Our Mission

To be a leader and catalyst in the economic and social development of the Commonwealth of Dominica, by being a facilitator for investments, a financer and a partner with the private sector while adhering to the highest principles of good corporate governance, exercising prudent and responsible financial management and promoting environmental sustainability.

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Our Vision

To be a top rated development finance institution

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Atlantique View Resort and Spa

ACRONYMS AND ABBREVIATIONS

AIU	Agricultural Investment Unit of the Government of the Commonwealth of Dominica
AIC	Agricultural and Industrial and/or tourism Credit
AFS	Available for Sale
CARICRIS	Caribbean Information & Credit Rating Services Limited
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CDE	Centre for Development of Enterprise
CDF	CARICOM Development Fund
BANDES	Banco de Desarrollo Económico y Social de Venezuela
DAIDB	Dominica Agricultural Industrial & Development Bank
DBOS	Dominica Bureau of Standards
DDA	Discover Dominica Authority
DPAC	Loan Management Software produced by FDSL
ECXCD	Eastern Caribbean Dollar
ECCB	Eastern Caribbean Central Bank
EIB	European Investment Bank
EURO	Monetary unit of the European Union
FDSL	Financial Data Systems Limited
FEEF	Foreign Exchange Equalization Fund
GDP	Gross Domestic Product
IAS	International Accounting Standards
IDA	Invest Dominica Authority
IFRS	International Financial Reporting Standards
IFRIC	International Financial Reporting Interpretations Committee
IEU	Industrial Estate Unit
NBD	National Bank of Dominica
NP	Non-performing
OCI	Other Comprehensive Income
PAR	Portfolio at Risk
SFR-D	Special Fund Resources - Dominica
SMP	Special Mortgage Programme
USD	United States dollar
XCD	Eastern Caribbean dollars

Chairman's Letter of Transmittal

Honourable Roosevelt Skerrit
Prime Minister Prime Minister and Minister for Finance,
Foreign Affairs and Information Technology
Prime Minister's Office
Financial Centre
Kennedy Avenue
Roseau
Commonwealth of Dominica

September 30, 2013

Dear Honourable Prime Minister,

Pursuant to Section 22[1], Chapter 74:03 of the Laws of the Commonwealth of Dominica [1990 Revised Edition] I have the honour to submit to you, on behalf of the Board of Directors, the Annual Report on the operations and Audited Financial Statements of the Dominica Agricultural Industrial and Development Bank for the Financial Year ended June 30, 2013.

Please accept, Honourable Prime Minister, the assurances of my highest consideration.

Yours sincerely,

DOMINICA AGRICULTURAL INDUSTRIAL AND
DEVELOPMENT BANK

MR. MARTIN CHARLES
CHAIRMAN
BOARD OF DIRECTORS

Members of the Board of Directors

As at June 30, 2013

Mr. Martin Charles
CHAIRMAN

Mr. Simpson Gregoire
DEPUTY CHAIRMAN

Ms. Denise Charles
DIRECTOR

Mrs. Evannah Emmanuel
DIRECTOR

Mr. Hubert Joseph
DIRECTOR

Mr. Leon LeBlanc
DIRECTOR

Ms. Helen Pascal
DIRECTOR
(from December 18, 2012)

Mr. Colbert Pinard
DIRECTOR

Mr. Reuben Thomas
DIRECTOR
(until December 18, 2012)

CONTACT DETAILS

Dominica Agricultural Industrial & Development Bank
Corner of Charles Ave and Rawles Lane,
Goodwill, Commonwealth of Dominica

Tel. No.	767-448-2853
Facsimile	767-448-4903
E-mail	aidbank@cwdom.dm
Website	www.aidbank.com

Senior Management

As at June 30, 2013

Mr. J. J. Corbett
General Manager

Dr. Emaline Harris Collymore
Executive Manager, Corporate Affairs

Mrs. Mathilda John Rose
Executive Manager, Credit Operations

Ms. V. Elfreda Abraham
Senior Manager, Finance and Accounts

Mrs. Avril Coipel
Senior Manager, Management Information Systems

Mrs. Ursula McDowell Job
Senior Manager, Human Resource and Administration

Mrs. Liane Irish-Wade
Internal Auditor

Mrs. Martha Abel
Manager, Credit

Ms. Patricia Etienne
Manager, Recoveries

Mr. Ian Williams
Manager, Industrial Estate Unit

CHAIRMAN'S STATEMENT 2012/13

Mr. Martin Charles
CHAIRMAN

Dear Shareholders,

On behalf of the board of Directors of the AID Bank, I am especially pleased to present the Bank's Annual Report for the financial year ended June 30, 2013.

The comprehensive transformation of the AID Bank continued on many fronts in 2013.

The Bank, after reviewing its strategic objectives continues to forge ahead with the implementation of its strategic plan 2009-2014 in support of the Government of the Commonwealth of Dominica's Growth and Social Protection Strategy. While achievements have been tempered by slower than expected recovery in the global environment and challenging market conditions, the Bank recorded steady gains in most of its major objectives. These are growing its loan portfolio, increasing its mobilisation of funds, improving its portfolio quality and strengthening its financial performance.

The past year, though challenging, has been characterized by steady consolidation for the Bank, as a more focused approach was given to the management and quality of the bank's assets.

As part of our corporate social responsibility, the Bank partnered with Clear Harbour to sponsor Miss. Kelshia Breezie for the 2013 carnival queen competition. Miss Breezie placed first runner up. We wish to congratulate and thank her for being an ambassador for the Bank.

The AID Bank as a key growth institution has a major role to play in the country's economic expansion and development agenda, and as such a strategy to create the enabling environment for investment in the Information Technology (IT) sector is being developed with the support of the Government and the Invest Dominica Authority.

In this regard, the Bank has been implementing policies and programmes that have enhanced our attractiveness as a bank of choice for the funding of projects which are geared at job creation in the productive sector, more particularly projects that will add to the Gross Domestic Product (GDP).

Preparations are well advanced for a phased approach to remodel and redefine the Industrial Estate at Canefield, thereby increasing the Bank's capacity to attract high end clients in the Information and Communication Technology sector, call centres, manufacturing, and services in state of the art facilities.

Our mandate requires us to promote and influence economic development in Dominica and to mobilize funds for such development. In this regard, the Bank in fulfilling its mandate will continue to encourage investors who are engaged in businesses of substance to take advantage of the opportunities offered by the Bank.

Mindful of the high cost of energy, the bank has secured a special line of credit from the European Investment Bank (EIB) that will assist businesses especially those in the productive sectors such as tourism and manufacturing to reduce the high cost of energy by utilising energy saving techniques or equipment thereby enabling these businesses to operate in a more cost effective manner.

Since 2012, the Bank has been especially focused on achieving sustainable growth and is zealous about improving its competitive advantage notwithstanding the persistent uncertain climate which has triggered cautious investment decisions.

We envision a prosperous future for Dominica.

During the year under review the Bank approved loans amounting to XCD 24.70 million and disbursed loans totalling XCD 24.23 million or 98 per cent of total approvals.

The Bank's portfolio of XCD162.32 million as at June 30, 2013 grew by 5.84 per cent compared to XCD 153.36 million in the previous year.

The ratio of non-performing loans to total principal outstanding declined from 15.45 per cent at June 30, 2012 to 13.28 per cent at June 30, 2013.

The CARICOM Development Fund approved a new line of credit of USD 4 million with an institutional strengthening grant of USD 300,000.

Overall, our core business performed well again in 2012/2013.

I am pleased to report that Net profit was XCD 1.30 million for the year, an improvement of 28.59 per cent when compared with net profit of XCD1.01 million in the previous year.

The major highlights of the first four years of the Bank's strategic plan were as follows:

- The Bank has taken seriously its role as a catalyst in the economic and social development of the Commonwealth of Dominica, and in the first four years of its strategic plan has approved loans amounting to XCD 137.50 million for productive sector enterprises, infrastructure and social sector development.

The greatest emphasis has been on growth centred lending to productive sector enterprises. Over the last four years approvals of XCD 89.75 million or 65 per cent of total approvals have facilitated investments in private sector enterprises in agriculture, tourism, manufacturing, services and transportation.


Lovely Fast Ferries Ltd.

A total of XCD 8.22 million or 5.98 per cent of total approvals has been invested in infrastructure, the Bank's newest lending category. Social sector lending for housing and education amounted to XCD 32.44 million or 23.59 per cent of total approvals.

Disbursements over the same period have amounted to 80 per cent of approvals.

These financing activities have created job opportunities for an estimated 2,947 persons throughout Dominica.

- In its efforts to achieve its financing objective the Bank attracted funding from traditional and non-traditional Lenders amounting to USD 31.74 million. New lines of credit included USD 8 million from the Caribbean Development Bank, USD 10.04 million from the European Investment Bank, USD 10 million from the Banco de Desarrollo Económico y Social de Venezuela (Bandes) and USD 4 million from the CARICOM Development Fund.

  The Bank also obtained a line of credit of XCD 10 million through the Government of Dominica for lending to low-income housing.

- I take great pleasure in welcoming Mr. Julius Corbett, the new general manager who took up office in May 2013. With over 30 years' experience in Financial Management, which includes Banking, Mr. Corbett has served in various managerial capacities within the Financial services Sector in Canada, America, and Dominica and has already commenced using these skills to build capacity in the organisation. Mr. Corbett's appointment augurs well for the outlook of the AID Bank. On behalf of the board of directors, management and staff of the bank, I welcome you on board and wish you well.

- Despite difficult economic circumstances the Bank has been able to achieve improvements in its portfolio quality. At June 30, 2009, the non-performing loans ratio was 18.66 per cent and the Bank has reduced this percentage to 13.28 per cent at the end of the financial year under review.

- Over the past four years the Bank has achieved moderate financial results with a strengthened capital base and adequate risk bearing capacity. This is attested to by the upgrade of the Bank from a BB+ credit rating to a BBB- credit rating in 2011 which has been affirmed in 2012 and 2013.

Going forward the Bank will commence preparation of its new five year strategy for the period 2014 to 2019 mindful of its role as the financial engine of growth in Dominica. One of its key goals will be growth centred development with a special emphasis on investments which foster employment particularly among young persons.

The Bank, motivated by the maxim that villages create jobs will be mounting outreach programs before the end of this year, to promote financing of development projects throughout the villages and communities of the country.

The Bank is fully committed to improving its financial stability through the strengthening of the quality of its portfolio. This will be evidenced by an improved capacity to attract additional funding with minimal dependence on a Government guarantee.

The Bank intends to upgrade its human resource capabilities during the next financial year through the implementation of a skills audit and the engagement of a Risk Officer and an in house Attorney.

As a development finance institution, and a key economic development partner of the Government, the team that leads the Bank is focused on the Bank's mandate.

The Bank, fully supportive of government's vision for Dominica to become self-sufficient in pork and chicken production has launched two credit facilities at very concessionary interest rates to farmers and potential farmers who wishes to become producers of pork and chicken for supply to the abattoir which is being constructed by the Government. Further, the Bank is actively considering a proposal for financing of a hatchery which will eliminate having to import the baby chicks, which will ultimately reduce the cost of the end product.

The Bank wishes to recognise the valuable support of the Government of Dominica, in particular the Minister of Finance and the Financial Secretary for their unwavering and steadfast support, the Dominica Social Security its minority shareholder, its Lending Agencies, the members of the Board of Directors; who continue to serve selflessly and professionally, the new General Manager and his able staff who have provided tremendous support towards achieving the Bank's positive results. Most of all we express our sincere appreciation to our customers for their support continued patronage.

