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst + Young*

Ernst & Young

*Chartered Accountants*

Barbados

## *balance sheet*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

|  | Notes | 2007           | Restated<br>2006 |
|--|-------|----------------|------------------|
| <b>ASSETS</b>                            |       |                |                  |
| Cash                                     |       | 6,987          | 5,901            |
| Statutory deposits with Central Bank     |       | 34,908         | 33,636           |
| Due from banks                           |       | 101,007        | 101,643          |
| Treasury bills                           |       | 11,529         | 11,403           |
| Available for sale investment securities | 5     | 126,291        | 138,330          |
| Advances                                 | 6     | 364,048        | 339,410          |
| Net pension asset                        | 7     | 1,153          | 981              |
| Deferred tax asset                       | 8     | 878            | 750              |
| Investment interest receivable           |       | 3,749          | 3,441            |
| Other assets                             | 9     | 1,395          | 2,911            |
| Tax recoverable                          |       | 414            | 453              |
| Premises and equipment                   | 10    | 29,614         | 18,476           |
| <b>TOTAL ASSETS</b>                      |       | <b>681,973</b> | <b>657,335</b>   |

The accompanying notes form an integral part of these financial statements.

# balance sheet

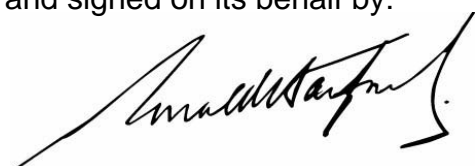
at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated (*continued*)

|  | Notes | 2007           | Restated<br>2006 |
|--|-------|----------------|------------------|
| <b>LIABILITIES &amp; EQUITY</b>                  |       |                |                  |
| <b>Liabilities</b>                               |       |                |                  |
| Customers' current, savings and deposit accounts | 11    | 583,513        | 558,853          |
| Due to banks                                     |       | 7,560          | 1,287            |
| Provision for post-retirement benefits           | 7     | 1,940          | 1,696            |
| Deferred tax liabilities                         | 8     | 1,513          | 5,178            |
| Accrued interest payable                         |       | 1,586          | 1,225            |
| Other liabilities                                | 12    | 7,340          | 8,955            |
| <b>Total Liabilities</b>                         |       | <b>603,452</b> | <b>577,194</b>   |
| <b>Equity</b>                                    |       |                |                  |
| Stated capital                                   | 13    | 15,000         | 15,000           |
| Statutory reserves                               |       | 15,000         | 15,000           |
| Other reserves                                   |       | 3,426          | 12,096           |
| Retained earnings                                |       | 45,095         | 38,045           |
| <b>Total Equity</b>                              |       | <b>78,521</b>  | <b>80,141</b>    |
| <b>TOTAL LIABILITIES &amp; EQUITY</b>            |       | <b>681,973</b> | <b>657,335</b>   |

The accompanying notes form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 18th October, 2007 and signed on its behalf by:



Ronald F. deC Harford, *Chairman*



Daniel A. Roberts, *Managing Director*

## *statement of income*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

|                                     | Notes  | 2007          | Restated<br>2006 |
|-------------------------------------|--------|---------------|------------------|
| Interest income                     | 14 (a) | 47,164        | 44,579           |
| Interest expense                    | 14 (b) | (15,671)      | (13,709)         |
| <b>Net interest income</b>          |        | <b>31,493</b> | <b>30,870</b>    |
| Other income                        | 14 (c) | 10,026        | 8,598            |
|                                     |        | <b>41,519</b> | <b>39,468</b>    |
| Loan impairment (expense)/ recovery | 6 (b)  | (344)         | 13,670           |
| Operating expenses                  | 14 (d) | (27,878)      | (27,917)         |
| <b>Profit before taxation</b>       |        | <b>13,297</b> | <b>25,221</b>    |
| Taxation - Current                  |        | (316)         | (233)            |
| - Deferred                          |        | 69            | 67               |
| <b>Total taxation expense</b>       | 15     | <b>(247)</b>  | <b>(300)</b>     |
| <b>Profit after taxation</b>        |        | <b>13,050</b> | <b>24,921</b>    |

The accompanying notes form an integral part of these financial statements.

## *statement of changes in equity*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

|   | <b>Stated<br/>capital</b> | <b>Statutory<br/>reserves</b> | <b>Other<br/>reserves</b> | <b>Retained<br/>earnings</b> | <b>Total</b>  |
|---|---------------------------|-------------------------------|---------------------------|------------------------------|---------------|
| <b>Balance at 1st October,<br/>2005 previously reported</b> | 15,000                    | 15,000                        | 13,724                    | 16,329                       | 60,053        |
| Prior year adjustment (Note 4)                              | -                         | -                             | (4,117)                   | (328)                        | (4,445)       |
| <b>Balance at 1st October, 2005<br/>(Restated)</b>          | 15,000                    | 15,000                        | 9,607                     | 16,001                       | 55,608        |
| Revaluation of available-for-sale<br>investments            | -                         | -                             | 1,787                     | -                            | 1,787         |
| Profit for the year   | -                         | -                             | -                         | 24,921                       | 24,921        |
| Transfer to general contingency reserve                     | -                         | -                             | 702                       | (702)                        | -             |
| Equity dividends (Note 23)                                  | -                         | -                             | -                         | (2,175)                      | (2,175)       |
| <b>Balance at 30th September, 2006<br/>(Restated)</b>       | 15,000                    | 15,000                        | 12,096                    | 38,045                       | 80,141        |
| Revaluation of available-for-sale<br>investments            | -                         | -                             | (8,670)                   | -                            | (8,670)       |
| Profit for the year   | -                         | -                             | -                         | 13,050                       | 13,050        |
| Equity dividends (Note 23)                                  | -                         | -                             | -                         | (6,000)                      | (6,000)       |
| <b>Balance at 30th September, 2007</b>                      | <b>15,000</b>             | <b>15,000</b>                 | <b>3,426</b>              | <b>45,095</b>                | <b>78,521</b> |

## *statement of cash flows*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

| Notes   | 2007            | Restated<br>2006 |
|---|-----------------|------------------|
| <b>Operating activities</b>   |                 |                  |
| Profit before taxation  | 13,297          | 25,221           |
| <b>Adjustments for:</b>   |                 |                  |
| Depreciation  | 2,247           | 1,296            |
| Loan and investment impairment recovery   | (654)           | (14,390)         |
| (Gain)/loss on sale of premises and equipment                                   | (7)             | 232              |
| Increase in employee benefits   | 72              | 831              |
| Increase in advances  | (24,982)        | (42,423)         |
| Increase/(decrease) in customers' current<br>savings and other deposit accounts | 24,660          | (3,025)          |
| Increase/(decrease) in statutory deposits with Central Bank                     | (1,272)         | 616              |
| Decrease/(increase) in other assets<br>and investment interest receivable       | 1,208           | (3,671)          |
| (Decrease)/increase in other liabilities<br>and accrued interest payable        | (1,254)         | 191              |
| Taxes paid  | (399)           | (431)            |
| <b>Cash provided by/(used in) operating activities</b>                          | <b>12,916</b>   | <b>(35,553)</b>  |
| <b>Investing activities</b>   |                 |                  |
| Purchase of investment securities   | (2,179)         | (3,778)          |
| Redemption of investment securities   | 2,818           | 2,853            |
| Additions to premises and equipment   | (13,504)        | (3,104)          |
| Proceeds from sale of premises and equipment                                    | 126             | 20               |
| <b>Cash used in investing activities</b>  | <b>(12,739)</b> | <b>(4,009)</b>   |

The accompanying notes form an integral part of these financial statements.

