Dominica Agricultural Industrial and Development Bank

Fulfilling Our Role in the Development of a Resilient Dominica

Annual Report

for the year ended June 30th 2016

Our Mission

To be a leader, catalyst and model of sustainable development in the Commonwealth of Dominica by facilitating social and economic investments, partnering with and adding value to all our stakeholders.

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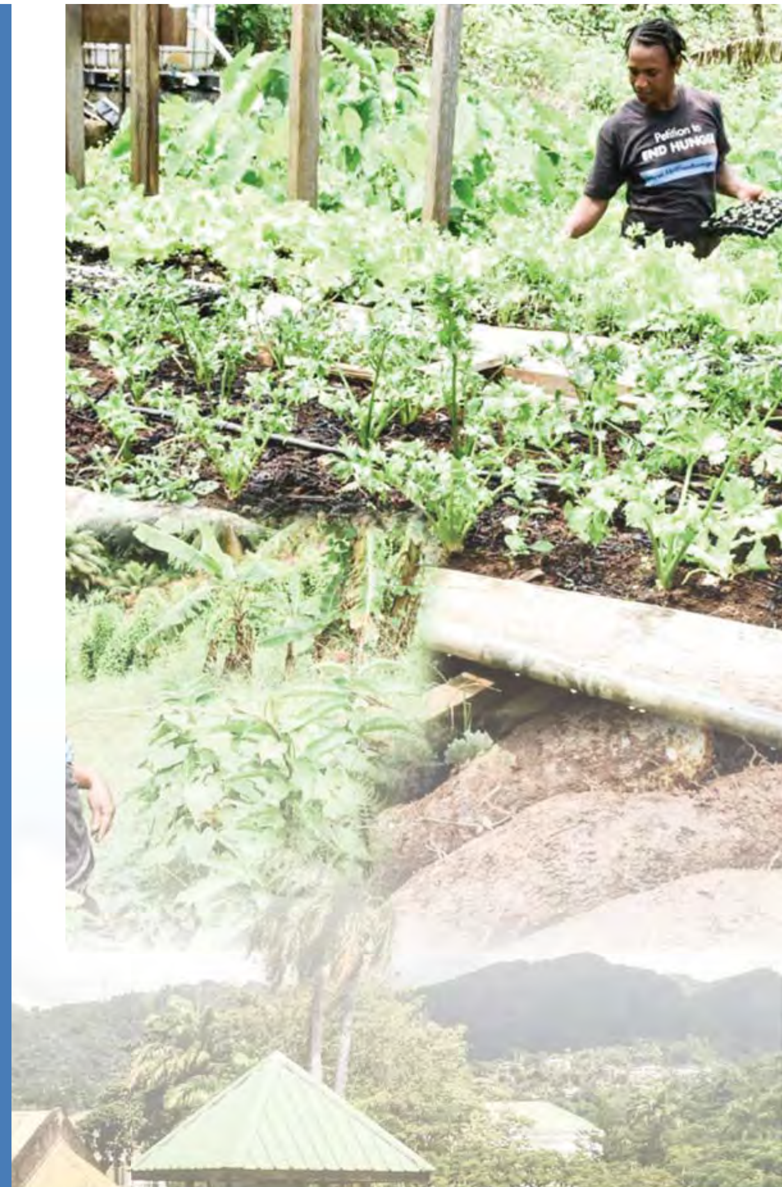
Our Vision

To be a premier development finance institution in the Caribbean region.

Contents



Acronyms and Abbreviations

AFS	Available for Sale
CARICRIS	Caribbean Information & Credit Rating Services Limited
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CDF	CARICOM Development Fund
CTCS	Caribbean Technological Consultancy Services
BANDES	Banco de Desarrollo Económico y Social de Venezuela
DAIDB	Dominica Agricultural Industrial & Development Bank *(also known as AID Bank)*
DFI	Development Finance Institution
DPAC	Loan Management Software produced by FDSL
DSC	Dominica State College
DYBT	Dominica Youth Business Trust
ECCB	Eastern Caribbean Central Bank
EC$	Eastern Caribbean Dollar
EIB	European Investment Bank
ERM	Enterprise Risk Management
FEEF	Foreign Exchange Equalization Fund
FDSL	Financial Data Systems Limited
GDP	Gross Domestic Product
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IFRIC	International Financial Reporting Interpretations Committee
IEU	Industrial Estate Unit
MSME	Micro, Small and Medium-sized Enterprises
NBD	National Bank of Dominica
NEP	National Employment Program
NP	Non-performing
OCI	Other Comprehensive Income
OECS	Organization of Eastern Caribbean States
SFR-D	Special Fund Resources - Dominica
TS Erika	Tropical Storm Erika
US$	United States Dollar
USD	United States Dollar
XCD	Eastern Caribbean Dollar

Chairman's Letter of Transmittal

Honourable Roosevelt Skerrit
Prime Minister and Minister for Finance
Prime Minister's Office
Financial Centre
Kennedy Avenue
Roseau
Commonwealth of Dominica

September 30, 2016

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, 2016.