DAIDB FIVE-YEAR HIGHLIGHTS AT A GLANCE

INCOME STATEMENT	2013 XCD ('000)	2012 XCD ('000)	2011 XCD ('000)	2010 XCD ('000)	2009 XCD ('000)
Interest Income	12,681	11,107	10,843	10,307	10,609
- Interest Expense	4,848	4,233	3,964	3,699	4,076
= **Net interest Income**	**7,833**	**6,874**	**6,879**	**6,608**	**6,533**
+ Other Income Net	1,938	2,692	1,590	2,417	1,235
= **Operating Income**	**9,771**	**9,566**	**8,469**	**9,025**	**7,768**
- Staff Costs	3,594	3,506	3,078	3,126	2,548
- Administrative Costs	3,062	3,603	2,805	1,693	1,516
- Provisions	1,818	1,448	238	2,612	2,418
= Net profit	1,297	1,009	2,348	1,594	1,286
BALANCE SHEET	**2013 XCD ('000)**	**2012 XCD ('000)**	**2011 XCD ('000)**	**2010 XCD ('000)**	**2009 XCD ('000)**
Assets					
Cash and Balances with Central Bank	2	2	2	23	3,112
+ Deposit with Other Banks	3,531	8,981	8,961	6,309	3,689
+ Investments [Net of Impairment]	2,234	4,236	4,120	4,648	5,920
+ Investment Properties	30,888	30,347	30,215	-	-
+ Loans [Net of Impairment]	152,404	145,406	129,508	116,549	112,686
+ Other	9,812	9,451	9,276	5,009	5,246
= Total Assets	198,871	198,423	182,082	132,538	130,652
Liabilities					
Deposits	10,908	11,406	11,223	10,824	10,167
+ Borrowings	114,578	117,203	103,069	82,888	84,094
+ Other Liabilities	10,475	7,916	6,629	6,259	5,168
+ Equity	62,910	61,898	61,161	32,567	31,222
= Total Liabilities and Equity	198,871	198,423	182,082	132,538	130,652
OTHER INFORMATION	**2013 XCD**	**2012 XCD**	**2011 XCD**	**2010 XCD**	**2009 XCD**
Loan Approvals ('000)	24,700	34,565	36,333	41,910	13,456
Loan Disbursements ('000)	24,231	33,373	31,293	21,050	14,282
Estimated Number of Jobs Created	514	826	802	805	487
Return on Equity (per cent)	0.65	1.63	3.84	4.90	4.12
Return on Assets (per cent)	0.51	0.51	1.29	1.20	0.98
Loan Provisions as per cent of Portfolio	9.46	8.98	9.20	7.48	7.49
Loan Provisions as per cent of NP Portfolio	71.27	58.13	62.87	46.95	42.48

Part I

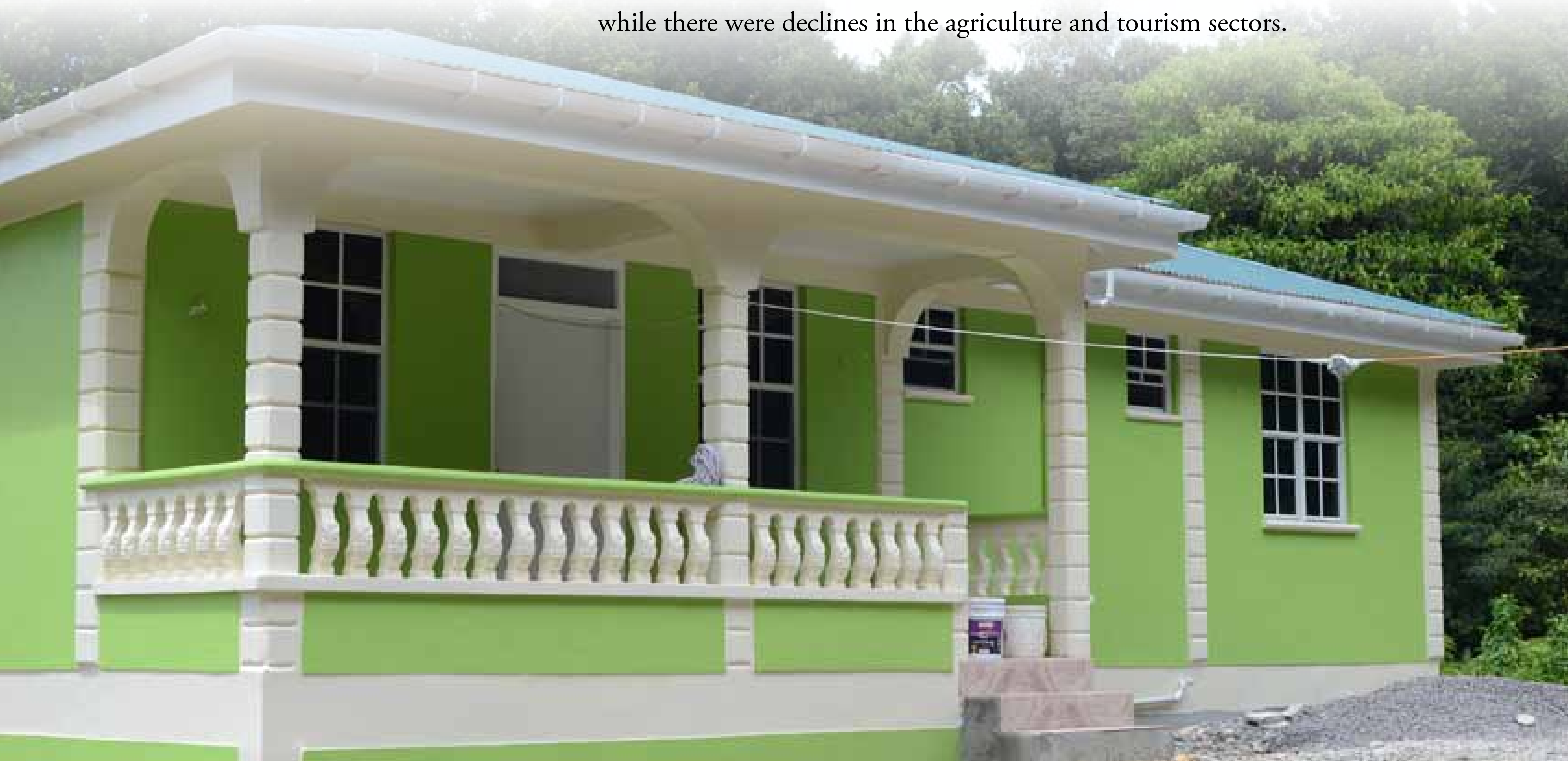
The Economy of Dominica[1]

The Dominican economy continued to experience the effects of the global crisis though less so than other Eastern Caribbean Currency Union Member States.

After the slight recession in 2009, there was an expansion in the economy as evidenced by real GDP growth of 0.73 per cent in 2010 and 1.71 per cent in 2011. However, real GDP growth estimate of -0.19 per cent in 2012 and a projection of -0.40 per cent for 2013 indicate a slowdown in overall economic activity.

While there are positive trends in the global economy, growth is slower than expected. Growth of 1.61 per cent is projected for Dominica in 2014. However, the country's macroeconomic outlook is contingent on the strength of global recovery, success in key sector strategies, weather conditions and the stability of inflows in grants and foreign direct investment.

Over the period of the Bank's financial year from July 1, 2012 to June 30, 2013 the manufacturing and construction sectors exhibited growth while there were declines in the agriculture and tourism sectors.



Housing at Sylvannia, Sultan

1 *Sources:*
IMF Country Report No. 13/31, Dominica 2012 Article IV Consultation, January, 2013.
Central Statistical Office, 'Quarterly Economic Indicators', Third and Fourth Quarter, 2012 and Second quarter, 2013.
Eastern Caribbean Central Bank (ECCB), GDP Estimates for the ECCU 2000 – 2015, posted 13 November 2013.
ECCB, Economic and Financial Review, Volume 33, No. 1, March 2013

The performance of the banana industry was affected by Black Sigatoka disease and the major banana companies registered a significant decline of 55.69 per cent in banana production from 3,802.87 metric tonnes in the previous financial year to 1,685.02 metric tonnes in the year under review. Consequently, export production value registered a decline of 60.68 per cent from XCD 6.46 million in the previous financial year to XCD 2.54 million in the year under review.

In the manufacturing sector the production of beverages of 460,920 cases increased by 15.17 per cent from 400,210 cases in the financial year ended June 30, 2012. Over the same period export value expanded by 27.06 per cent from XCD 5.47 million in 2012 to XCD 6.95 million in 2013.

The increase in the sale of soap to regional markets was primarily responsible for an increase in the production of chemicals and related products by 19.43 per cent from 5,975.24 tonnes in the previous period to 7,136.20 tonnes in the financial year ended June 30, 2013. The export value of chemicals and related products of XCD 48.59 million in the period under review increased by 25.49 per cent from XCD 38.72 million in the corresponding period of the previous year.

Activity in the construction sector increased as the number of construction starts increased by 19.30 per cent from 114 in the previous financial year to 136 in the financial year under review. The value of construction starts increased by 11.89 per cent from XCD 38.00 million in the previous period to XCD 42.52 million in the period ended June 30, 2013.

The tourism sector recorded a slight decline of 0.25 per cent in stay over visitor arrivals from 85,035 in the previous financial year to 84,819 in the year under review. Cruise ship visitor arrivals declined by 33.01 per cent from 317,473 during the financial year ended June 30, 2012 to 212,685 in the year under review. Total visitor arrivals therefore declined by 25.87 per cent from 403,670 in the 2012 financial year to 299,229 in the corresponding period of 2013. Estimated total visitor expenditure declined by 8.02 per cent from XCD 246.16 million in the previous financial year to XCD 226.43 million in the year under review.

Central Government's current revenue of XCD 377.01 million in the previous fiscal year decreased to XCD 371.90 million in year ended June 30, 2013, a decline of 1.36 per cent. Current expenditure increased by 2 per cent from XCD 337.39 million in the previous fiscal year to XCD 344.15 million in the year under review. Consequently, the current account balance decreased by 29.93 per cent from XCD 39.62 million in the previous fiscal year to XCD 27.76 million in the year under review.

The growth rate of the consumer price index was -0.24 per cent, on an end of period basis.

Atlantique View Resort and Spa

PART II

The Performance of DAIDB

LENDING ACTIVITIES

Approvals

For the financial year ended June 30, 2013, 357 loans were approved with a total value of XCD 24.70 million. Tourism loans valued at XCD 8.07 million combined with Housing loans valued at XCD 5.16 million accounted for 53.55 per cent of the total approvals for the period.

It is estimated that as a result of approvals this year there were 514 job opportunities created.

For the twelve month period under review, the cumulative loan approvals were below the figure recorded for the same period ended June 30, 2012 by 28.54 per cent reflecting reduced investment

Housing at St. Joseph

Atlantique View Resort and Spa

opportunities as the economy contracted. A total amount of XCD 34.56 million was approved as at June 30, 2012.

Graph 1 below presents details on Loan Approvals by sector for the financial year in review.

Disbursements

For the financial year ended June 30, 2013 disbursements totalled XCD 24.23 million. As in the case of approvals, disbursements suffered a reduction by 27.40 per cent when compared to XCD 33.37 million in the prior year.

A total of XCD 0.84 million has been disbursed under the Dominica Banana Recovery Programme, with an equal amount disbursed in grant.

Under the Government of Dominica Student Loan Facilities accumulated disbursements as at June 30, 2013 amounted to XCD 2.70 million.

Graph 2 exhibits details of disbursements by sector for the financial year.

Rescheduling

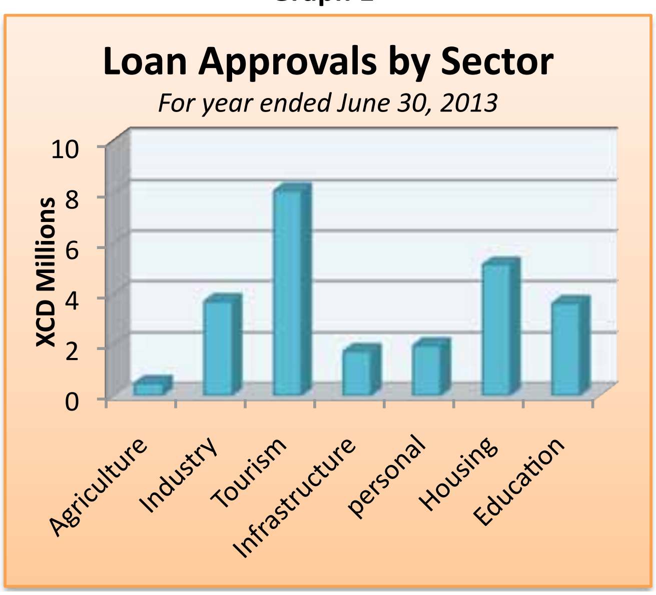
Consistent with the Bank's objective of improving asset quality, seventy loans valued at XCD 20.92 million were approved for various types of work-out arrangements. This compares to the prior year when forty-eight loans with a value of XCD 9.22 million were scheduled for various forms of work-outs.

This variance was attributed to the higher value of loans satisfying the criteria for rescheduling, that is, a record of consistent payments over a period of six months or more. The effect contributed to an improvement in the Bank's loan portfolio and a reduction in the portfolio at risk ratio.

