

CHAIRMAN'S STATEMENT

Dear Shareholder

I am pleased to advise that for the year ended September 30, 2017, the Bank recorded net profit after tax of \$6.15 million, an improvement of \$0.69 million (12.6%) over the \$5.46 million recorded in 2016. Profit before taxes increased by \$1.59 million (27.3%), mainly due to an increase in interest on investments and liquid assets and a reduction in impairment expense. However, tax expense increased as the benefit of loss relief from previous years ended in 2016.

Assets increased by 4.4% or \$39.1 million to \$925.2 million, reflected mainly in investments which increased significantly by 33.2% or \$65.5 million. However, loans declined by 4.94% or \$23.2 million reflecting the continued low loan demand and the general trend in the market, where a decline of 4.22% was experienced for the period June 2016 to June 2017.

In January 2017, the Bank offered a Rights issue to its shareholders in order to satisfy the minimum paid-up capital of \$20 million required by the Banking Act of 2015. The issue raised \$5.75 million through a sale of 127,673 new shares increasing the paid-up capital from \$15 million to \$20.75 million which satisfies the new minimum capital requirement. The Banking Act of 2015 also requires that the Statutory Reserve, which previously stood at \$15 million, must be 100% of paid-up capital, and that a minimum of 20% of net profit after tax in each year be transferred to Statutory Reserve until it is a 100% of paid-up capital. The Board of Directors has decided to transfer the full \$5.75 million, from the profits of 2017, to the Statutory Reserve account, in fulfillment of the requirement. This transfer does not impact the Bank's capital adequacy requirements.

Currently the Bank meets the capital requirement of Basel 1, with Tier 1 Capital to total adjusted risk-weighted assets of 13.75% and total qualifying capital to total adjusted risk-weighted assets of 14.57%. However, with the pending implementation of Basel 11 and IFRS 9 during 2018, the Bank will be required to maintain higher levels of capital and as a result has targeted a minimum total qualifying capital to total adjusted risk-weighted assets to be maintained. Since the Bank is below the estimated minimum, it has decided to conserve capital, and no dividend has been declared for the year ended September 30, 2017.

The economy continues to grow and the IMF expects economic growth of 2.5% in 2017. The successful conclusion of the Homegrown Structural Adjustment Programme, in meeting its intended objectives during the first half of 2017, is expected to foster improved confidence and credibility in the economy. Grenada's debt-to-GDP ratio declined to 85% in 2016 and is expected to decline further by the end of 2017 due to a further cut of 25% of the debt, consequent upon the conclusion of the Structural Adjustment Programme.

The Bank is well-positioned to take advantage of any opportunities which may arise as the economy grows. During fiscal 2018 the main focus of the Bank will be to build on the strides made over the past year, by further improving our efficiency through greater use of Digital technology, leading to enhanced customer service delivery.

I express gratitude to all our valued stakeholders for their dedication, loyalty, commitment and support.



Ronald F. deC. Harford
CHAIRMAN
October 26, 2017

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**
Statement of Financial Position

As at September 30, 2017

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

| | 2017 | 2016 |
|--|----------------|----------------|
| ASSETS | | |
| Cash | 13,955 | 12,107 |
| Statutory deposits with Central Bank | 48,466 | 40,102 |
| Due from banks | 84,345 | 116,281 |
| Treasury Bills | 23,896 | 6,335 |
| Investment interest receivable | 2,674 | 2,171 |
| Advances | 445,342 | 468,508 |
| Investment securities | 262,631 | 197,113 |
| Premises and equipment | 32,183 | 32,892 |
| Employee benefits | 7,078 | 7,327 |
| Deferred tax assets | 1,698 | 1,564 |
| Taxation recoverable | – | 89 |
| Other assets | 2,966 | 1,667 |
| TOTAL ASSETS | 925,234 | 886,156 |
| LIABILITIES & EQUITY | | |
| LIABILITIES | | |
| Due to banks | 5,440 | 3,534 |
| Customers' current, savings and deposit accounts | 795,324 | 769,232 |
| Employee obligations | 4,136 | 3,852 |
| Taxation payable | 925 | – |
| Deferred tax liabilities | 2,804 | 3,191 |
| Accrued interest payable | 136 | 136 |
| Other liabilities | 8,307 | 8,353 |
| TOTAL LIABILITIES | 817,072 | 788,298 |
| EQUITY | | |
| Stated capital | 20,745 | 15,000 |
| Statutory reserve | 20,745 | 15,000 |
| Other reserves | 2,289 | 3,020 |
| Defined benefit reserve | 202 | 1,058 |
| Retained earnings | 64,181 | 63,780 |
| TOTAL EQUITY | 108,162 | 97,858 |
| TOTAL LIABILITIES & EQUITY | 925,234 | 886,156 |

These financial statements were approved by the Board of Directors on October 26, 2017 and signed on its behalf by:



Ronald F. deC. Harford, Chairman



Keith A. Johnson, Managing Director

Statement of Income

For the year ended September 30, 2017

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

| | 2017 | 2016 |
|--|---------------|---------------|
| Interest income | 43,155 | 42,212 |
| Interest expense | (9,493) | (9,404) |
| Net interest income | 33,662 | 32,808 |
| Other income | 10,641 | 12,272 |
| | 44,303 | 45,080 |
| Operating expenses | (35,028) | (36,841) |
| Operating profit | 9,275 | 8,239 |
| Loan impairment expense, net of recoveries | (1,859) | (2,414) |
| Net profit before taxation | 7,416 | 5,825 |
| Taxation expense | (1,270) | (361) |
| Net profit after taxation | 6,146 | 5,464 |
| Earnings per share (\$) | | |
| Basic | \$3.88 | \$3.64 |
| Number of shares ('000) | | |
| Basic | 1,628 | 1,500 |
| Weighted average | 1,585 | 1,500 |