## statement of cash flows

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated (*continued*)

| Notes   | 2007           | Restated<br>2006 |
|---|----------------|------------------|
| <b>Financing activities</b>   |                |                  |
| Increase /(decrease) in balances due to banks                           | 6,273          | (4,098)          |
| Dividends paid on share capital   | (6,000)        | (2,175)          |
| <b>Cash provided by/(used in) financing activities</b>                  | <b>273</b>     | <b>(6,273)</b>   |
| <b>Net increase/(decrease) in cash and cash equivalents</b>             | <b>450</b>     | <b>(45,835)</b>  |
| <b>Cash and cash equivalents at beginning of year</b>                   | <b>107,544</b> | <b>153,379</b>   |
| <b>Cash and cash equivalents at end of year</b>                         | <b>107,994</b> | <b>107,544</b>   |
| <b>Cash and cash equivalents at end of year<br/>are represented by:</b> |                |                  |
| Cash on hand  | 6,987          | 5,901            |
| Due from banks  | 101,007        | 101,643          |
|   | <b>107,994</b> | <b>107,544</b>   |

The accompanying notes form an integral part of these financial statements.

# *notes to the financial statement*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

## **1. Corporate information**

Republic Bank (Grenada) Limited is incorporated in Grenada and provides banking services through seven branches in Grenada and Carriacou and one agency office in Petite Martinique. The Bank was continued in accordance with the Company's Ordinance Section 365 and its registered office is located at Republic House, Grand Anse, St. Georges. It is a subsidiary of Republic Bank Limited of Trinidad and Tobago.

The CL Financial Group holds through its various subsidiaries 54.94% of the shares of Republic Bank Limited.

## **2. Significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below.

### **a) Basis of preparation**

The financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS), and are stated in Eastern Caribbean Dollars. These financial statements have been prepared on a historical cost basis, except for the measurement at fair value of investment securities which are classified as available-for-sale. The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions. Actual results could differ from those estimates. Significant accounting judgements and estimates in applying the Bank's accounting policies have been described in note 3.

### **b) Future changes in accounting policies**

The Bank has not early adopted the following new and revised IFRS's and IFRIC Interpretations that have been published and are mandatory for the Bank's accounting periods beginning on or after 1st October, 2007:



## *notes to the financial statement*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### **2. Significant accounting policies** *(continued)*

#### **b) Adoption of IFRS during the year** *(continued)*

IAS 1 - Presentation of financial statements

IAS 23 - Borrowing Costs

IFRS 7 - Financial Instruments: Disclosures

IFRS 8 - Operating Segments

IFRIC 8 - Scope of IFRS 2

IFRIC 11 - IFRS2 - Group Treasury Share Transactions

IFRIC 13 - Customer Loyalty Programmes

IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The quantitative impact of the adoption of these standards has not been evaluated

#### **c) Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents consist of highly liquid investments, cash at hand and at bank with original maturities of three months or less.

#### **d) Statutory deposits with Central Bank**

Pursuant to the Grenada Banking Act No.15 of 2005, the Bank is required to maintain specified assets as a reserve requirement to its deposit liabilities.

#### **e) Financial instruments**

The Bank's financial assets and financial liabilities are recognised in the balance sheet when it becomes party to the contractual obligation of the instrument. A financial asset is derecognised when the rights to receive the cash flows from the asset have expired or where the bank has transferred all the risks and rewards of ownership of the asset. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. All 'regular way' purchases and sales are recognised at settlement date.

## *notes to the financial statement*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### **2. Significant accounting policies** *(continued)*

#### **e) Financial instruments** *(continued)*

##### **i) Advances**

Advances are financial assets provided directly to a customer. These carry fixed or determinable payments and are not quoted in an active market. Advances are stated at principal amounts outstanding net of any unearned interest and allowances for impairment losses.

##### **ii) Investment securities**

The Bank classifies its investment securities as available for sale. Available for sale investments are securities intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available for sale securities are initially recognised at fair value plus transaction costs and are continuously remeasured at fair value based on quoted market prices where available or discounted cash flow models. Fair values for unquoted equity instruments or unlisted securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised in equity net of applicable deferred tax. When the securities are disposed of, the related accumulated fair value adjustments are included in net investment trading income. When securities become impaired, the related accumulated fair value adjustments previously recognised in equity are included in the statement of income as an impairment expense on investment securities.

##### **f) Impairment of financial assets**

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

## *notes to the financial statement*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### **2. Significant accounting policies** *(continued)*

#### **f) Impairment of financial assets** *(continued)*

##### **i) Advances**

All non performing and individually significant advances are individually reviewed and specific provisions made for the impaired portion based on the realizable value of the loan collateral and discounted by the original effective interest rate of the loan. The provision made is the difference between the loan balance and the discounted value of the collateral. Individually insignificant loans with similar characteristics are assessed for impairment on a group basis.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are cash or securities, charges over real estate properties, inventory and trade receivables and mortgages over residential properties and chattels.

Management monitors the market value of collateral, requests 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 in an orderly fashion. The proceeds are used to repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Regulatory and other loan loss requirements that exceed these amounts are dealt with in the general contingency reserve as an appropriation of retained earnings.

When all efforts have been exhausted to recover a non-performing loan, that loan is deemed uncollectible and written off against the related provision for loan losses.

## *notes to the financial statement*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### **2. Significant accounting policies** *(continued)*

#### **f) Impairment of financial assets** *(continued)*

##### **ii) Investment securities**

The Bank individually assesses each investment security for objective evidence of impairment. If an impaired instrument has been renegotiated, interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of "interest income". If the fair value of the instrument increases in a subsequent year, the impairment loss is reversed through the statement of income.

#### **g) Employee benefits**

##### **i) Pension obligations**

The Bank operates a defined benefit plan, the assets of which are generally held in separate trustee-administered funds. The pension plan is generally funded by payments from the Bank, taking account of the recommendations of independent qualified actuaries who carry out the full valuation of the Plan every three years.

Annually, the Bank's independent actuaries conduct a valuation exercise to measure the effect of employee benefit plans.

For the defined benefit plan, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of income so as to spread regular costs over the service lives of employees in accordance with the advice of qualified actuaries. Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses exceed 10% of the defined benefit obligation and the fair value of plan assets. These gains or losses are recognised by amortising them over the average remaining working lifetime of employees.

## *notes to the financial statement*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### **2. Significant accounting policies** *(continued)*

#### **g) Employee benefits** *(continued)*

##### **i) Pension obligations** *(continued)*

The above accounting requirement in no way affects the pension plan which continue to be governed by the approved Trust Deed and Rules and remain under the full control of the appointed Trustees.

The full results of the valuation exercise are disclosed in note 7 to these financial statements.