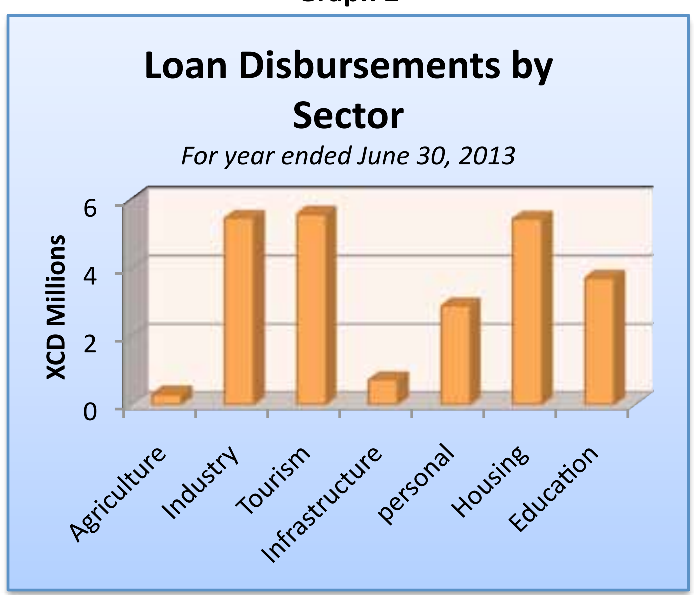
Non-Performing Loans

As at June 30, 2013 the portfolio for NP loans improved from 15.45 per cent to 13. 28 per cent of the portfolio as management accelerated its debt recovery efforts.

Graph 1



Graph 2



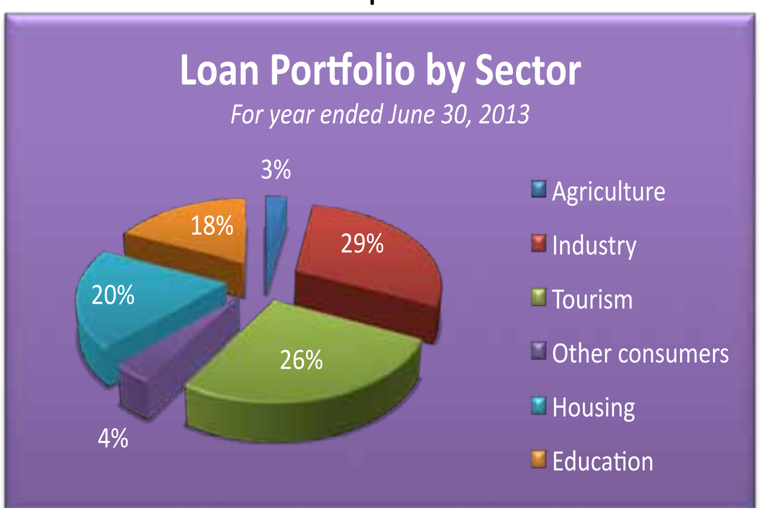
Loans and Advances

As at June 30, 2013, total loans and advances of XCD 167.77 million represented growth of 5.4 per cent from the previous year's figure of XCD 159.17 million. This improvement was due to an acceleration of project financing in tourism and industry where the bank placed greater emphasis.

In terms of distribution of the portfolio among the various sectors, the industrial sector was the largest beneficiary in the portfolio accounting for XCD 49.36 million or 29.42 per cent of total loan portfolio. This sector was followed by the Tourism sector with 26.41 per cent and Housing with 19.74 per cent of the total loan portfolio.

The distribution of the loan portfolio among various sectors is illustrated in Graph 3 below.

Graph 3



FUNDING

Throughout the year, the Bank aggressively pursued new sources of funding. Through the support of the Government of the Commonwealth of Dominica which has provided guarantees, the Bank has obtained a number of recent credit lines. Activities during the year with primary lending sources are summarised below.

Special Mortgage Programme Funded by Petro Caribe

On September 28, 2012, the Bank received the final tranche of XCD 5 million from the line of credit of XCD 10 million obtained through the Government of the Commonwealth of Dominica from the Petro-Caribe Fund for a special mortgage facility to be on-lent to low-income customers at a concessionary interest rate of 5 percent per annum. Total commitment of funds as at June 30, 2013 amounted to XCD 8.96 million.

In the new financial year the Bank therefore intends to pursue a new line of credit for the same purpose from the Dominica National Petroleum Company Ltd., which now administers the fund.

Caribbean Development Bank (CDB)

The CDB remains the Bank's principal creditor accounting for 42.6 per cent of its borrowings. During the period under review the Bank continued drawdowns from an existing line of credit.

CARICOM Development Fund [CDF]

In the second quarter of the financial year in review the Bank secured a USD 4 million line of credit from the CDF and the terms and conditions of these funds were being negotiated.

Preparations are at an advanced stage for the signing of the loan documents and drawdown of loan funds.

European Investment Bank [EIB]

The European Investment Bank's Finance Contract introduced the measure of portfolio at risk (PAR) into the Bank's regime for improving the quality of its portfolio. This new measure is assisting the bank in working towards the attainment of industry standards for portfolio quality. While the Bank missed the target set for July 2012 largely as a result of constraints in the legal, financial and economic environments it is on track to meet the new PAR target set for January 1, 2014.

Bank's Credit Rating

One of the Bank's major objectives is to improve its financial reporting and credit rating. CariCRIS, the regional credit rating agency has reaffirmed the Bank's credit rating of BBB- or "acceptable risk".

MANAGEMENT INFORMATION SYSTEM

In an effort to improve the Management Information System the Bank completed new policies during the year to ensure the provision of current, complete and accurate information to stakeholders both internal and external.

Information security and change management policies define strategies to combat risk in accessibility, confidentiality, data assurance and data integrity, all of which fulfil the goal of supporting the services provided by the organization.

During this financial year, the Bank also focussed its efforts on streamlining data and providing IT training in the use and understanding of critical systems.

The Bank hired an international consulting firm to provide advice on integrating the different systems in order to facilitate better data sharing and faster generation of information. The recommendations of this engagement were implemented during the financial year and the process will continue into the following financial year.

HUMAN RESOURCES

The Dominica Agricultural Industrial and Development Bank aims to recruit and retain personnel that possess the competencies and skills required to fulfil the Bank's mission and strategic goals.

A key factor in the Bank's effective operation is the quality of its human resources.

AID Bank benefits from an educated, well-informed and target-oriented group of employees. However, the Bank continues to encourage its employees to develop their skills and professionalism mainly through education and training. This year staff members attended a number of training courses.

Courses attended this year included credit analysis, appraisal and management, governance risk and control, risk management, customer service, office management, occupational health and safety, protocol etiquette, cluster competitiveness and mortgage underwriting.

One staff member is studying overseas for two years pursuing an Association of Chartered Accountants (ACCA) course at London School of Business and Finance in Canada.

At present there are four staff members pursuing their Bachelor's degrees, four pursuing their Master's degrees and one pursuing a doctorate.

The Bank hosted three students of the Portsmouth Secondary School from December 10 to 13, 2012 on a

Job Shadowing Programme. The Bank again hosted one student each from the Dominica State College (DSC) and from the Dominica Youth Business Trust (DYBT) during the month of February 2013.

There were thirty eight staff members until May 25, 2013, when the beloved Anderson Henderson LeBlanc, a staff member in the Industrial Estate Unit passed after a brief illness. It was a sad time as staff members grieved his death after twenty one years of service. We thank God for his life and the invaluable service he rendered to the Bank and the country by extension. His legacy of conscientious and dedicated service remains indelibly in our minds.

Exit turnover for permanent staff was 0% and one employee on contractual employment left during the year. The Bank intends to fill two positions (Legal Officer and Risk Officer) during the new financial year.

In the new financial year the Bank intends to implement new initiatives for human resource development including a mentoring programme for young professionals who have recently completed university degrees.

INTERNAL AUDIT FUNCTION

The internal audit work program for the financial year 2012/2013 continued to employ a risk-based approach based on the risk ratings of the audits conducted in 2010/2011 and 2011/2012 financial years.

The internal audit function is an integral part of the corporate governance regime of the Bank. The Internal Auditor plays an independent advisory role in challenging control weaknesses, championing best practices and being a catalyst for improvement in processes, policies and overall operations, with the objective of ensuring that the organisation as a whole can achieve its strategic objectives.

The Internal Auditor provides an independent view on the organisation's governance, risk management, information systems, and control processes. The Internal Auditor's role involves ensuring that risks are efficiently managed, and key controls are established and functioning as intended to facilitate productivity and efficiency in meeting the goals of the Bank.

In light of the efforts of the institution to implement an enterprise risk management framework and ensure that all risks are being monitored, the Internal Auditor assisted in championing the establishment of such a framework in preparation for the employment of a Risk Officer. In the absence of a Compliance Officer, the internal audit function continues to facilitate compliance activities in guaranteeing that the Bank remains compliant to the laws and regulations that govern money laundering and suppression of financing of terrorism.

During the year 2012/2013, 16 audits and 4 reviews were conducted on various departments, procedures, processes, and policies. In addition to the audits and reviews conducted, follow-ups were performed to gauge management efforts in the implementation of recommendations from previous audits. Implementation of audit recommendations was slow in this financial year based on a number of transitions within the Bank. The Internal Auditor expects to intensify follow-up activities in the coming financial year to ensure that recommendations are implemented to strengthen controls and minimize risks.

The Internal Auditor continues to demonstrate objectivity by not being involved in the day-to-day bank operations or internal control procedures and reports directly to the Board of Director's Finance and Audit Committee. A harmonious relationship continues between the Finance and Audit Committee and the Internal Auditor to ensure that the Board is kept updated on operational weaknesses and control deficiencies and corrective actions taken by management.

During the year, the Internal Auditor participated in numerous online training sessions in enterprise risk management, auditing, governance and controls through the Institute of Internal Auditors to keep abreast of new developments for the enhancement of the internal audit function.

INDUSTRIAL ESTATE UNIT (IEU)

The IEU is viewed as a Special Business Unit within the AID Bank. Hence, it is critical that the IEU meet its mandate.

The IEU is driven by the mandate of stimulating, facilitating and encouraging the establishment and development of industries. The Industrial Estate provides space for manufacturers, warehousing, information, communication and technology (ICT) companies and other service industries.

Since the Bank's acquisition of the Industrial Estate Assets from the Government of the Commonwealth of Dominica the Bank has maintained the objectives of the Industrial Estate Program by providing factory/office space at reasonable rental rates for local and foreign enterprises, encouraging industrial production for local and export consumption, thereby creating employment while generating foreign exchange earnings.

During the year there are 720 persons employed at the Industrial Estate. The largest employer was Clear Harbor a Call Centre with a total of 558 employees. The AID Bank Industrial Estate is therefore home to one of the largest employers on the island.

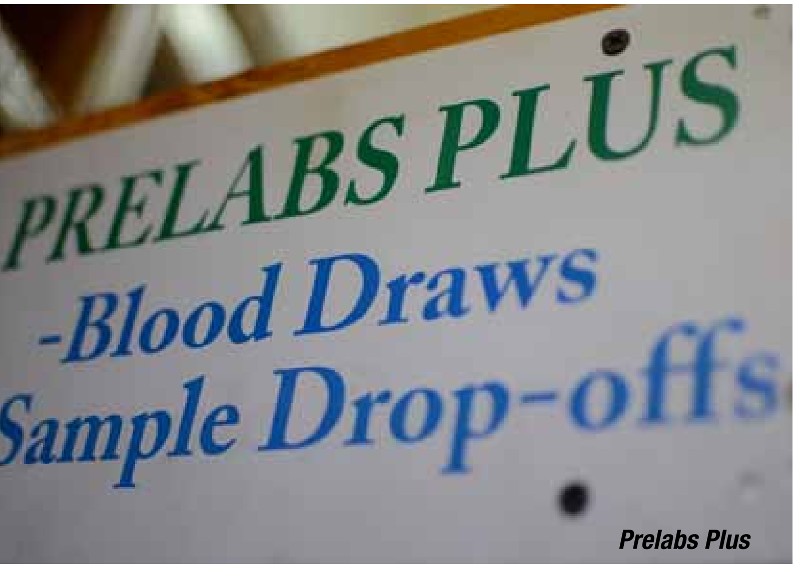
The Industrial Estate consists of twenty buildings with a total floor space of 147,140 sq. ft. The buildings have been sub-divided into thirty six units ranging from 780 sq. ft. to 21,000 sq. ft. Twenty-two tenants currently rent thirty of the thirty-six units at the Industrial Estate with some tenants occupying more than one unit. Twelve tenants rent land.