Statement of Comprehensive Income

For the year ended September 30, 2017
Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

| | 2017 | 2016 |
|---|----------------|--------------|
| Net profit after taxation | 6,146 | 5,464 |
| Other comprehensive Income: | | |
| <i>Items of other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i> | | |
| Revaluation of available-for-sale investment securities | (1,043) | 1,693 |
| Tax effect | 312 | (508) |
| | <u>(731)</u> | <u>1,185</u> |
| Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods: | (731) | 1,185 |
| <i>Items of other comprehensive income that will not be reclassified to profit or loss in subsequent periods:</i> | | |
| Re-measurement losses on defined benefit plans | (1,353) | (871) |
| Tax effect | 406 | 261 |
| | <u>(947)</u> | <u>(610)</u> |
| Re-measurement gains on medical and group life plans | 130 | 173 |
| Tax effect | (39) | (52) |
| | <u>91</u> | <u>121</u> |
| Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods: | (856) | (489) |
| Total other comprehensive (loss)/ income for the year, net of tax | (1,587) | 696 |
| Total comprehensive income for the year, net of tax | 4,559 | 6,160 |

Statement of Changes in Equity

For the year ended September 30, 2017
Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

| | Stated capital | Statutory reserve | Other reserves | Defined benefit reserve | Retained earnings | Total equity |
|---|----------------|-------------------|----------------|-------------------------|-------------------|----------------|
| Balance as at September 30, 2015 | 15,000 | 15,000 | 1,835 | 1,547 | 59,816 | 93,198 |
| Total comprehensive income for the year | – | – | 1,185 | (489) | 5,464 | 6,160 |
| Dividends paid | – | – | – | – | (1,500) | (1,500) |
| Balance as at September 30, 2016 | 15,000 | 15,000 | 3,020 | 1,058 | 63,780 | 97,858 |
| Shares issued | 5,745 | – | – | – | – | 5,745 |
| Total comprehensive income for the year | – | – | (731) | (856) | 6,146 | 4,559 |
| Transfer to Statutory reserve | – | 5,745 | – | – | (5,745) | – |
| Balance as at September 30, 2017 | 20,745 | 20,745 | 2,289 | 202 | 64,181 | 108,162 |

Statement of Cash Flows

For the year ended September 30, 2017
Expressed in thousands of Eastern Caribbean dollars (\$'000), except where otherwise stated

| | 2017 | 2016 |
|--|-----------------|-----------------|
| Operating activities | | |
| Profit before taxation | 7,416 | 5,825 |
| Adjustments for: | | |
| Depreciation | 3,052 | 3,446 |
| Loan impairment expense, net of recoveries | 1,859 | 2,414 |
| Investment impairment (recoveries)/expense | (493) | 1,491 |
| Loss/(gain) on disposal of available-for-sale investment | 445 | (286) |
| (Gain)/loss on sale of premises and equipment | (30) | 4 |
| Foreign exchange loss on available-for-sale investment | 46 | 466 |
| Amortisation of premium/discount on available-for-sale investment | 546 | 288 |
| Increase in employee benefits/obligations, net | (323) | (440) |
| Decrease in advances | 21,307 | 6,002 |
| Increase in customers' deposits and other fund raising instruments | 26,092 | 40,629 |
| Increase in statutory deposits with Central Bank | (8,364) | (7,003) |
| (Increase)/decrease in other assets and investment interest receivable | (1,802) | 3,259 |
| (Decrease)/increase in liabilities and accrued interest payable | (46) | 477 |
| Taxes paid, net of refund | (97) | (691) |
| Cash provided by operating activities | 49,608 | 55,881 |
| Investing activities | | |
| Purchase of investment securities | (78,934) | (75,351) |
| Purchase of Treasury Bills | (21,963) | (14,992) |
| Redemption of investment securities | 12,201 | 19,988 |
| Redemption of Treasury Bills | 12,500 | 10,230 |
| Additions to premises and equipment | (2,386) | (2,224) |
| Proceeds from sale of premises and equipment | 73 | 11 |
| Cash used in investing activities | (78,509) | (62,338) |
| Financing activities | | |
| Increase/(decrease) in balances due to other banks | 1,906 | (4,884) |
| Proceeds from Rights issue | 5,745 | – |
| Dividends paid | – | (1,500) |
| Cash provided by/(used in) financing activities | 7,651 | (6,384) |
| Net decrease in cash and cash equivalents | (21,250) | (12,841) |
| Cash and cash equivalents at beginning of year | 129,961 | 142,802 |
| Cash and cash equivalents at end of year | 108,711 | 129,961 |
| Cash and cash equivalents at end of year are represented by: | | |
| Cash on hand | 13,955 | 12,107 |
| Due from banks | 84,345 | 116,281 |
| Treasury bills - original maturities of three months or less | 10,411 | 1,573 |
| | <u>108,711</u> | <u>129,961</u> |