##### **ii) Other post-retirement obligations**

The Bank provides post-retirement life insurance and medical benefits to its retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. Independent qualified actuaries carry out a valuation of these obligations.

##### **iii) Profit sharing scheme**

The Bank operates an employee profit sharing scheme and the profit share to be distributed to employees is based on the terms outlined in the Union Agreement. Employees receive their profit share in cash. The Bank accounts for the profit share, as an expense, through the statement of income.

#### **h) Taxation**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance

## *notes to the financial statement*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### **2. Significant accounting policies** *(continued)*

#### **h) Taxation** *(continued)*

sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Income tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

#### **i) Premises and equipment**

Premises and equipment are stated at cost less accumulated depreciation. Leasehold buildings and leased equipment are depreciated over the period of the lease.

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of income.

Depreciation other than on leasehold buildings and leased equipment is computed on the straight line method at rates expected to apportion the cost of the assets over their estimated useful lives.

The depreciation rates used are as follows: -

|                                   |             |
|-----------------------------------|-------------|
| Freehold premises                 | 2%          |
| Equipment, furniture and fittings | 15 - 33.33% |

## *notes to the financial statement*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### **2. Significant accounting policies** *(continued)*

#### **j) Statutory reserves**

The Banking Act No.19 of 2005 subsection 14 (1) requires that a minimum of 20% of the net profit after deduction of taxes in each year be transferred to a statutory reserve fund until the balance on this reserve is equal to the paid-up capital. These reserves are not available for distribution as dividends or for any other form of appropriation.

#### **k) Foreign currency translation**

The financial statements of the Bank is expressed in Eastern Caribbean dollars which is the functional currency of the operating environment. Monetary assets and liabilities of the Bank which are denominated in foreign currencies are expressed in Eastern Caribbean dollars at rates of exchange ruling on September 30, 2007. Non monetary assets and liabilities denominated in foreign currencies are translated at historic rates. All revenue and expenditure transactions denominated in foreign currencies are translated at mid-exchange rates and the resulting profits and losses on exchange from these trading activities are dealt with in the statement of income.

#### **l) Interest income and expense**

Interest income and expense are recognised in the statement of income for all interest-bearing instruments on an accrual basis using the effective interest yield method. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments.

#### **m) Fee and commission income**

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis as the service is provided. Fees and commissions not integral to effective interest arising from negotiating, or participating in the negotiation of a transaction from a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts.

## *notes to the financial statement*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### **3. Significant accounting judgements and estimates in applying the Bank's accounting policies**

Management has made the following judgements in its application of the Bank's accounting policies which have the most significant effect on the amounts reported in the financial statements:

#### *Impairment of financial assets*

Management makes judgements at each balance sheet date to determine whether financial assets are impaired. Financial assets are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

Inherent provisions on advances are calculated on an estimate on impairment incurred but not reported, existing in assets as at the balance sheet date. Estimated impairment incurred is determined by applying against performing loan balances, the average loan default rates and adjusting this balance for current economic factors that affect loan performance. An anticipated recovery rate (determined from historical average) is then applied to determine the value that is recoverable. This calculation is computed by product type.

#### *Valuation of investments*

The Bank has applied IAS 39 in its classification of investment securities which requires measurement of securities at fair value. For unquoted equity instruments and unlisted securities, fair values are estimated using price/earnings or price/cash flow ratios which have been refined to accommodate the specific circumstances of the issuer.

#### *Net pension asset / liability*

In conducting valuation exercises to measure the effect of employee benefit plans, the Bank's independent actuaries use judgement and assumptions in determining discount rates, salary increases, NIS ceiling increases, pension increases and the rate of return on the assets of the Plan. These are detailed in Note 7 – Employee Benefits.



## *notes to the financial statement*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### **3. Significant accounting judgements and estimates in applying the Bank's accounting policies** *(continued)*

#### *Deferred taxes*

In calculating the provision for deferred taxation, management uses judgement to determine the probability that future taxable profits will be available to facilitate utilisation of temporary tax differences which may arise.

#### *Premises and equipment*

Management exercises judgement in determining whether costs incurred can accrue sufficient future economic benefits to the Bank to enable the value to be treated as a capital expense. Further judgement is used upon annual review of the residual values and useful lives of all capital items to determine any necessary adjustments to carrying value.

### **4. Restatement of prior year balances**

#### *Taxation recoverable and Premises and equipment*

Changes in presentation have been made in these financial statements to the amount stated as "Taxation recoverable" and "Premises and equipment". These amounts were previously included in other assets in the Balance Sheet. These changes had no effect on the operating results of the Bank for the previous year.

#### *Advances*

Changes in presentation have been made in these financial statements to the amount stated as Advances. Advances were shown net of provisions and included within provision for loan losses was a general contingency reserve. This reserve should have been included as a component of other reserves in equity and the prior year financial statements have been amended to reflect this. This change had no effect on the operating results of the Bank for the previous year.

## *notes to the financial statement*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### **4. Restatement of prior year balances** *(continued)*

#### *Deferred taxation on unrealised gains*

During the current financial year, it was noted that deferred tax on unrealised gains arising on instruments designated as available for sale was not recorded in prior periods. The financial statements for the prior period ended September 30, 2006 have been restated to correct this error. Opening reserves for 2006 has been reduced by \$4,117K which is the amount of the adjustment relating to periods prior to 2006.

#### *Post retirement benefits*

The bank recognized assets and liabilities relating to post retirement benefits through equity in the prior period. The financial statements for the prior period have been restated to show the effect of taking the portion of these items that relates to 2006 into the 2006 statement of income and the portion relating to prior periods through equity, together with its related deferred tax impact. Opening retained earnings for 2006 has been increased by \$116K which is the amount of the adjustment relating to periods prior to 2006.

#### *Loan fee recognition estimate*

In accordance with IAS 18, Revenue, loan origination fees, which have a high probability of being drawn down, are to be deferred (together with related direct costs) and recognised as an adjustment to the effective interest yield on the loan. The impact of this accounting treatment was in the past determined to be immaterial and as such, not recorded. During the current year, however, a decision was taken to record the adjustment. The recording of this adjustment has been applied retrospectively and the comparative statements for 2006 have been restated. The effect is tabulated below. Opening retained earnings for 2006 has been reduced by \$444K which is the amount of the adjustment relating to periods prior to 2006.