These Industrial Estates are located in four different parts of the island. The Canefield Industrial Estate is the most developed with eighteen out of the twenty buildings located there, only land is rented in Jimmit and there is one building in Picard and another in Geneva. At present six units are vacant and available for rent, three 1,200 sq. ft. units at the building in Geneva and three (3) units in Canefield with floor areas of 6,000 sq. ft., 1,000 sq. ft. and 6,667 sq. ft.

The IEU is processing applications and it is expected that all vacant space will be rented by the end of the second quarter of the new financial year.

In the next financial year the focus will be on landscaping and beautification of the industrial estate. Due to the recent high demand for Call Centre space, the Bank will also be focusing on a multi-million dollar project to construct state of the art ICT facilities at both the Canefield and Picard Industrial Estates.

Lovely Fast Ferries Ltd.



Prelabs Plus

Sweet Potato cultivation in Delices

Poultry in Boetica

Optipharm Inc.

PART III

Other Activities

Financial Data Systems Limited (FDSL)

The financial year ended June 30, 2013 saw the Bank in the second half of the DPAC development project commissioned by Financial Data Systems Limited. This company has been operational since the 1990s and is the oldest software development company on the island. The new DPAC Loan Administration System promises to be the best software currently custom tailored for development banks.

The Bank's focus on streamlining the data sources was also incorporated in the project to upgrade the DPAC Loan Administration System for development banks. This project was completed and is now in the final testing stages.

It is intended that early in the next financial year a number of college or university students trained in Information Technology will be engaged in the testing phase of the project.

The FDSL continued consultations with existing and potential users of the software and also commenced demonstrations of the redeveloped software.

As a result, a number of potential users have expressed interest in the DPAC upgrade in addition to three financial institutions and the AID Bank which are existing users of the software.

PART IV

AID Bank's Corporate/ Social Responsibility

Kelshia Breezie,
1st Runner Up, Miss Dominica Pageant

Corporate social responsibility is a dynamic concept which embodies the Bank's sense of its discretionary, philanthropic and moral obligations towards its stakeholders, affiliates, employees, customers, the communities that it serves, and the public in general.

It is important to note that notwithstanding various well-meaning perspectives, the traditional culture of the DAIDB is not one that is preoccupied with publicizing its corporate gifts of cash or kind. However, by virtue of its desire to serve a greater good, and to reach out to the community's most vulnerable, the Bank intentionally seeks opportunities to provide relevant financial and technical support which complement its core lending function and the resulting impact is fair game and "nice to share."

In the financial period in review the Bank distinguished itself in its role as a development financial institution. Specifically, local resource persons selected by the Caribbean Technological Consultancy Services (CTCS) of the Caribbean Development Bank, based on recommendations by the AID Bank participated with their regional counterparts in two Regional 'Train the Trainers" Programmes, one in Financial Management Techniques and the other in Customer Service Delivery for MSMEs.

On return, these local Trainers conducted training programmes for MSMEs in Dominica, in September 2012 and January, 2013. Thirty-eight (38) Micro, Small and Medium Sized Enterprises (MSMEs) collectively benefitted from these two courses.

In October 2012, the AID Bank was happy to spend time with and appreciate customers who came from near and far to celebrate the Bank's Customer Appreciation Day. The event which was complemented with a mini-exhibition was an opportunity for customers to update their loan records, to make new business inquiries, to become more knowledgeable of the history of the Bank and to appreciate the many products displayed by exhibitors, some of which are located on the Bank's Canefield Industrial Estate.

A road show conducted in November 2012, was a unique but ideal outreach exercise to a few local government districts. Teams from the

Bank met with students of various secondary schools, members of the business community and the general public. A singular moment for the Bank was the publication and mass distribution of its 40th Anniversary Commemorative magazine, which will serve as a historic document.

In the third quarter of this Financial Period, the AID Bank partnered with the Clear Harbor Call Center to sponsor Miss Kelshia Breezie, one of the contestants of the 2013 Miss Dominica Pageant. The Bank is very pleased by the performance of Miss Breezie, who did not disappoint her sponsors and many supporters as she competed confidently, gracefully and consistently in all segments on the night of the show and achieved the position of first runner-up.

In April, 2013, the AID Bank commemorated "Girls in ICT Day" by hosting an ICT Forum attended by nineteen 2nd and 3rd formers pursuing the ICT Programme at Goodwill Secondary School. This interactive session comprised brief addresses on ICT related matters by the Bank's Management and Staff. Students in return were called upon to express their perceptions of the importance of ICT in a fast-paced world, and to share how they see themselves as prospective ICT specialists. The Bank was very pleased to be invited by the Goodwill Secondary School some weeks later to make a similar presentation to a wider group of students.

During the fiscal period in question, the AID Bank served as the main sponsor for the 2013 Tourism Youth Congress, which seeks to develop secondary schools students' ability to prepare and present speeches on various tourism-related matters. Within this period as well, the AID Bank partnered with the Invest Dominica Authority (IDA) and other collaborators towards the Rural Sewing Group Initiative, which facilitated the establishment of sewing groups from the communities of Bagatelle, Boetica, Calibishie and LaPlaine. The Bank's intervention contributed to the provision of fifteen industrial-type sewing machines, the upgrade of the facilities in which these groups will be housed and opportunity for at least fifty persons to be employed.

Overall, the AID Bank reports that sponsorships and donations during the reporting period were in excess of XCD 53,000. Other beneficiaries of the Bank's generosity included charitable foundations; religious entities; senior citizens and community groups; sports and business associations; cultural and carnival festivities; educational and health institutions; and individuals.

PART V

Financial Performance

Net Profit

The AID Bank recorded net profit of XCD 1.30 million in the financial year ended June 30, 2013. This figure was 28.59 per cent higher than the XCD 1.01 million net profit recorded in 2012 as indicated in the Table below.

Total comprehensive income was XCD 1.29 million for the year under review, after utilization from the foreign exchange loss account of XCD 8,920.

The table below presents a summary of financial results for the last two financial years.

	2013 (XCD)	2012 (XCD)
Interest income	12,681,098	11,107,051
Other operating income	1,937,856	2,687,346
Total income	14,618,954	13,794,397
Interest Expense	(4,848,000)	(4,232,586)
Staff Costs	(3,594,122)	(3,505,666)
Administrative Expenses	(1,695,784)	(2,097,004)
Factory sheds expenses	(383,264)	(568,433)
Other operating expenses	(580,063)	(566,340)
Depreciation	(402,429)	(372,720)
Total expenses	(11,503,662)	(11,342,749)
Net income from Operations before the following income/(charges):	3,115,292	2,451,648
Gain/(Loss) on foreign exchange	-	-
Impairment Losses on Loans and Receivables	(1,818,210)	(1,447,943)
Impairment (losses)/gains on available for sale investments	-	5,000
Net Profit	1,297,082	1,008,705
Foreign Exchange loss utilization	(8,920)	(21,003)
Total Comprehensive Income	1,288,162	987,702

Income

Total income recorded for the financial year was XCD 14.62 million which was 5.98 per cent higher than the XCD13.79 million achieved in 2012.

Interest income increased by 14.17 per cent while other operating income decreased by 27.89 per cent from the previous financial year.

Expenses

Financial Expenses of XCD 4.85 million were 14.54 per cent higher than the previous year's XCD 4.23 million as a result of drawdowns of the new lines of credit from external funding agencies.

Total staff expenses of XCD 3.59 million increased by 2.52 per cent.

Administrative Expenses of XCD 1.70 million decreased by 19.13 per cent over the previous year.

Total operating expenses of XCD 11.50 million were more than the XCD 11.34 million recorded in the previous financial year by 1.42 per cent.

Assets

At June 30, 2013, assets totalled XCD 198.87 million representing a 0.23 percentage increase from last year's XCD 198.42 million.

The major component of assets, net loans and advances valued at XCD 152.40 million registered a 4.81 per cent increase from last year's XCD 145.41 million and adequately offset total long-term liabilities of XCD 114.58 million.

Net loans and advances comprised gross loan balance of XCD 162.32 million (2012: XCD 153.36m) and interest receivable of XCD 5.45 million (2012: XCD 5.82m) less loan provision of XCD 15.36 million (2012: 13.77m).

The long-term debt to equity ratio of 1.82:1 was within the suggested range for the industry of 4:1.

Cash in current and operating account, and short-term investments totalled XCD 3.53 million, which was 60.69 per cent less than last year's XCD 8.98 million.

Other receivables of XCD 1.91 million were more than last year's XCD 1.42 million. Other receivables include insurance premiums arrears, legal and other fees paid on behalf of clients and rental arrears.
Net investments in treasury bills, Government debentures and shares in companies totaled XCD 32.91 million, of which XCD 30.89 million represents Investment Properties of the Industrial Estate Unit (IEU).

Net Investments were -4.25 per cent less than last year's XCD 34.37 million.

Net total fixed assets of XCD 7.90 million were 1.63 per cent less than last year's XCD 8.03 million.

Liabilities

Total liabilities were XCD 135.96 million, which was 0.41 per cent less than last year's XCD 136.52 million.

Due to customers was XCD 10.91 million which was 4.36 per cent lesser than the XC 11.41 million in the previous financial year.

Borrowed funds of XCD 114.58 million and registered a net decrease of 2.24 per cent from last year's XCD 117.20 million.

Shareholders' Equity

Shareholders' Equity of XCD 62.91 million increased by 1.63 per cent from last year's XCD 61.90 million.

Retained Earnings of XCD 6.15 million increased by 12.47 per cent from last year's XCD 5.47 million.

AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

Dominica Agricultural Industrial and Development Bank

Financial Statements
June 30, 2013

[Expressed in Eastern Caribbean dollars]

KPMG Eastern Caribbean
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St. John's
Antigua

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
DOMINICA AGRICULTURAL INDUSTRIAL AND DEVELOPMENT BANK

We have audited the accompanying financial statements of Dominica Agricultural Industrial and Development Bank (the Bank), which comprise the statement of financial position as at June 30, 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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 relevant 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 our 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, we consider 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 at June 30, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
DOMINICA AGRICULTURAL INDUSTRIAL AND DEVELOPMENT BANK *(cont'd)*

Emphasis of Matter

We draw attention to the fact that the Bank has investments of $216,000 in Clico International Life Insurance Limited a subsidiary of CL Financial Limited. This group is currently encountering financial difficulties and there is uncertainty regarding the adequacy of the impairment provision against this amount. It is not possible to determine with a reasonable degree of certainty whether any additional impairment provisions are necessary for "Deposits with banks and other financial institutions" as described in Note 9 in the financial statements.

KPMG

Chartered Accountants
October 03, 2013

Antigua and Barbuda

DOMINICA AGRICULTURAL INDUSTRIAL AND DEVELOPMENT BANK

Statement of Financial Position

June 30, 2013

(Expressed in Eastern Caribbean Dollars)

	Notes		2013	2012
Assets				
Cash and balances with Central Bank	7	$	2,345	2,345
Treasury bills	8		410,000	2,412,000
Deposits with banks and other financial institutions	9		3,946,189	9,396,941
Loans and advances to customers	10		152,403,959	145,405,600
Available-for-sale investments	12		1,408,299	1,408,299
Investment properties	13		30,888,365	30,347,346
Property, plant and equipment	14		7,904,074	8,034,683
Other assets	15		1,907,537	1,415,769
Total Assets		$	198,870,768	198,422,983
Liabilities				
Bank Overdraft	16	$	1,832,124	-
Due to customers	17		10,907,838	11,405,589
Borrowed funds	18		114,577,735	117,202,580
Other liabilities	19		8,643,235	7,916,551
Total Liabilities		$	135,960,932	136,524,720
Shareholders' Equity				
Share capital	21	$	47,970,205	47,970,205
Reserves	22		8,790,715	8,460,783
Retained earnings			6,148,916	5,467,275
Total Equity		$	62,909,836	61,898,263
Total Liabilities and Shareholders' Equity		$	198,870,768	198,422,983

Approved by the Board of Directors on September 25, 2013

Director.. **Director**..

The notes on pages 7 to 52 are an integral part of these financial statements.

DOMINICA AGRICULTURAL INDUSTRIAL AND DEVELOPMENT BANK

Statement of Comprehensive Income

Year ended June 30, 2013

(Expressed in Eastern Caribbean Dollars)

	Notes		2013	2012
Interest income	23	$	12,681,098	11,107,051
Interest expense	23		(4,848,000)	(4,232,586)
Net interest income			7,833,098	6,874,465
Other operating income	24		1,937,856	2,687,346
Other operating expenses	25		(6,655,662)	(7,110,163)
Impairment losses on loans and receivables			(1,818,210)	(1,447,943)
Impairment reversal on AFS investment			-	5,000
Net profit for the year			1,297,082	1,008,705
Other Comprehensive Income:				
Foreign exchange loss utilization			(8,920)	(21,003)
Total comprehensive income		$	1,288,162	987,702

The notes on pages 7 to 52 are an integral part of these financial statements.

DOMINICA AGRICULTURAL INDUSTRIAL AND DEVELOPMENT BANK

Statement of Changes in Equity

Year ended June 30, 2013

(Expressed in Eastern Caribbean Dollars)

	Notes	Share Capital	Reserves	Retained Earnings	Total
Balance as at June 30, 2011		$ 47,970,205	8,229,610	4,960,746	61,160,561
Profit for the year		-	-	1,008,705	1,008,705
Foreign exchange loss utilization	22	-	(21,003)	-	(21,003)
Total comprehensive income		-	(21,003)	1,008,705	987,702
Transfer to statutory reserve		-	252,176	(252,176)	-
Dividends on ordinary shares		-	-	(250,000)	(250,000)
Balance as at June 30, 2012		$ 47,970,205	8,460,783	5,467,275	61,898,263
Profit for the year		-	-	1,297,082	1,297,082
Foreign exchange loss utilization	22	-	(8,920)	-	(8,920)
Total comprehensive income		-	(8,920)	1,297,082	1,288,162
Transfer to statutory reserve		-	324,271	(324,271)	-
Transfer to foreign exchange equalization fund		-	14,581	(14,581)	-
Adjustment for prior year's receivable reported in income		-	-	(26,589)	(26,589)
Dividends on ordinary shares		-	-	(250,000)	(250,000)
Balance as at June 30, 2013		$ 47,970,205	8,790,715	6,148,916	62,909,836

The notes on pages 7 to 52 are an integral part of these financial statements.

DOMINICA AGRICULTURAL INDUSTRIAL AND DEVELOPMENT BANK

Statement of Cash Flows

Year ended December 31, 2013

(Expressed in Eastern Caribbean Dollars)

	Notes		2013	2012
Cash flows from operating activities				
Net profit for the year		$	1,297,082	1,008,705
Adjustments for:				
Impairment losses on loans and receivables			1,818,210	1,528,479
Depreciation	14		402,429	372,720
Unrealized foreign exchange (gain)			(156,504)	(703,076)
Reversal of impairment losses on available-for-sale investments			-	(5,000)
Loss on disposal of assets			3,582	-
Interest and similar income			(12,681,098)	(11,107,051)
Interest expense and similar charges			4,848,000	4,232,586
Cash flows before changes in operating assets and liabilities			(4,468,299)	(4,672,637)
Change in loans and advances to customers			(9,213,376)	(16,328,983)
Change in deposits with banks and other financial institutions			767,519	(60,048)
Change in other assets			(491,768)	(86,142)
Change in due to customers			(313,907)	44,151
Change in other liabilities			476,684	1,287,801
Cash used in operations			(13,243,147)	(19,815,858)
Interest received			13,051,316	10,010,272
Interest paid			(5,212,930)	(5,226,253)
Net cash used in operating activities			(5,404,761)	(15,031,839)
Cash flows from investing activities				
Purchase of investment property	13		(541,019)	(131,971)
Purchase of property, plant and equipment	14		(275,402)	(461,662)
Purchase of available-for-sale investment			-	(135,958)
Net cash used in investing activities			(816,421)	(729,591)
Cash flows from financing activities				
Borrowed funds			7,850,955	24,044,344
Repayment of borrowed funds			(10,147,130)	(8,076,159)
Dividends paid			-	(250,000)
Foreign exchange utilization			-	(21,003)
Net cash (used in)/from financing activities			(2,296,175)	15,697,182
Net decrease in cash and cash equivalents		$	(8,517,357)	(64,248)
Cash and cash equivalents, beginning of year			7,097,578	7,161,826
Cash and cash equivalents, end of year		$	(1,419,779)	7,097,578

The notes on pages 7 to 52 are an integral part of these financial statements.

1. **Reporting Entity**:

Dominica Agricultural Industrial and Development Bank (the Bank) is a corporate body established under Chapter 74:03 of the revised laws of the Commonwealth of Dominica, with its principal objectives being to promote and influence the economic development of the Commonwealth of Dominica and to mobilize funds for the purpose of such development.

The Bank's principal place of business and registered office is located at the corner of Charles Avenue and Rawles Lane, Goodwill, Commonwealth of Dominica.

2. **Basis of Preparation**:

(a) *Statement of Compliance*:
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The Bank's financial statements were approved for issuance by the Board of Directors on September 25, 2013.

(b) *Basis of Measurement*:
These financial statements are prepared under the historical cost basis except for the following material items in the statements of financial position:

- Available for sale financial assets are measured at fair value.
- Investment property is measured at fair value.
- Financial instruments at fair value through profit or loss are measured at fair value.

(c) *Use of Estimate and Judgements:*
The preparation of these financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 6.

3. **Acquisition of Business Unit**:

The Bank acquired the net operations of Industrial Estate Unit (IEU) on June 30, 2011 from the Government of Dominica. The Bank owns 100% of the IEU which operates as a separate business unit since it provides services that are subject to risks and returns that are different from the normal operations of the Bank.

The cost of the acquisition is measured as the fair value of the assets and liabilities acquired at the date of the exchange, and the equity instruments issued plus costs directly attributable to the acquisition. The excess in fair value of the net assets of IEU over the consideration transferred resulted in a bargain purchase which was recorded as negative goodwill.

Related transactions, balances and unrealized gains on transactions between the two entities are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

4. **Summary of Significant Accounting Policies**:

(a) *New Standards and Interpretation of and Amendments to Existing Standards Effective During the Year*:

Certain new IFRS's and interpretations of, and amendments to, existing standards, which were in issue and were relevant to the Bank, came into effect for the current financial year. None of these pronouncements had a material effect on the financial statements.

(b) *New Standards, and Interpretations of and Amendments to Existing Standards that are not yet Effective*:

At the date of authorization of the financial statements, certain new standards, and amendments to and interpretations of existing standards, have been issued which are not yet effective and which the Bank has not early-adopted. The Bank has assessed the relevance of all such new standards, amendments and interpretations with respect to its operations and has determined that the following may be relevant to its operations and has concluded as follows:

- IFRS 9, Financial Instruments (2010). The revised IFRS supersedes the previous version of IFRS 9 issued in 2009 and is effective for accounting periods beginning on or after January 1, 2013. The revised standard includes guidance on classification and measurement of financial liabilities designated as at fair value through profit or loss and incorporates certain existing requirements of IAS 39 *Financial Instruments: Recognition and Measurement* on the recognition and de-recognition of financial assets and financial liabilities. The Bank is assessing the impact that the standard will have on the 2014 financial statements.

4. **Summary of Significant Accounting Policies**: *(cont'd)*

(b) *New Standards, and Interpretations of and Amendments to Existing Standards that are not yet Effective*: *(cont'd)*

- IFRS 13, *Fair Value Measurement,* which is effective for annual reporting periods beginning on or after January 1, 2015, defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value and is applicable to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value, or when disclosure of fair values is provided. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Bank is assessing the impact that this standard will have on its financial statements when effective.

(c) *Cash and Cash Equivalents*:
Cash and cash equivalents comprise cash balances and overdraft and deposits with maturities three (3) months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments. These include cash and non-restricted balances with other banks, treasury bills and other short-term securities.

(d) *Financial Assets*:
The Bank classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) *Loans and Receivables*:
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

4. **Summary of Significant Accounting Policies**: *(cont'd)*

(d) *Financial Assets*: *(cont'd)*

(i) *Loans and Receivables*: *(cont'd)*

- those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

- those that the entity upon initial recognition designates as available for sale; or

- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. The Bank's loans and receivables comprise deposits with banks and other financial institutions and loans and advances to customers.

Loans and receivables are carried at amortised cost using the effective interest method.

(ii) *Available for Sale*:
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchase and sales of available-for-sale investments are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transactions costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised in equity, until the financial assets are derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit and loss. However, interest calculated using the effective interest method is recognised in the statement of comprehensive loss. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive loss when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, and other valuation techniques commonly used by market participants.

4. **Summary of Significant Accounting Policies**: *(cont'd)*

(e) *Impairment of Financial Assets*:

Assets Carried at Amortised Cost:
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets are impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred in the initial recognition of the asset (a 'loss event') and that a loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of its financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of borrowers in the group; or

- national or local economic conditions that correlate with defaults on the assets in the group

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

4. **Summary of Significant Accounting Policies**: *(cont'd)*

(e) Impairment of Financial Assets: *(cont'd)*

Assets Carried at Amortised Cost: (cont'd)

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan has variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using the observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may or may not result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, collateral type, past-due stamps and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for the loan impairment in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

4. **Summary of Significant Accounting Policies**: *(cont'd)*

(e) *Impairment of Financial Assets*: *(cont'd)*

Assets Carried at Fair Value:
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the profit or loss, is removed from equity and recognised in the statement of comprehensive income. Impairment losses on equity instruments recognised in the statement of comprehensive income are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

(f) *Renegotiated Loans:*
Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

(g) *Offsetting Financial Instruments*:
Financial assets and liabilities are offset and the net amount reported in the statement of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(h) *Property, Plant and Equipment*:

i. *Initial Measurement:*
Property, plant and equipment are initially stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributed to the acquisition of items.

4. **Summary of Significant Accounting Policies**: *(cont'd)*

(h) Property, Plant and Equipment: *(cont'd)*

ii. Subsequent Measurement:

Land and Building:
After recognition, land and building, whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

When a building is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount

Land is not depreciated.

iii. Furniture and Equipment:
After recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

4. **Summary of Significant Accounting Policies**: *(cont'd)*

(h) *Property, Plant and Equipment*: *(cont'd)*

iv. *Depreciation:*
Depreciation on other assets is calculated on the straight line method to write off the cost to their residual values over their estimated useful lives as follows:

Buildings	2%
Motor vehicles	20%
Furniture and equipment	20% - 33 1/3%
Computer Equipment	20% - 33 1/3%

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in profit or loss.

(i) *Investment Properties*:
Properties held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Bank and/or IEU, is classified as investment properties. Investment properties comprise freehold land and buildings.

Investment properties are measured initially at its cost, including related transaction costs. After initial recognition, investment properties are carried at fair value. A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises.

Subsequent expenditure is charged to the asset's carrying amount 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 costs are charged to the profit or loss during the financial period in which they are incurred.

4. **Summary of Significant Accounting Policies**: *(cont'd)*

(j) *Impairment of Other Non-Financial Assets*:
Assets that have an adequate indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(k) *Borrowings*:
Borrowings are recognised at fair value, being their issue proceeds (fair value consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transactions cost and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

(l) *Grants*:
Grants are recognised at the fair value where there is a reasonable assurance that the grant will be received and the Bank will comply with all attached conditions. Grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the cost that they are intended to compensate.

(m) *Share Capital*:
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, from the proceeds.

(n) *Dividends on Ordinary Shares*:
Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends that are declared after the reporting date are disclosed as a subsequent event.

4. **Summary of Significant Accounting Policies** *(cont'd)*

(o) *Interest Income and Expense*:
Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example. prepayment options) but does not consider future credit losses. The calculation includes all fees paid or discounts received between parties to the contract that are an integral part of the effective interest rate.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(p) *Fees and Other Income*:
Fees and other income are recognized to the extent that it is probable that future economic benefits will flow to the Bank and the income can be measured reliably. Income is generally recognised on an accrual basis when the service has been provided.

Loan commitment fees are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

(q) *Termination Benefits*:
Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

4. **Summary of Significant Accounting Policies** *(cont'd)*

(r) *Foreign Currency Translation*:

Functional and Presentation Currency:
Items in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Eastern Caribbean dollars, which is the Bank's functional and presentation currency.

Transactions and Balances:
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

5. **Financial Risk Management**:

(a) *Financial Risk Factors*
The Bank has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Market Risk
- Liquidity Risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework and it also assesses financial and control risks to the Bank.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Bank's Board of Directors oversees how management monitors compliance with the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risk faced by the Bank.

5. **Financial Risk Management**: *(cont'd)*

(a) *Financial Risk Factors (cont'd)*

Strategy in Using Financial Instruments:
By its nature, the Bank's activities are principally related to the use of financial instruments. The Bank secures funds from various lending agencies at both fixed and variable interest rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that may fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve loans and advances to customers.