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 4. Restatement of prior year balances (continued)

The effect of the restatements on the balance sheet for 2006 was as follows:

|  |              |
|--|--------------|
| Increase in taxation recoverable                             | 453          |
| Increase in premises and equipment                           | 1,231        |
| Decrease in other assets                                     | (1,684)      |
| Increase in advances   | 703          |
| Effect of IAS 18 adjustment on deferred tax asset            | 241          |
| Effect of Post retirement benefit adjustment on deferred tax | 509          |
| <b>Net adjustment to Total Assets</b>                        | <b>1,453</b> |

|  |              |
|--|--------------|
| Increase in other reserves arising from reclassification<br>from provisions for loan losses to general contingency reserve | 702          |
| Increase in deferred tax liability from post retirement benefit adjustment   | 295          |
| Increase in unearned fee and commission income   | 803          |
| Increase in deferred tax liability arising from<br>unrealised gains on available for sale investments                      | 4,883        |
| Decrease in other reserves arising from deferred tax<br>on unrealised gains on available for sale investments              | (4,883)      |
| Decrease in retained earnings  | (347)        |
| <b>Net adjustment to Total Liabilities and Equity</b>  | <b>1,453</b> |

The effect on the statement of income for 2006 was as follows:

|  |               |
|--|---------------|
| <b>Net profit after taxation previously reported</b> | <b>25,654</b> |
| Adjusted for:  |               |
| Effect of post retirement benefits                   | (616)         |
| Decrease in fee and commission income                | (167)         |
| Decrease in taxation expense                         | 50            |
| <b>Net profit for the year</b>                       |               |
| after taxation as restated                           | <b>24,921</b> |

## *notes to the financial statement*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

| <b>5. Available for sale investment securities</b> | <b>2007</b>    | <b>2006</b>    |
|--|----------------|----------------|
| Government securities                              | 73,427         | 78,052         |
| State owned company securities                     | 31,885         | 37,475         |
| Corporate bonds/debentures                         | 11,856         | 14,053         |
| Other  | 9,123          | 8,750          |
|  | <b>126,291</b> | <b>138,330</b> |
| <b>6. Advances</b>                                 |                |                |
|  | <b>2007</b>    | <b>2006</b>    |
| <b>a) Net advances</b>                             |                |                |
| Performing advances                                | 361,930        | 335,769        |
| Non performing advances                            | 11,144         | 13,002         |
|  | <b>373,074</b> | <b>348,771</b> |
| Unearned interest                                  | (5,211)        | (4,950)        |
| Accrued interest                                   | 1,048          | 961            |
|  | <b>368,911</b> | <b>344,782</b> |
| Provision for loan losses - note 6(b)              | (4,863)        | (5,372)        |
|  | <b>364,048</b> | <b>339,410</b> |
| <b>b) Provision for loan losses</b>                |                |                |
| Balance brought forward                            | 5,372          | 19,937         |
| Charge-offs and write-offs                         | (853)          | (895)          |
| Loan impairment expense                            | 732            | 1,908          |
| Loan impairment recoveries                         | (388)          | (15,578)       |
|  | <b>4,863</b>   | <b>5,372</b>   |

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 6. Advances (continued)

|   | 2007           | 2006           |
|---|----------------|----------------|
| <b>c) Concentration of net advances</b> |                |                |
| Energy                                  | -              | 2,077          |
| Manufacturing                           | 4,416          | 5,628          |
| Distribution/construction/real estate   | 47,867         | 63,070         |
| Hospitality                             | 43,000         | 28,953         |
| Financial services                      | 2,202          | 2,576          |
| Personal/agriculture                    | 214,458        | 196,700        |
| Other services                          | 52,105         | 40,406         |
|   | <b>364,048</b> | <b>339,410</b> |

### 7. Employee benefits

#### a) Changes in the present value of the defined benefit obligation are as follows:

|                                    | Defined benefit pension plans |               | Post-retirement benefits |              |
|------------------------------------|-------------------------------|---------------|--------------------------|--------------|
|                                    | 2007                          | 2006          | 2007                     | 2006         |
| Opening defined benefit obligation | 13,858                        | 11,143        | 1,696                    | 1,478        |
| Interest cost                      | 961                           | 782           | 118                      | 104          |
| Current service cost               | 791                           | 503           | 130                      | 117          |
| Past service cost                  | -                             | 1,110         | -                        | -            |
| Benefits paid                      | (274)                         | (57)          | -                        | -            |
| Members Contribution               | 130                           | 350           | -                        | -            |
| Actuarial losses on obligations    | 16                            | 71            | (17)                     | -            |
| Expenses allowance                 | (49)                          | (44)          | -                        | -            |
| Premiums paid by bank              | -                             | -             | (4)                      | (3)          |
| Closing defined benefit obligation | <b>15,433</b>                 | <b>13,858</b> | <b>1,923</b>             | <b>1,696</b> |

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 7. Employee benefits (continued)

#### b) Changes in the fair value of plan assets are as follows:

|                                   | Defined benefit pension plans |        |
|-----------------------------------|-------------------------------|--------|
|                                   | 2007                          | 2006   |
| Opening fair value of plan assets | 14,282                        | 13,119 |
| Expected return                   | 1,024                         | 955    |
| Contributions by employer         | 900                           | 827    |
| Benefits paid                     | (274)                         | (57)   |
| Actuarial gains/(losses)          | 28                            | (868)  |
| Members Contribution              | 130                           | 350    |
| Expenses allowance                | (49)                          | (44)   |
| Closing fair value of plan assets | 16,041                        | 14,282 |

#### c) The amounts recognised in the balance sheet are as follows:

|  | Defined benefit pension plans |          | Post-retirement benefits |         |
|--|-------------------------------|----------|--------------------------|---------|
|  | 2007                          | 2006     | 2007                     | 2006    |
| Defined benefit obligations                              | (15,433)                      | (13,858) | (1,923)                  | (1,696) |
| Fair value of plan assets                                | 16,041                        | 14,282   | -                        | -       |
| Unrecognised portion                                     | 608                           | 424      | (1,923)                  | (1,696) |
|  | 545                           | 557      | (17)                     | -       |
| Net asset/(liability) recognised<br>in the balance sheet | 1,153                         | 981      | (1,940)                  | (1,696) |

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 7. Employee benefits (continued)

#### c) The amounts recognised in the balance sheet are as follows: (continued)

##### Reconciliation of opening and closing defined benefit asset/(liability):

|  | Defined benefit pension plans |         | Post-retirement benefits |         |
|--|-------------------------------|---------|--------------------------|---------|
|  | 2007                          | 2006    | 2007                     | 2006    |
| Opening asset/(liability)                | 981                           | 1,594   | (1,696)                  | (1,478) |
| Net charge to the<br>statement of income | (728)                         | (1,440) | (248)                    | (221)   |
| Contributions                            | 900                           | 827     | 4                        | 3       |
| Closing asset                            | 1,153                         | 981     | (1,940)                  | (1,696) |

#### d) The amounts recognised in the statement of income are as follows:

|   | Defined benefit pension plans |       | Post-retirement benefits |      |
|---|-------------------------------|-------|--------------------------|------|
|   | 2007                          | 2006  | 2007                     | 2006 |
| Current service cost                      | 791                           | 503   | 130                      | 117  |
| Interest on defined<br>benefit obligation | 961                           | 782   | 118                      | 104  |
| Expected return on plan assets            | (1,024)                       | (955) | -                        | -    |
| Amortised net gain                        | -                             | 1,110 | -                        | -    |
| Total included in staff costs             | 728                           | 1,440 | 248                      | 221  |

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 7. Employee benefits (continued)

#### e) Actual return on plan assets

|                                      | Defined benefit pension plans |       |
|--------------------------------------|-------------------------------|-------|
|                                      | 2007                          | 2006  |
| Expected return on plan assets       | 1,024                         | 955   |
| Actuarial gain/(loss) on plan assets | 28                            | (868) |
| Actual return on plan assets         | 1,052                         | 87    |