(b) *Credit Risk*:

(*i*) The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the reporting date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers and to industry segments. Such risks are monitored on a revolving basis and subject to monthly reviews. The Bank also undertakes supervised credit of large projects whereby loans are disbursed in tranches. A progress report is completed after each tranche is disbursed to ascertain the project value. The Bank is exposed to potential loss only in the amount of loan disbursed.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

(Expressed in Eastern Caribbean Dollars)

5. **Financial Risk Management**: *(cont'd)*

(b) *Credit Risk*: *(cont'd)*

(ii) Credit risk also arises from the possibility that counterparties may default on their rental obligations to the Bank's industrial estate operations. The maximum exposure to credit risk for the industrial estate operations is indicated by the carrying amount of its financial assets.

The Industrial Estate Unit deals primarily in the rental industry which potentially exposes that operation to concentrations of credit risk. Policies are in place to ensure that rental of properties are made to customers with an appropriate credit history. Management also performs periodic credit evaluations of its customers' financial condition.

(iii) *Credit Risk Measurement – Loans and Advances:*
The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. They have been developed based on the Eastern Caribbean Central Bank guidelines. Customers of the Bank are segmented into five rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary.

Bank's Rating	**Description or the Grade**
1	Pass
2	Special Mention
3	Sub-standard
4	Doubtful
5	Loss

(iv) *Risk Limit Control and Mitigation Policies:*
The Bank manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups, and to industries.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to the industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary by the Board of Directors.

5. **Financial Risk Management**: *(cont'd)*

(b) Credit Risk: *(cont'd)*

(iv) Risk Limit Control and Mitigation Policies: (cont'd)

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on-and-off statement of financial position exposures, and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(i) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, plant and equipment and motor vehicles;
- Charges over financial instruments such as debt securities' and equities;
- Assignment to the Bank of key-man, life, home owners and motor vehicle insurances.

Long-term finance and lending to corporate customers and individuals are generally secured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

5. **Financial Risk Management**: *(cont'd)*

(b) Credit Risk: *(cont'd)*

(iv) Risk Limit Control and Mitigation Policies: (cont'd)

(ii) Credit –Related Commitments

Commitments to extend credit represent undisbursed portions of approved loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(iii) Impairment and Provisioning Policies

The internal and external rating systems described under "credit risk measurement" focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment.

The impairment provision shown in the statement of financial position at year-end is derived from each of five internal rating grades. However, the majority of the impairment provision comes from the bottom three gradings. The table below shows the percentage of the Bank's loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

	2013		**2012**	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
Bank's rating				
1. Pass	70.46	66.71	58.32	48.04
2. Special mention	8.96	21.37	23.06	19.41
3. Sub-standard	6.61	0.89	3.35	3.42
4. Doubtful	3.18	2.72	3.57	9.95
5. Loss	10.79	8.31	11.20	19.18

5. **Financial Risk Management**: *(cont'd)*

(b) Credit Risk: *(cont'd)*

(iii) Impairment and Provisioning Policies (cont'd)

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income as a percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Maximum Exposure to Credit Risk before Collateral Held or Other Credit Enhancements

Credit Risk Exposures relating to on-balance sheet assets		**2013**	**2012**
Treasury bills	$	410,000	2,412,000
Deposits with banks and other financial institutions		3,946,189	9,396,941
Loans and advances to customers:			
- Demand loans		119,414,834	115,516,340
- Mortgage loans		32,989,125	29,889,260
Other assets		1,907,538	1,415,769
		158,667,686	158,630,310
Credit risk exposures relating to off-balance sheet items			
Loan commitments		21,864,554	23,039,176
	$	180,532,240	181,669,486

5. **Financial Risk Management**: *(cont'd)*

(b) Credit Risk (cont'd)

(iii) Impairment and Provisioning Policies (cont'd)

Maximum Exposure to Credit Risk before Collateral Held or Other Credit Enhancements (cont'd)

The above table represents a worst case scenario of credit risk exposure to the Bank at June 30, 2013 and 2012, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 85.28 % (2012 – 80.09 %) of the total maximum exposure is derived from loans and advances to customers.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio based on the following:

- 79.42% (2012 – 81.88%) of the loans and advances portfolio is categorised in the top two grades of the internal rating system;
- 42.48% (2012 – 41.58%) of the loans and advances portfolio are considered to be neither past due nor impaired; and
- The Bank has introduced a more stringent selection process upon granting loans and advances.

Loans and Advances

Loans and advances are summarised as follows:

		2012	2012
Neither past due nor impaired	$	71,264,483	66,182,208
Past due but not impaired		74,945,764	69,306,724
Impaired		21,555,029	23,684,226
Gross		167,765,276	159,173,158
Less allowance for impairment losses on loans and advances		(15,361,317)	(13,767,559)
	$	152,403,959	145,405,599

5. **Financial Risk Management**: *(cont'd)*

(b) Credit Risk (cont'd)

Loans and Advances (cont'd)

The total impairment provision for loans and advances is $15,361,318 (2012 - $13,767,559) of which $11,437,347 (2012 - $9,528,073) represents the individually impaired loans and the remaining amount of $3,923,970 (2012 - $4,239,486) represents the portfolio provision. Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 10 and 11.

(i.) Loans and Advances neither Past Due Nor Impaired:

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

		Demand loans	Mortgage loans	Total
June 30, 2013				
Grades				
1. Pass	$	56,784,181	14,480,302	71,264,483
June 30, 2012				
Grades				
1. Pass	$	51,839,776	14,342,432	66,182,208

(ii.) Loans and Advances Past Due but Not Impaired:

Loans and advances less than ninety (90) days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers net of unearned interest that were past due but not impaired were as follows:

5. **Financial Risk Management**: *(cont'd)*

(b) *Credit Risk (cont'd)*

Loans and Advances (cont'd)

(ii.) *Loans and Advances Past Due but Not Impaired*: *(cont'd)*

		Demand loans	Mortgage loans	Total
At June 30, 2013				
Past due up to 30 days	$	53,370,032	15,414,449	68,784,481
Past due 30-60 days		487,625	60,902	548,527
Past due 60-90 days		672,560	60,463	733,023
Past due over 90 days		4,413,457	466,276	4,879,733
	$	58,943,674	16,002,090	74,945,764
At June 30, 2012				
Past due up to 30 days	$	51,405,441	12,662,837	64,068,278
Past due 30-60 days		657,068	61,713	718,781
Past due 60-90 days		600,860	51,493	652,353
Past due over 90 days		3,468,047	399,265	3,867,312
	$	56,131,416	13,175,308	69,306,724

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets.

(iii.) *Loans and Advances Individually Impaired*:
The table below shows the individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held.

The breakdown of the gross amount of individually impaired loans and advances by class are as follows:

		Demand loans	Mortgage loans	Total
At June 30, 2013				
Individually impaired loans	$	18,925,538	2,629,491	21,555,029
At June 30, 2012				
Individually impaired loans	$	21,388,786	2,295,441	23,684,227

5. **Financial Risk Management**: *(cont'd)*

(b) Credit Risk (cont'd)

(iv.) Loans and Advances Renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of Bank's management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totaled $20,915,758 as of June 30, 2013 (2012: $9,224,971).

(v.) Repossessed Collateral

At the end of 2013, the Bank had repossessed collateral valued at $191,500 (2012 – Nil).

(vi) Geographical and Economic Concentrations of Assets and Liabilities

The Bank operates primarily in the Commonwealth of Dominica and the exposure to credit risk is concentrated in this area.

Economic sector risk concentrations within the customer loan portfolio were as follows:

		2013		**2012**
	%	000'	%	000'
Education	17.95	30,116	19.51	31,049
Mortgage	19.74	33,112	19.16	30,490
Tourism	26.41	44,306	24.78	39,445
Industrial	29.42	49,355	29.31	46,655
Agricultural	2.76	4,636	3.32	5,285
Other consumers	3.70	6,210	3.90	6,212
Distribution and commerce	0.02	30	0.02	37
Total before deduction for allowance for losses on loans and advances	100.00	167,765	100.00	159,173

5. **Financial Risk Management**: *(cont'd)*

(c) *Market Risk:*

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank's exposures to market risks arise from its non-trading portfolios.

Non-trading portfolios primarily arise from the interest rate management of the Bank's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of equity risks arising from the Bank's available-for-sale investments.

(i.) *Price Risk:*

The Bank is exposed to equity securities price risk because of investments held by the Bank and classified on the statement of financial position as available for sale. To manage its price risk arising from investments in equity securities, the Bank diversifies its portfolio.

At June 30, 2013, if equity securities prices had been 10% higher/lower with all other variables held constant, equity for the year would have been $14,833 higher/lower as a result of the increase/decrease in fair value of available-for-sale equity securities.

(ii.) *Currency Risk:*

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows, primarily with respect to the United States dollar (US$) and Euro. The Board of Directors sets limits on the level of exposure by currency and in total which are monitored daily. The Bank's exposure to currency risk is minimal with respect to the US$ since the exchange rate of the Eastern Caribbean dollar (EC$) to the US$ has been formally pegged at EC$2.70 = US$1.00 since 1974.

At June 30, 2013, if the Currency had weakened/strengthened by 5% against the Euro with all other variables held constant, profit for the year would have been $71,377 lower/higher as a result of foreign exchange losses/gains on translation of Euro-denominated borrowings.

The following table summarises the Bank's exposure to foreign currency exchange rate risk at June 30, 2013. Included in the table are the Bank's assets and liabilities at carrying amount, categorised by currency.

(Expressed in Eastern Caribbean Dollars)

5. **Financial Risk Management**: *(cont'd)*

(c) *Market Risk: (cont'd)*

(ii.) *Currency Risk: (cont'd)*

Concentration of currency risk – on and off Balance sheet financial instruments

	EC$	US$	EURO	Total
As at June 30, 2013				
Assets				
Cash and balances with the Central Bank	2,345	-	-	2,345
Treasury bills	410,000	-	-	410,000
Deposits with banks and other financial institutions	2,114,065	-	-	2,114,065
Loans and advances to customers	152,403,959	-	-	152,403,959
Available-for-sale investments	1,408,299	-	-	1,408,299
Other assets	1,907,538	-	-	1,907,538
Total financial assets	158,246,206	-	-	158,246,206
Liabilities				
Due to customers	10,907,838	-	-	10,907,838
Borrowed funds	40,247,811	72,890,913	1,439,011	114,577,735
Other liabilities	8,643,235	-	-	8,643,235
Total financial liabilities	59,798,884	72,890,913	1,439,011	134,128,808
Net on-balance sheet financial position	98,447,322	(72,890,913)	(1,439,011)	24,117,398
Credit commitments	21,864,554	-	-	21,864,554
As at June 30, 2012				
Total financial assets	156,743,697	3,297,257	-	160,040,954
Total financial liabilities	58,435,465	75,576,065	2,513,190	136,524,720
Net on-statement of financial position	98,308,232	(72,278,808)	(2,513,190)	23,516,234
Credit commitments	23,039,176	-	-	23,039,176

5. **Financial Risk Management**: *(cont'd)*

(c) Market Risk: (cont'd)

(iii.) Interest Rate Risk:

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier contractual repricing or maturity dates.

(Expressed in Eastern Caribbean Dollars)

5. **Financial Risk Management**: *(cont'd)*

(c) Market Risk: (cont'd)

(iii.) Interest Rate Risk: (cont'd)

		1 Year	1-5 Years	Over 5 Years	Non-interest bearing	Total
As at June 30, 2013						
Cash and balances with the Central Bank	$	-	-	-	2,345	2,345
Treasury bills		410,000	-	-	-	410,000
Deposits with banks and other financial institutions		1,914,065	-	200,000	-	2,114,065
Loans and advances to customers		18,784,563	49,441,482	84,177,914	-	152,403,959
Available-for-sale investments		-	-	-	1,408,299	1,408,299
Other assets		-	-	-	1,907,538	1,907,538
Total financial assets		21,108,628	49,441,482	84,377,914	3,318,182	158,246,206
Due to customers		2,695,856	8,211,982	-	-	10,907,838
Borrowed funds		18,545,150	40,335,278	55,697,307	-	114,577,735
Other Liabilities		-	-	-	8,643,235	8,643,230
Total financial liabilities		21,241,006	48,547,260	55,697,307	8,643,235	134,128,808
Net interest repricing gap		(132,378)	894,222	28,680,607	(5,325,053)	24,117,398
As at June 30, 2012						
Total financial assets		31,008,949	49,843,421	76,362,171	2,826,413	160,040,954
Total financial liabilities		(14,002,744)	(56,616,000)	(57,989,425)	(7,916,551)	(136,524,720)
Net interest repricing gap	$	17,006,205	(6,772,579)	18,372,746	(5,090,138)	23,516,234

5. **Financial Risk Management**: *(cont'd)*

(c) Market Risk: (cont'd)

(iii.) Interest Rate Risk: (cont'd)

The table below summarises the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss:

	EC$	US$	EURO
As at June 30, 2013			
Assets			
Treasury bills	3.97	-	-
Deposits with banks and other financial institutions	2.37	-	-
Loans and advances to customers	7.62	-	-
Liabilities			
Due to customers	5.57	-	-
Borrowed funds	5.45	3.05	2.00
As at June 30, 2012			
Assets			
Treasury bills	6.05	-	-
Deposits with banks and other financial institutions	3.54	-	-
Loans and advances to customers	7.30	-	-
Liabilities			
Due to customers	7.71	-	-
Borrowed funds	3.89	3.05	2.00

(iv.) Sensitivity Analysis

Cash flow interest rate risks arise from borrowings at variable rates. At June 30, 2013 if variable interest rates had been 1% higher/lower with all other variables held constant, profit for the year would have been $158,070 higher/lower.

(Expressed in Eastern Caribbean Dollars)

5. **Financial Risk Management**: *(cont'd)*

(d) *Liquidity Risk*

The Bank is exposed to daily calls on its available cash resources from maturing deposits and loan disbursement. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of other borrowing facilities that should be placed to cover withdrawals at unexpected levels of demand.

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 to be completely matched, as transacted business is often of uncertain term and different types. An unmatched position potentially enhances profitability, but also increases the risks of losses.

The maturities and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they measure, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates.

(i.) *Non-derivative Cash Flows*

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

		1 Year	2 – 5 Years	Over 5 Years	Total
Assets at June 30, 2013					
Financial liabilities					
Due to customers	$	2,695,856	8,211,982	-	10,907,838
Borrowed funds		22,126,501	51,185,478	64,849,021	138,161,000
Other liabilities		2,143,625	6,499,610	-	8,643,235
Total financial liabilities	$	26,965,982	65,897,070	64,849,021	157,712,073
Assets at June 30, 2012					
Financial liabilities					
Due to customers	$	4,873,545	6,532,044	-	11,405,589
Borrowed funds		12,802,895	61,304,273	67,359,937	141,467,105
Other liabilities		1,834,182	6,082,369	-	7,916,551
Total financial liabilities	$	19,510,622	73,918,686	67,359,937	160,789,245

(Expressed in Eastern Caribbean Dollars)

5. **Financial Risk Management**: *(cont'd)*

(d) *Liquidity Risk (cont'd)*

(ii.) Loan Commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extended credit to customers and other facilities are summarised in the table below.

		1 Year	2 – 5 Years	Total
As at June 30, 2013				
Loan commitments	$	12,672,202	9,192,352	21,864,554
As at June 30, 2012				
Loan commitments	$	9,811,475	13,227,701	23,039,176

(e) *Fair Values of Financial Assets and Liabilities*

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists. The following methods and assumptions were used to estimate the fair value of financial instruments.

The fair values of cash resources, other assets and liabilities, cheques and other items in transit and due to other banks are assumed to approximate their carrying values due to their short-term nature.

(i.) Loans and Advances to Customers

Loans and advances are net of provisions for impairment. The estimated fair values of loans and advances represent the discounted amount of estimated future cash now expected to be received. Expected cash flows are discounted at current market rate to determine fair value.

(ii.) Investment Securities

Assets classified as available for sale are measured at fair value.

5. **Financial Risk Management**: *(cont'd)*

(e) Fair Values of Financial Assets and Liabilities (cont'd)

(iii.) Due to Other Banks and Customers, Other Deposits and Other Borrowed Funds

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

Deposits payable on a fixed date are at rates that reflect market conditions and are assumed to have fair values which approximate carrying values.

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value.

		Carrying Value		Fair Value	
		2013	**2012**	**2013**	**2012**
Financial assets					
Loans and advances to customers	$	152,403,959	145,405,600	152,403,959	145,405,600
Financial liabilities					
Due to customers	$	10,907,838	10,746,344	10,907,838	10,746,344
Borrowed funds		114,577,735	117,202,580	80,053,475	82,478,987

5. **Financial Risk Management**: *(cont'd)*

(f) *Fair Value Hierarchy*

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchange.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

Financial Assets measured at fair value

		Level 1	Level 2	Level 3	Total
Available for sale investments					
- Equity securities	$	-	192,330	1,215,969	1,408,299

(g) *Capital Management*

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial positions, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business

Capital adequacy and the use of regulatory capital are monitored by the Bank's management.

6. **Critical Accounting Estimates, and Judgments in Applying Accounting Policies**:

Critical Accounting Estimates and Judgements:
The Bank makes estimates and assumptions concerning the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These accounting estimates will, by definition, seldom equal the related actual results. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Impairment Losses on Loans and Advances*
The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated $3,620,950 lower or higher.

(b) *Impairment of Available-for-Sale Equity Investments*
The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, evidence of deterioration in the financial health of the investee industry and sector performance, changes in technology and operational and financing cash flows. There were no declines in fair value below cost considered significant or prolonged as at June 30, 2013.

(Expressed in Eastern Caribbean Dollars)

6. **Critical Accounting Estimates, and Judgments in Applying Accounting Policies**: *(cont'd)*

(c) *Revenue Recognition:*
The IEU recognizes revenue generally when collection of the resulting receivable is reasonably assured. Should the IEU consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the collectability is reasonably assured.

During the year, the IEU did not recognize revenue on rental amounting to $183,272 (2012 - $249,483), as significant uncertainties regarding recovery exist. This relates to rental from tenants who are in difficult economic situations and have not paid their rents for several years now.

7. **Cash and Balances with the Central Bank**:

(a)

		2013	2012
Cash in hand	$	1,100	1,100
Balances with Central Bank		1,245	1,245
Included in cash and cash	$	2,345	2,345

			2013	2012
(b)	Cash and balances with the Central Bank	$	2,345	2,345
	Treasury bills		410,000	2,412,000
	Items in course of collection with other banks		-	4,683,233
	Bank overdraft		(1,832,124)	-
		$	(1,419,779)	7,097,578

8. **Treasury Bills**:

	Note		2013	2012
Treasury bills	7 (b)	$	410,000	2,412,000

Treasury bills are debt securities issued by the Government of Dominica for a term of three (3) months. The weighted average effective interest rate in 2013 is 3.97% (2012 – 6.05%).

(Expressed in Eastern Caribbean Dollars)

9. **Deposits with Banks and Other Financial Institutions**:

	Note		2013	2012
Items in the course of collection with other banks	7 (b)	$	-	4,683,233
Placements with banks and other financial institutions			3,946,189	4,713,708
		$	3,946,189	9,396,941

The weighted average effective interest rate in respect of interest bearing deposits in 2013 is 2.53% (2012 – 3.54%).

10. **Loans and Advances to Customers**:

	Note		2013	2012
Demand loans		$	134,653,394	128,886,823
Mortgage loans			33,111,883	30,286,336
			167,765,277	159,173,159
Less: allowance for impairment losses on loans and advances	11		(15,361,318)	(13,767,559)
			152,403,959	145,405,600
Current			18,784,563	19,400,008
Non-current			133,619,396	126,005,592
		$	152,403,959	145,405,600

The weighted average effective interest rate on productive loans stated at amortised cost at June 30, 2013 is 7.62% (2012 – 7.30%).

(Expressed in Eastern Caribbean Dollars)

11. **Allowance for Impairment losses on loans and advances**:

		2013	2012
Demand loans			
At beginning of year	$	13,370,483	12,232,408
Provision for impairment losses		1,818,209	1,345,710
Amounts recovered during the year		170,633	41,570
Transfer from mortgage loans		284,193	-
Written-off during the year as uncollectible		(404,959)	(249,205)
At the end of year		15,238,559	13,370,483
Mortgage loans			
At beginning of year		397,076	286,665
Provision for impairment losses		-	102,233
Transfer to demand loans		(284,193)	-
Amounts recovered during the year		11,159	38,966
Written-off during the year as uncollectible		(1,283)	(30,788)
At the end of year		122,759	397,076
	$	15,361,318	13,767,559

12. **Available-for-sale Investments**:

		2013	2012
Equity securities – at fair value:			
- Listed	$	143,330	143,330
- Unlisted		1,264,969	1,264,969
	$	1,408,299	1,408,299

Movements of the Bank's available-for-sale investments are as follows:

		2013	2012
At beginning of year		1,408,299	1,267,340
Acquisition of ordinary shares		-	135,959
Unrealised gain/(loss) from changes in fair value charge to profit and loss		-	5,000
	$	1,408,299	1,408,299

13. **Investment Properties**:

		Land	Factory Building	Total
Cost/Valuation:				
As at July 01, 2011	$	12,161,363	18,054,011	30,215,374
Acquisition		-	131,972	131,972
As at June 30, 2012	$	12,161,363	18,185,983	30,347,346
Acquisition		-	541,019	541,019
As at June 30, 2013	$	12,161,363	18,727,002	30,888,365

Included in the investment property is land amounting to EC$8,617,099 for which the Bank does not yet have satisfactory title, as the documents to effect the transfer of the title are still being processed by the Bank's lawyers and the government authorities.

The investment properties are industrial sheds being held for long and short term rental for use in the production or supply of goods or services, or administrative purposes for or sale in the ordinary course of business; and lands held for capital appreciation or sale in the ordinary course of business

(Expressed in Eastern Caribbean Dollars)

14. **Property, Plant and Equipment**:

		Land	Buildings	Motor Vehicles	Furniture and Equipment	Computer Equipment	Work in Progress	Total
Cost:								
Balance – June 30, 2011	$	1,896,183	7,063,506	133,000	1,130,390	819,928	446,737	11,489,744
Additions and transfers		-	110,000	-	310,026	41,636	-	461,662
Disposals		-	-	-	(4,808)	(8,858)	-	(13,666)
Balance - June 30, 2012	$	1,896,183	7,173,506	133,000	1,435,608	852,706	446,737	11,937,740
Cost:								
Balance – June 30, 2012	$	1,896,183	7,173,506	133,000	1,435,608	852,706	446,737	11,937,740
Additions and transfers		-	-	-	83,565	191,837	-	275,402
Disposals					(7,985)	-	-	(7,985)
Balance – June 30, 2013	$	1,896,183	7,173,506	133,000	1,511,188	1,044,543	446,737	12,205,157
Accumulated Depreciation								
Balance – June 30, 2011	$	-	1,808,408	120,800	887,858	726,937	-	3,544,003
Depreciation		-	145,388	12,200	145,027	70,105	-	372,720
Disposals		-	-	-	(4,808)	(8,858)	-	(13,666)
Balance – June 30, 2012	$	-	1,953,796	133,000	1,028,077	788,184	-	3,903,057
Accumulated Depreciation								
Balance – June 30, 2012	$	-	1,953,796	133,000	1,028,077	788,184	-	3,903,057
Depreciation		-	145,388	-	101,983	155,058	-	402,429
Disposals		-	-	-	(4,403)	-	-	(4,403)
Balance – June 30, 2013	$	-	2,099,184	133,000	1,125,657	943,242	-	4,301,083
Net Book Value:								
Balance – June 30, 2012	$	1,896,183	5,219,710	-	407,531	64,522	446,737	8,034,683
Balance – June 30, 2013	$	1,896,183	5,074,322	-	385,531	101,301	446,737	7,904,074

15. **Other Assets**:

		2013	2012
Rent receivable	$	734,804	600,199
Other receivables		1,762,327	1,380,164
Less allowance for impairment losses		(593,895)	(568,895)
		1,903,236	1,411,468
Prepayments		4,301	4,301
	$	1,907,537	1,415,769

16. **Bank Overdraft**:

	Notes		2013	2012
National Bank of Dominica	7 (b)	$	1,832,124	-

The overdraft facility is guaranteed by the Government of Dominica in accordance with the provision of the Loans Act, Chapter 64:05 Section 3(1) of the 1990 Revised Laws of the Commonwealth of Dominica. Interest is charged on the facility at a rate of (8%) percent per annum.

17. **Due to Customers**:

		2013	2012
Fixed deposits	$	7,641,403	8,375,351
Refundable deposits		2,288,355	2,001,895
Loan prepayments		978,080	1,028,343
	$	10,907,838	11,405,589
Current		2,695,856	4,873,544
Non-current		8,211,982	6,532,045
	$	10,907,838	11,405,589

All fixed deposits carry fixed interest rates. The weighted average effective interest rate of fixed deposits at June 30, 2013 is 5.57% (2012 – 5.82%).