#### f) Experience history

|                            | Defined benefit pension plans |          | Post-retirement medical benefits |       |
|----------------------------|-------------------------------|----------|----------------------------------|-------|
|                            | 2007                          | 2006     | 2007                             | 2006  |
| Defined benefit obligation | 15,433                        | 13,858   | 1,923                            | 1,696 |
| Plan assets                | (16,041)                      | (14,282) | -                                | -     |
| (Deficit)/surplus          | (608)                         | (424)    | 1,923                            | 1,696 |
| Experience adjustments     |                               |          |                                  |       |
| on plan liabilities        | 16                            | 71       | (17)                             | 0     |
| Experience adjustments     |                               |          |                                  |       |
| on plan assets             | 28                            | (868)    | -                                | -     |

g) The Bank expects to contribute \$941 to the plan in the 2008 financial year.

h) The principal actuarial assumptions used were as follows:

|                                    |       |       |
|------------------------------------|-------|-------|
| Expected return on plan assets (%) | 7.00% | 7.00% |
| Discount rate (%)                  | 7.00% | 7.00% |
| Rate of salary increase (%)        | 6.00% | 6.00% |

The expected rate of return on assets is set by reference to estimated long-term returns on assets held by the plan at that date. Allowance is made for some excess performance from the plan's equity portfolio.



## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 7. Employee benefits (continued)

#### i) Plan asset allocation as at September 30

|                                |             |             |
|--------------------------------|-------------|-------------|
| Defined benefit pension plans  | <b>2007</b> | <b>2006</b> |
| Equity Securities              | 4%          | -           |
| Debt securities                | 58%         | 62%         |
| Money Market Instruments/ Cash | 38%         | 38%         |
| <b>Total</b>                   | <b>100%</b> | 100%        |

#### j) Effect of One Percentage Point Change in Medical Expense Increase Assumption

| Effect on                         | Aggregate<br>Service and<br>Interest Costs | Year-end<br>Defined Benefit<br>Obligation |
|-----------------------------------|--|---|
| Medical Expense Increase by 1% pa | 397  | 60  |
| Medical Expense Decrease by 1% pa | (289)                                      | (42)                                      |

### 8. Deferred tax assets and liabilities

|  |             |             |
|--|-------------|-------------|
| <b>Components of deferred tax assets and liabilities</b> | <b>2007</b> | <b>2006</b> |
| <b>a) Deferred tax assets</b>                            |             |             |
| Post retirement medical and life insurance benefits      | 582         | 509         |
| Unearned loan origination fees                           | 288         | 241         |
| Premises and equipment                                   | 8           | -           |
|  | <b>878</b>  | 750         |

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 8. Deferred tax assets and liabilities (continued)

|                                    | 2007  | 2006  |
|------------------------------------|-------|-------|
| <b>b) Deferred tax liabilities</b> |       |       |
| Pension asset                      | 346   | 295   |
| Unrealised reserve                 | 1,167 | 4,883 |
|                                    | 1,513 | 5,178 |

### 9. Other assets

|                                     | 2007  | 2006  |
|-------------------------------------|-------|-------|
| Accounts receivable and prepayments | 1,290 | 2,238 |
| Other receivables                   | 105   | 673   |
|                                     | 1,395 | 2,911 |

### 10. Premises and equipment

|                                | Capital<br>works in<br>progress | Freehold<br>premises | Leasehold<br>premises | Equipment,<br>furniture &<br>fittings | Total<br>2007 | Total<br>2006 |
|--------------------------------|---------------------------------|----------------------|-----------------------|---------------------------------------|---------------|---------------|
| Cost                           |                                 |                      |                       |                                       |               |               |
| At beginning of year           | 1,230                           | 9,435                | 7,607                 | 19,096                                | 37,368        | 35,022        |
| Additions at cost              | 10,439                          | -                    | 42                    | 3,023                                 | 13,504        | 3,104         |
| Disposal/transfer<br>of assets | -                               | -                    | -                     | (415)                                 | (415)         | (758)         |
|                                | 11,669                          | 9,435                | 7,649                 | 21,704                                | 50,457        | 37,368        |

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 10. Premises and equipment (continued)

|   | Capital<br>works in<br>progress | Freehold<br>premises | Leasehold<br>premises | Equipment,<br>furniture &<br>fittings | Total<br>2007 | Total<br>2006 |
|---|---------------------------------|----------------------|-----------------------|---------------------------------------|---------------|---------------|
| Accumulated depreciation  |                                 |                      |                       |                                       |               |               |
| At beginning of year  | -                               | 523                  | 3,657                 | 14,712                                | 18,892        | 18,102        |
| Charge for the year   | -                               | 176                  | 86                    | 1,985                                 | 2,247         | 1,296         |
| Disposal of assets  | -                               | -                    | -                     | (296)                                 | (296)         | (506)         |
|   | -                               | 699                  | 3,743                 | 16,401                                | 20,843        | 18,892        |
| Net book value  | 11,669                          | 8,736                | 3,906                 | 5,303                                 | 29,614        | 18,476        |
| Capital commitments   |                                 |                      |                       |                                       |               |               |
| Contracts for outstanding capital expenditure<br>not provided for in the financial statements |                                 |                      |                       |                                       | 12,331        | 24,000        |

### 11. Customers' current, savings & deposit accounts

|  | 2007    | 2006    |
|--|---------|---------|
| Concentration of customers' current,<br>savings & deposit accounts |         |         |
| State  | 25,897  | 34,547  |
| Corporate and commercial   | 59,471  | 46,084  |
| Personal   | 375,831 | 359,717 |
| Other financial institutions                                       | 18,088  | 14,736  |
| Other  | 104,226 | 103,769 |
|  | 583,513 | 558,853 |

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 12. Other Liabilities

|                                | 2007  | 2006  |
|--------------------------------|-------|-------|
| Bills payable                  | 3,454 | 2,712 |
| Provision for profit sharing   | 808   | 1,659 |
| Unearned loan origination fees | 961   | 803   |
| Other liabilities              | 2,117 | 3,781 |
|                                | 7,340 | 8,955 |

### 13. Stated capital

|                              | 2007                      | 2006  | 2007   | 2006   |
|------------------------------|---------------------------|-------|--------|--------|
|                              | Number of ordinary shares |       | \$'000 | \$'000 |
|                              | ('000)                    |       |        |        |
| Authorised                   |                           |       |        |        |
| 2,500,000 ordinary of shares |                           |       |        |        |
| of no par value              | 2,500                     | 2,500 | -      | -      |
| Issued and fully paid        |                           |       |        |        |
| At beginning of year         | 1,500                     | 1,500 | 15,000 | 15,000 |
| At end of year               | 1,500                     | 1,500 | 15,000 | 15,000 |

### 14. Operating profit

|                            | 2007   | 2006   |
|----------------------------|--------|--------|
| <b>a) Interest income</b>  |        |        |
| Loans and advances         | 32,573 | 29,883 |
| Investment securities      | 10,171 | 10,272 |
| Liquid assets              | 4,420  | 4,424  |
|                            | 47,164 | 44,579 |
| <b>b) Interest expense</b> |        |        |
| Customers' deposits        | 15,671 | 13,709 |
|                            | 15,671 | 13,709 |

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

| <b>14. Operating profit (continued)</b>  | <b>2007</b>   | <b>2006</b>   |
|--|---------------|---------------|
| <b>c) Other income</b>   |               |               |
| Fee and commission income  | 4,796         | 3,734         |
| Exchange earnings  | 4,891         | 4,396         |
| Dividends  | 18            | 18            |
| Other operating income   | 321           | 450           |
|  | <b>10,026</b> | <b>8,598</b>  |
| <b>d) Operating expenses</b>   |               |               |
| Staff costs  | 14,201        | 13,418        |
| Staff profit sharing   | 808           | 1,659         |
| General administrative expenses  | 9,469         | 10,320        |
| Property related expenses  | 830           | 735           |
| Depreciation expense   | 2,247         | 1,529         |
| Advertising and public relations expenses  | 1,200         | 860           |
| Investment securities recoveries   | (998)         | (718)         |
| Directors' fees  | 121           | 114           |
|  | <b>27,878</b> | <b>27,917</b> |
| <b>15. Taxation expense</b>  |               |               |
|  | <b>2007</b>   | <b>2006</b>   |
| Reconciliation   |               |               |
| Income taxes in the statement of income vary from amounts that would be computed by applying the statutory tax rate for the following reasons: |               |               |
| Accounting profit  | 13,297        | 25,221        |
| Tax at applicable statutory tax rates (30%)  | 3,989         | 7,566         |
| Tax exempt income  | (3,725)       | (7,432)       |
| Other permanent differences  | (17)          | 166           |
|  | <b>247</b>    | <b>300</b>    |

## *notes to the financial statement*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 16. Undrawn commitments

Facilities committed but not yet drawn at the balance sheet date total approximately \$61.5 million (2006: \$43.4 million).

### 17. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. A number of banking transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and conditions, at market rates.

#### Outstanding balances

|  | 2007          | 2006   |
|--|---------------|--------|
| <b>Loans, investments and other assets</b>     |               |        |
| Parent Company                                 | 49,280        | 62,079 |
| Directors and key management personnel         | 1,724         | 2,032  |
|  | <b>51,004</b> | 64,111 |
| Provision for amounts due from related parties | -             | -      |
| <b>Deposits and other liabilities</b>          |               |        |
| CL Financial Group                             | 11,348        | 3,222  |
| Directors and key management personnel         | 1,227         | 1,103  |
| Other related parties                          | 1,051         | 1,193  |
|  | <b>13,626</b> | 5,518  |

## *notes to the financial statement*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### **17. Related parties**

|   | <b>2007</b>  | 2006  |
|---|--------------|-------|
| <b>Interest and other income</b>  |              |       |
| CL Financial Group  | <b>10</b>    | 10    |
| Directors and key management personnel  | <b>156</b>   | 255   |
| Other related parties   | <b>3,272</b> | 2,465 |
|   | <b>3,438</b> | 2,730 |
| <b>Interest and other expense</b>   |              |       |
| CL Financial Group  | <b>1</b>     | 1     |
| Directors and key management personnel  | <b>62</b>    | 44    |
|   | <b>63</b>    | 45    |
| <p>Key management personnel are those persons having authority and responsibility for planning, directing and Controlling the activities of the Bank.</p> |              |       |
| <b>Key management compensation</b>  |              |       |
| Short term benefits   | <b>581</b>   | 561   |
| Post employment benefits  | <b>29</b>    | 29    |
|   | <b>610</b>   | 590   |



## *notes to the financial statement*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### **18. Financial risk management**

The Bank's activities are primarily related to the use of financial instruments. The Bank accepts funds from customers and seeks to earn above average interest margins by investing in high quality assets such as government and corporate securities as well as equity investments and seeks to increase these margins by lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The main risks arising from the Bank's financial instruments are credit risk, interest rate and market risk, liquidity risk and foreign currency risk. The Bank reviews and agrees policies for managing each of these risks as follows:

#### **Credit risk**

The Bank uses a credit rating system which groups accounts into various risk categories. Retail lending uses a credit scoring system with preset risk management criteria. The Bank's credit control processes emphasise early detection of deterioration and prompt implementation of remedial action. Where the recovery of the outstanding liability may be doubtful or unduly delayed, such accounts are transferred from performing to non performing status. Loan loss provisions are set aside to cover any potential loss in respect of non performing debts. A review of these provisions is conducted quarterly and non performing debts recommended for write off .

The Bank avoids exposure to undue concentrations of risk by placing limits on the amount of risk accepted from a number of borrowers engaged in similar business activities, or activities in the same geographic region or with similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Such risks are controlled and monitored on a revolving basis and are subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector, client and geography are approved by the Board of Directors.

#### **Interest rate and market risk**

The Bank has an Asset/liability Committee which reviews the non-credit and non-operational risk for the bank . The primary tools in use are gap analysis, interest rate sensitivity analysis and exposure limits for financial instruments. The limits are defined in terms of amount, term, issuer, depositor and country.

## *notes to the financial statement*

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### **18. Financial risk management** *(continued)*

#### **Liquidity risk**

The primary sources of funds used to provide liquidity is retail deposits. The Bank maintains a core base of funds, which can be drawn on to meet ongoing liquidity needs. The Asset/Liability Committee sets targets for daily float, allowable liquid assets and funding diversification. The primary asset used for short term liquidity management are deposits at other banks but the Bank also holds significant investments in long term dated securities which can be used for liquidity support.

#### **Foreign currency risk**

The Bank's exposure to the effects of fluctuations in foreign currency exchange rates arises mainly from its investments. The Bank's policy is to match the initial net foreign currency investment with funding in the same currency. The Bank also monitors its foreign currency position for both overnight and intra-day transactions.

### **19. Financial instruments**

The Bank calculates the estimated fair value of all financial instruments at the balance sheet date and separately discloses this information where these fair values are different from net book values.

The Bank's available-for-sale investments are not actively traded in organised financial markets, and fair value is determined using discounted cash flow analysis, which requires considerable judgement in interpreting market data and developing estimates. Accordingly estimates contained herein are not necessarily indicative of the amounts that the Bank could realise in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values. The fair value information for available-for-sale investments is based on information available to management as of the dates presented. Management is not aware of any factors that would significantly affect the estimated fair value amounts.

Financial instruments where carrying value is equal to fair value:- Due to their short-term maturity, the carrying value of certain financial instruments is assumed to approximate

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 19. Financial instruments (continued)

their fair values. These include cash and cash equivalents, investment interest receivable, customers' deposit accounts, other assets and other liabilities. The Bank is required to maintain with the Eastern Caribbean Central Bank, statutory reserve balances in relation to deposit liabilities and the carrying value of this reserve is assumed to equal fair value.

Advances are net of specific and other provisions for impairment. The carrying value for performing advances is assumed to be equal to the estimated fair value as the inherent rates of interest in the portfolio approximate market conditions. For balances due to banks, where the maturity period is less than one year, the fair value is assumed to equal carrying value. Where the maturity period is in excess of one year, these are primarily floating rate instruments, the interest rates of which reset with market rates therefore the carrying values are assumed to equal fair values.