(Expressed in Eastern Caribbean Dollars)

18. **Borrowed Funds**:

		2013	2012
Caribbean Development Bank	$	48,819,264	51,381,595
Dominica Social Security		15,480,255	17,031,150
European Investment Bank		7,501,271	8,576,026
Government of Dominica		5,601,964	5,826,869
Republic of China		1,735,821	1,858,734
BANDES – Economic and Social Development Bank of Venezuela		16,272,900	16,272,900
Government of Dominica (Petrocaribe Fund)		10,000,000	5,072,222
National Bank of Dominica		9,166,260	11,183,084
	$	114,577,735	117,202,580
Current		18,545,150	12,132,307
Non-current		96,032,585	105,070,273
	$	114,577,735	117,202,580

These loans earn interest ranging from 2% to 8% and are guaranteed by the Government of Dominica.

19. **Other Liabilities**:

		2013	2012
Agency liabilities	$	4,246,810	3,998,807
Deferred income		575,511	602,941
Dividends payable		500,000	250,000
Grants		230	10,230
Others		3,320,684	3,054,573
		8,643,235	7,916,551
Current		2,143,625	2,493,427
Non-current		6,499,610	5,423,124
	$	8,643,235	7,916,551

Deferred income relates to appraisal fees from the prior year which were not amortised.

19. **Other Liabilities**: *(cont'd)*
Agency liabilities are funds issued to the Bank by the Government of Dominica and other local agencies to be used for qualifying purposes. The Bank earns agency fees as prescribed by contractual agreement.

Others relates to accrued liabilities comprised as follows:

		2013	2012
Gratuity payable	$	2,428,894	2,270,430
Vacation leave and salaries payable		318,738	320,414
IEU tenants security deposits		205,688	184,270
Other payables		367,364	279,459
	$	3,320,684	3,054,573

20. **Fiduciary Activities**:
The Bank acts as executing and collecting agent for funds used for specific purposes issued to the Bank by the Government of Dominica and other local agencies. The Bank earns agency fees as prescribed by the commercial agreement.

21. **Share Capital**:

		2013	2012
Authorised:			
10,000,000 ordinary shares with a $5 par value	$	50,000,000	50,000,000
Issued and fully paid:			
3,509,526 ordinary shares	$	17,547,631	17,547,631
6,084,515 ordinary shares		30,422,574	30,422,574
	$	47,970,205	47,970,205

Section 16A of Chapter 74:03 of the Laws of Dominica empowers the Bank to redeem its shares at any time after the expiration of ten years from the date of issue. Shares issued to the Government of Dominica are not redeemable.

21. **Share Capital**: *(cont'd)*

Based on the statutory rules and orders No. 57 of 1993 of the Government of the Commonwealth of Dominica titled, Dominica Agricultural Industrial and Development Bank (Subscription and Holdings of Shares) Regulations 1993, the Dominica Social Security may subscribe one million ordinary shares at $5 par value and be entitled to an annual dividend of not less than 5% of the par value of the shares subscribed.

22. **Reserves**:

		2013	**2012**
General reserve	$	88,234	88,234
Statutory reserve		7,600,803	7,276,532
Special reserves		1,101,678	1,096,017
	$	8,790,715	8,460,783

Movements in reserves were as follows:

		2013	**2012**
General reserve			
At beginning and end of year	$	88,234	88,234

Prior to July 1, 1978, the Government of Dominica paid certain administrative expenses of the Bank. The Government decided to waive the amount of $88,234 due to it and instructed the Bank to create a general reserve for this amount.

		2013	**2012**
Statutory reserve			
At beginning of year	$	7,276,532	7,024,356
Transfer from retained earnings		324,271	252,176
At end of year	$	7,600,803	7,276,532

This represents twenty-five (25%) of the net earnings of the Bank for each financial year allocated to the reserve account as required by Section 20 of Chapter 74:03 of the Laws of Dominica Revised Edition.

(Expressed in Eastern Caribbean Dollars)

22. **Reserves**: *(cont'd)*

		2013	2012
Special reserves			
Caribbean Development Consolidated Entity Provision			
At beginning and end of year	$	441,122	441,122
Foreign exchange equalization			
At beginning of year	$	654,895	675,898
Transfers from retained earnings		14,581	-
Foreign exchange loss utilization		(8,920)	(21,003)
At end of year		660,556	654,895
	$	1,101,678	1,096,017

Under the provision of Caribbean Development Bank (CDB) loan I6/SFR-D Section 9 (9) for agricultural production, the Bank is required to set aside an amount representing 1/3 of earned interest per annum on each sub-loan. This amount is to be used in such a manner as the CDB may from time to time determine.

Special reserves include accumulated transfers from retained earnings based on European Investment Bank Loan Agreement Section 6.07 requiring interest received by the Bank on sub-loans in excess of 8% per annum to be credited on a special account called Foreign Exchange Equalization Fund (FEEF). The balance on the FEEF shall attract interest at an annual rate corresponding to the monthly rate payable by the Bank, for deposits in Eastern Caribbean Dollars of equivalent size.

		2013	2012
Revaluation reserve – available-for-sale investments			
At beginning of year	$	5,000	-
Unrealized gain from changes in fair value		-	5,000
At end of year	$	5,000	5,000

(Expressed in Eastern Caribbean Dollars)

23. Net Interest Income:

		2013	2012
Interest Income			
Loans and advances	$	12,390,385	10,716,370
Deposits with banks		290,713	390,681
		12,681,098	11,107,051
Interest Expense			
Long-term debt		(4,543,371)	(3,874,554)
Interest on deposits		(304,629)	(358,032)
		(4,848,000)	(4,232,586)
	$	7,833,098	6,874,965

24. Other Operating Income:

		2013	2012
Rental income from IEU operations	$	1,103,534	1,140,687
Others		295,485	431,679
Commitment fees		263,035	263,583
Gain on foreign exchange		156,504	703,076
Agency fees		119,298	138,483
Refund from European Investment Bank		-	9,838
	$	1,937,856	2,687,346

25. **Other Operating Expenses**:

	Notes		2013	2012
Staff costs	26	$	3,594,122	3,505,666
Administrative expenses	27		1,695,784	2,097,004
Building occupancy expenses			555,063	541,340
Depreciation	14		402,429	372,720
Factory sheds expenses			383,264	568,433
Bad debt expense			25,000	25,000
		$	6,655,662	7,110,163

26. **Staff Costs**:

		2013	2012
Salaries and wages	$	2,664,193	2,402,074
Social Security Costs		149,462	140,674
Group insurance		60,901	93,941
Other staff costs		719,566	868,977
	$	3,594,122	3,505,666
Number of employees		43	39

27. **Administrative Expenses**:

		2013	2012
Legal and professional fees	$	558,081	811,619
Advertising		229,654	370,528
Directors' emoluments		173,087	168,094
Telephone, postage and fax		109,990	104,697
Printing, stationery, and office supplies		88,013	102,055
Subscriptions and donations		86,437	79,640
Annual report		48,645	41,091
Repair and maintenance of furniture and equipment		47,187	48,901
Motor vehicle expenses		43,971	48,859
Insurance		30,938	30,141
Miscellaneous expenses		279,781	291,379
	$	1,695,784	2,097,004

28. **Dividends**:

The Bank declared a 5% dividend amounting to $250,000 (2012 - $250,000) with respect to the ordinary shares held by the Dominica Social Security.

29. **Related Party Transactions**:

A party is related to the Bank, if:

(i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the Bank that gives it significant influence over the Bank; or has joint control over the Bank;

(ii) the party is an associate of the Bank;

(iii) the party is a joint venture in which the Bank is a venturer;

(iv) the party is a member of the key management personnel of the Bank or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is the entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

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.

Loans and Advances outstanding from related parties are as follows:

		2013	**2012**
Rain Forest Tram Ltd.	$	1,759,950	1,759,950
Financial Data Services Limited		620,968	332,759
	$	2,380,918	2,092,709

The above related party balance due from Rain Forest Tram Ltd., has been classified as non-accrual as principal and interest have been in arrears pass due over ninety (90) days.

No provision for loan impairment has been made as required by the Bank's accounting policies for amount outstanding from Rain Forest Tram Ltd. An impairment provision has not been made because the funds advanced were from a specific source, the European Investment Bank.

(Expressed in Eastern Caribbean Dollars)

29. **Related Party Transactions**: *(cont'd)*

The agreement with the European Investment Bank specifies that in the event of the Bank's failure to recover the outstanding amount from the Rain Forest Tram Ltd., the amount funded for this loan would no longer be repayable; as such the Bank is not expected to incur any losses upon default of this loan.

The Bank also holds equity investments in the Rain Forest Tram Ltd. amounting to EC$1,000,000.

At year-end, directors of the Bank and companies in which they have an interest had fixed deposits with the Bank of $10,000 and had loans and guaranteed loans with outstanding balances of $232,686.

In 2013, the total remuneration paid to directors and key management personnel was $984,217 (2012 - $936,244).

The Bank's outstanding obligations to its related parties are as follows:

		2013	2012
Dominica Social Security	$	15,480,254	17,031,151
Government of Dominica		5,601,964	5,826,869
	$	21,082,218	22,858,020

30. **Contingent Liabilities and Commitments**:

As at year-end, loans and advances approved by the Bank but not yet disbursed, amounted to approximately $21,864,554 (2012 - $23,039,176).

31. **Taxation**:

Under the provision of Chapter 74:03 Sections 32 of the Laws of Dominica, the Bank is exempted from the payment of income tax.

Members of Staff

As at June 30, 2013

OFFICE OF THE GENERAL MANAGER

Mr. K. C. Thomas	-	General Manager/Consultant until March 4, 2013
Mr. J. J. Corbett	-	General Manager from May 6, 2013
Mrs L. Irish-Wade	-	Internal Auditor

CREDIT OPERATIONS DIVISION

Mrs. M. John Rose	-	Executive Manager, Credit Operations
Mrs. M. Abel	-	Manager Credit
Mrs. P. Shillingford Chambers	-	Credit Officer
Mr. F. Fabien	-	Credit Officer
Mrs. N. Faustin	-	Credit Officer
Ms. E. Alfred	-	Credit Officer
Ms. H. Sylvester	-	Securities Officer
Mr. A. Thomas	-	Disbursement Officer
Ms. M. Robinson	-	Customer Service Rep.
Ms. S. Victor	-	Receptionist

Recoveries Unit

Ms. P. Etienne	-	Manager Recoveries
Mr. C. Lloyd	-	Senior Recoveries Officer
Mrs. R. Xavier	-	Special Operations Recoveries Officer
Ms. G. Shillingford	-	Recoveries Officer
Mr. K. Albert	-	Recoveries Officer

CORPORATE SERVICES DIVISION

Mrs. E. Harris Collymore	-	Executive Manager, Corporate Affairs
Mrs. J. Dechausay Titre	-	Special Projects/ Communications Coordinator

MIS Unit

Mrs. A. Coipel	-	Senior Manager, Information Systems
Mrs. L. Gonzalez-Peltier	-	Applications Support Analyst, MIS
Mr. K. Sylvester	-	Technical Officer, MIS

Industrial Estate Unit

Mr. I. Williams	-	Manager, IEU
Mr. A. H. LeBlanc	-	Assistant Manager, IEU/ Technical Advisor Deceased May 25, 2013
Mrs. R. Hyacinth	-	Administrative Officer
Mr. G. Eloi	-	Technical Officer
Mr. J. J. O'garro	-	Maintenance Officer

Legal Unit

Ms. N. Winston	-	Legal Secretary

ACCOUNTS AND FINANCE DIVISION

Ms. V. E Abraham	-	Senior Manager, Finance and Accounts
Ms. C. Joseph	-	Assistant Manager, Finance and Accounts (From April 1, 2013)
Mrs. I. Bruno	-	Assistant Manager, Finance and Accounts (On study leave from October 11, 2012)
Ms. A. Dupigny	-	Senior Officer, Finance and Accounts
Mr. K. Shillingford	-	Senior Officer, Finance and Accounts
Mr. M. Allan	-	Officer Finance and Accounts
Ms. N. Laurent	-	Accounts Officer

HUMAN RESOURCE DIVISION

Mrs. U. McDowell-Job	-	Senior Manager, Human Resource and Administration
Ms. R. Thomas	-	Assistant Manager, Human Resource and Administration/ Board Secretary
Ms. G. Edwards	-	Registry Officer
Mr. G. Nicholls	-	Office Attendant