The following table summarises the carrying amounts and the fair values of the Bank's financial assets and liabilities:

|  | 2007              |               |
|--|-------------------|---------------|
|  | Carrying<br>value | Fair<br>value |
| <b>Financial assets</b>                        |                   |               |
| Cash, due from banks and treasury bills        | 154,431           | 154,431       |
| Investment securities                          | 126,291           | 126,291       |
| Advances                                       | 364,048           | 364,048       |
| Investment interest receivable                 | 3,749             | 3,749         |
| Other financial assets                         | 1,809             | 1,809         |
| <b>Financial liabilities</b>                   |                   |               |
| Customers' current, savings & deposit accounts | 583,513           | 583,513       |
| Due to banks                                   | 7,560             | 7,560         |
| Accrued interest payable                       | 1,586             | 1,586         |

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 19. Financial instruments (continued)

|  | <b>Restated<br/>2006</b>  |                       |
|--|---------------------------|-----------------------|
|  | <b>Carrying<br/>value</b> | <b>Fair<br/>value</b> |
| <b>Financial assets</b>                        |                           |                       |
| Cash, due from banks and treasury bills        | 152,583                   | 152,583               |
| Investment securities                          | 138,330                   | 138,330               |
| Advances                                       | 339,410                   | 339,410               |
| Investment interest receivable                 | 3,441                     | 3,441                 |
| Other financial assets                         | 3,364                     | 3,364                 |
| <b>Financial liabilities</b>                   |                           |                       |
| Customers' current, savings & deposit accounts | 558,853                   | 558,853               |
| Due to banks                                   | 1,287                     | 1,287                 |
| Accrued interest payable                       | 1,225                     | 1,225                 |

### 20. Currency risk

The reporting currency is the principal operational and functional currency of the Bank, the Eastern Caribbean Dollar.

The aggregate Eastern Caribbean dollar amounts of assets and liabilities denominated in other reporting currencies of the Bank are:

|                                     | <b>TTD</b> | <b>USD</b> | <b>BDS</b> | <b>ECD</b> | <b>Total</b> |
|-------------------------------------|------------|------------|------------|------------|--------------|
| <b>2007</b>                         |            |            |            |            |              |
| <b>ASSETS</b>                       |            |            |            |            |              |
| Cash due from banks                 | -          | 8,528      | 14         | 99,452     | 107,994      |
| Treasury bills                      |            |            |            | 11,529     | 11,529       |
| Statutory deposit with Central Bank | -          | -          | -          | 34,908     | 34,908       |
| Investment securities               | 24,971     | 67,749     | 6,265      | 27,306     | 126,291      |
| Advances                            | -          | 19,492     | -          | 344,556    | 364,048      |
| Other assets                        | 1,077      | 5,716      | 950        | 29,460     | 37,203       |
|                                     | 26,048     | 101,485    | 7,229      | 547,211    | 681,973      |

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 20. Currency risk (continued)

|  | TTD           | USD           | BDS          | ECD            | Total         |
|--|---------------|---------------|--------------|----------------|---------------|
| <b>2007 (continued)</b>                            |               |               |              |                |               |
| <b>LIABILITIES</b>                                 |               |               |              |                |               |
| Customers' current, savings<br>& deposits accounts | -             | 44,784        | -            | 538,729        | 583,513       |
| Due to banks                                       | 555           | 1,488         | -            | 5,517          | 7,560         |
| Other liabilities                                  | 40            | 867           | 28           | 11,444         | 12,379        |
|  | 595           | 47,139        | 28           | 555,690        | 603,452       |
| <b>NET ASSETS/(liabilities)</b>                    | <b>25,453</b> | <b>54,346</b> | <b>7,201</b> | <b>(8,479)</b> | <b>78,521</b> |

|   | TTD           | USD           | BDS          | ECD         | Total         |
|---|---------------|---------------|--------------|-------------|---------------|
| <b>2006</b>                                       |               |               |              |             |               |
| <b>ASSETS</b>                                     |               |               |              |             |               |
| Cash and cash due from banks                      | 80            | 5,220         | 83           | 102,161     | 107,544       |
| Treasury bills                                    |               |               |              | 11,403      | 11,403        |
| Statutory deposits with Central Bank              | -             | -             | -            | 33,636      | 33,636        |
| Investment securities                             | 29,325        | 77,520        | 6,343        | 25,142      | 138,330       |
| Advances  | -             | 11,659        | -            | 327,751     | 339,410       |
| Other assets                                      | 94            | 3,256         | 36           | 23,626      | 27,012        |
|   | 29,499        | 97,655        | 6,462        | 523,719     | 657,335       |
| <b>LIABILITIES</b>                                |               |               |              |             |               |
| Customers' current, savings<br>& deposit accounts | -             | 50,771        | -            | 508,082     | 558,853       |
| Due to banks                                      | -             | -             | -            | 1,287       | 1,287         |
| Other liabilities                                 | 43            | 2,472         | 145          | 14,394      | 17,054        |
|   | 43            | 53,243        | 145          | 523,763     | 577,194       |
| <b>NET ASSETS/(liabilities)</b>                   | <b>29,456</b> | <b>44,412</b> | <b>6,317</b> | <b>(44)</b> | <b>80,141</b> |

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 21. Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Bank uses an Asset/Liability Committee to continually review and manage these risks. The Committee employs a number of tools including gap analysis and interest rate sensitivity analysis to monitor these risks and establish appropriate strategies to limit exposure.

Interest on financial instruments classified as floating is repriced at intervals of less than one year. Interest on financial instruments classified as fixed is fixed until the maturity of the instrument.

The table below summarises assets and liabilities at their carrying amounts categorised by the earlier of contractual repricing or maturity dates.

|                         | Average<br>effective rate | Up to<br>one year | One to<br>five years | Over five<br>years | Non-<br>interest<br>bearing | Total   |
|-------------------------|---------------------------|-------------------|----------------------|--------------------|-----------------------------|---------|
| <b>2007</b>             |                           |                   |                      |                    |                             |         |
| <b>ASSETS</b>           |                           |                   |                      |                    |                             |         |
| Cash and due from banks | 4.58%                     | 75,289            | -                    | -                  | 32,705                      | 107,994 |
| Treasury bills          | 6.58%                     | 11,529            | -                    | -                  | -                           | 11,529  |
| Statutory deposits      |                           |                   |                      |                    |                             |         |
| with Central Bank       | -                         | -                 | -                    | -                  | 34,908                      | 34,908  |
| Investment securities   | 7.77%                     | 14,185            | 58,660               | 53,124             | 322                         | 126,291 |
| Advances                | 9.46%                     | 43,144            | 63,647               | 257,257            | -                           | 364,048 |
| Other assets            | 0.00%                     | -                 | -                    | -                  | 37,203                      | 37,203  |
|                         |                           | 144,147           | 122,307              | 310,381            | 105,138                     | 681,973 |

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 21. Interest rate risk (continued)

|   | Average<br>effective rate | Up to<br>one year | One to<br>five years | Over five<br>years | Non-<br>interest<br>bearing | Total          |
|---|---------------------------|-------------------|----------------------|--------------------|-----------------------------|----------------|
| <b>2007</b>                                       |                           |                   |                      |                    |                             |                |
| <b>LIABILITIES</b>                                |                           |                   |                      |                    |                             |                |
| Customers' current, savings<br>& deposit accounts | 2.68%                     | 583,513           | -                    | -                  | -                           | 583,513        |
| Due to banks                                      | 0.00%                     | -                 | -                    | -                  | 7,560                       | 7,560          |
| Other liabilities                                 | 0.00%                     | -                 | -                    | -                  | 12,379                      | 12,379         |
|   |                           | <b>583,513</b>    | <b>-</b>             | <b>-</b>           | <b>19,939</b>               | <b>603,452</b> |

|   | Average<br>effective rate | Up to<br>one year | One to<br>five years | Over five<br>years | Non-<br>interest<br>bearing | Total          |
|---|---------------------------|-------------------|----------------------|--------------------|-----------------------------|----------------|
| <b>2006</b>                             |                           |                   |                      |                    |                             |                |
| <b>ASSETS</b>                           |                           |                   |                      |                    |                             |                |
| Cash and due from banks                 | 5.58%                     | 17,244            | -                    | -                  | 90,300                      | 107,544        |
| Treasury bills                          | 6.58%                     | 11,403            | -                    | -                  | -                           | 11,403         |
| Statutory deposits with<br>Central Bank | -                         | -                 | -                    | -                  | 33,636                      | 33,636         |
| Investment securities                   | 7.62%                     | 13,803            | 65,143               | 59,062             | 322                         | 138,330        |
| Advances                                | 9.20%                     | 59,026            | 55,517               | 224,867            | -                           | 339,410        |
| Other assets                            | 0.00%                     | -                 | -                    | -                  | 27,012                      | 27,012         |
|   |                           | <b>101,476</b>    | <b>120,660</b>       | <b>283,929</b>     | <b>151,270</b>              | <b>657,335</b> |



## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 21. Interest rate risk (continued)

|   | Average<br>effective rate | Up to<br>one year | One to<br>five years | Over five<br>years | Non-<br>interest<br>bearing | Total          |
|---|---------------------------|-------------------|----------------------|--------------------|-----------------------------|----------------|
| <b>2006</b>                                       |                           |                   |                      |                    |                             |                |
| <b>LIABILITIES</b>                                |                           |                   |                      |                    |                             |                |
| Customers' current, savings<br>& deposit accounts | 2.51%                     | 558,853           | -                    | -                  | -                           | 558,853        |
| Due to banks                                      | 0.00%                     | -                 | -                    | -                  | 1,287                       | 1,287          |
| Other liabilities                                 | 0.00%                     | -                 | -                    | -                  | 17,054                      | 17,054         |
|   |                           | <b>558,853</b>    | <b>-</b>             | <b>-</b>           | <b>18,341</b>               | <b>577,194</b> |

### 22. Liquidity risk

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The table below analyses major financial assets and liabilities of the Bank into relevant groupings based on the remaining period at 30th September to the contractual maturity date.

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 22. Liquidity risk (continued)

|   | Up to one<br>year | One to five<br>years | Over five<br>years | Total          |
|---|-------------------|----------------------|--------------------|----------------|
| <b>2007</b>                                       |                   |                      |                    |                |
| <b>ASSETS</b>                                     |                   |                      |                    |                |
| Cash and cash due to banks                        | 107,994           | -                    | -                  | 107,994        |
| Treasury bills                                    | 11,529            | -                    | -                  | 11,529         |
| Statutory deposits with Central Bank              | 34,908            | -                    | -                  | 34,908         |
| Investment securities                             | 14,185            | 58,660               | 53,446             | 126,291        |
| Advances  | 43,144            | 63,647               | 257,257            | 364,048        |
| Other assets                                      | 13,971            | 2,289                | 20,943             | 37,203         |
|   | <b>225,731</b>    | <b>124,596</b>       | <b>331,646</b>     | <b>681,973</b> |
| <b>LIABILITIES</b>                                |                   |                      |                    |                |
| Customers' current, savings<br>& deposit accounts | 583,513           | -                    | -                  | 583,513        |
| Due to banks                                      | 7,560             | -                    | -                  | 7,560          |
| Other liabilities                                 | 10,866            | -                    | 1,513              | 12,379         |
|   | <b>601,939</b>    | <b>-</b>             | <b>1,513</b>       | <b>603,452</b> |
| <b>2006</b>                                       |                   |                      |                    |                |
| <b>ASSETS</b>                                     |                   |                      |                    |                |
| Cash and cash due from banks                      | 107,544           | -                    | -                  | 107,544        |
| Treasury bills                                    | 11,403            | -                    | -                  | 11,403         |
| Statutory deposits with Central Bank              | 33,636            | -                    | -                  | 33,636         |
| Investment securities                             | 13,803            | 65,143               | 59,384             | 138,330        |
| Advances  | 59,026            | 55,517               | 224,867            | 339,410        |
| Other assets                                      | 7,786             | -                    | 19,226             | 27,012         |
|   | <b>233,198</b>    | <b>120,660</b>       | <b>303,477</b>     | <b>657,335</b> |

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 22. Liquidity risk (continued)

|   | Up to one<br>year | One to five<br>years | Over five<br>years | Total          |
|---|-------------------|----------------------|--------------------|----------------|
| <b>2007</b>                                       |                   |                      |                    |                |
| <b>LIABILITIES</b>                                |                   |                      |                    |                |
| Customers' current, savings<br>& deposit accounts | 558,853           | -                    | -                  | 558,853        |
| Due to banks                                      | 1,287             | -                    | -                  | 1,287          |
| Other liabilities                                 | 11,876            | -                    | 5,178              | 17,054         |
|   | <b>572,016</b>    | <b>-</b>             | <b>5,178</b>       | <b>577,194</b> |

### 23. Dividends paid and proposed

|   | 2007  | 2006  |
|---|-------|-------|
| Declared and paid during the year   |       |       |
| Equity dividends on ordinary shares:  |       |       |
| Final dividend for 2006: \$3.35 (2005: \$0.80)  | 5,025 | 1,200 |
| First dividend for 2007: \$0.65 (2006: \$0.65)  | 975   | 975   |
| Total dividends paid  | 6,000 | 2,175 |
| Proposed for approval at Annual General meeting<br>(not recognised as a liability as at 30 September, 2007) |       |       |
| Equity dividends on ordinary shares:  |       |       |
| Final dividend for 2007: \$3.65 (2006: \$3.35)  | 5,475 | 5,025 |

### 24. Contingent liabilities

#### a) Litigation

As at 30th September, 2007 there were certain legal proceedings outstanding against the Bank. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise or that it will be premature at this stage of the action to determine that eventuality.

## notes to the financial statement

at 30th September, 2007

Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

### 24. Contingent liabilities (continued)

#### b) Customers' liability under acceptances, guarantees, indemnities and letters of credit

These represent the Bank's potential liability, for which there are equal and offsetting claims against its customer in the event of a call on these commitments.

|                            | 2007         | 2006  |
|----------------------------|--------------|-------|
| Guarantees and indemnities | 4,684        | 4,672 |
| Letters of credit          | 778          | 2,052 |
|                            | <b>6,724</b> | 6,724 |
| Sectoral information       |              |       |
| State                      | 4,492        | 5,341 |
| Corporate and commercial   | 970          | 1,383 |
|                            | <b>5,462</b> | 6,724 |

### 25. Employees

The number of employees in the Bank as at 30th September, 2007 amounted to 249(2006: 250).



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