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, 2016

Mr. Martin Charles - *Chairman*

Mr. Simpson Gregoire - *Deputy Chairman*

Ms. Denise Charles - *Director*

Mrs. Evannah Emmanuel - *Director*

Mr. Hubert Joseph - *Director (Until August 2015)*

Mr. Leon LeBlanc - *Director*

Ms. Helen Pascal - *Director*

Mr. Colbert Pinard - *Director*

Mr. Bentley Royer - *Director*

Ms. Joy Roberts - *Director (from March 2016)*

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Commonwealth of Dominica, W.I.
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Fax: 767 448-4903
E-mail: aidbank@cwdom.dm
Website: www.aidbank.com

Members of Senior Management

As at June 30, 2016

Mr. J. J. Corbett	-	General Manager
Dr. E. Harris Collymore	-	Executive Manager, Corporate Affairs
Mrs. M. John Rose	-	Executive Manager, Credit Operations
Ms. V. E. Abraham	-	Senior Manager, Finance and Accounts
Mrs. U. McDowell-Job	-	Senior Manager, Human Resource and Administration *(Retired January 2016)*
Mrs. A. Coipel	-	Senior Manager, Management Information Systems
Mrs. R. Hyacinth	-	Senior Manager Human Resource and Administration *(Ag.) (from February 2016)*
Mrs. M. Abel	-	Manager, Credit
Ms. P. Etienne	-	Manager, Recoveries
Mr. F. Fabien	-	Manager, Industrial Estate Unit *(Ag.) (from February 2016)*
Mrs. L. Irish-Wade	-	Internal Auditor
Mr. S. Lander	-	Risk Officer *(until November 2015)*
Ms. T. Jean Jacques	-	Risk Officer *(from April 2016)*

Members of Management & Staff

As at June 30, 2016

OFFICE OF THE GENERAL MANAGER

Mr. J. J. Corbett	-	General Manager
Mrs. L. Irish-Wade	-	Internal Auditor
Mr. Stephen Lander	-	Risk Officer *(until November 2015)*
Ms. T. Jean Jacques	-	Risk Officer *(from April 2016)*
Mrs. P. Shillingford Chambers	-	General Manager's Secretary (Ag.)*(from May 2016)*

CREDIT OPERATIONS DIVISION

Mrs. M. John Rose	-	Executive Manager, Credit Operations
Mrs. M. Abel	-	Manager Credit
Mrs. N. Faustin	-	Credit Officer
Ms. E. Alfred	-	Credit Officer
Mrs. H. Albert	-	Securities Officer
Mr. A. Thomas	-	Disbursement Officer
Ms. M. Robinson	-	Customer Service Rep.

RECOVERIES UNIT

Ms. P. Etienne	-	Manager, Recoveries
Mrs. R. Xavier	-	Special Operations Recoveries Officer
Mr. K. Albert	-	Recoveries Officer
Ms. G. Edwards	-	Recoveries Officer (Ag.)
Mr. K. Shillingford	-	Recoveries Officer (Ag.)
Mr. G. Nicholls	-	Recoveries Officer (Ag.)
Ms. N. Winston	-	Recoveries Officer (Ag.)
Ms. S. Victor	-	Recoveries Officer (Ag)

CORPORATE SERVICES DIVISION

Dr. E. Harris Collymore	-	Executive Manager, Corporate Affairs
Mrs. J. Dechausay Titre	-	Special Projects/Communications Coordinator
Ms. B. Bethel	-	Agricultural Development Officer *(From June 2016)*

MIS UNIT

Mrs. A. Coipel	-	Senior Manager, Management Information Systems
Ms. L. Gonzalez-Peltier	-	Applications Support Analyst, MIS
Mr. K. Sylvester	-	Technical Officer, MIS
Ms. A . Roache	-	Intern
Mr. I. Bannis	-	Intern

INDUSTRIAL ESTATE UNIT

Mr. F. Fabien	-	Manager, Industrial Estate Unit (Ag.) *(from February 2016)*
Mr. G. Eloi	-	Technical Officer, IEU
Ms. G. Shillingford	-	Recoveries Officer, IEU (Ag.) *(Retired February 2016)*
Mr. J. O'garro	-	Maintenance Officer

ACCOUNTS AND FINANCE DIVISION

Ms. V. E. Abraham	-	Senior Manager, Finance and Accounts
Mrs. I. Prosper-Bruno	-	Assistant Manager, Finance and Accounts
Ms. A. Dupigny	-	Senior Accounts Officer
Mr. M. Allan	-	Senior Accounts Officer
Ms. N. Laurent	-	Accounts Officer

HUMAN RESOURCE DIVISION

Mrs. R. Hyacinth	-	Senior Manager Human Resource and Administration (Ag.) *(From February 2016)*
Mrs. U. McDowell-Job	-	Senior Manager, Human Resource and Administration *(Retired January 2016)*
Mrs. R. Thomas-Pipe	-	Assistant Manager, Human Resource and Administration/ Board Secretary
Mr. Terry Harry	-	Office Attendant (Ag.)
Ms. V. Henderson	-	Intern

INTERNS UNDER THE NATIONAL EMPLOYMENT PROGRAMME

Mr. N. Brewster	-	Intern, Corporate Affairs Division
Ms. K. Winston	-	Intern, Credit Division
Mr. D. Tyson	-	Intern, Credit Division
Mr. M. Henry	-	Intern, Credit Division
Ms. F. Royer	-	Intern, Credit Division
Mr. Kestar Toussaint	-	Intern, Credit Division
Ms. R. St. Jean	-	Intern, Finance & Accounts Division
Ms. M. Quammie	-	Intern, Industrial Estate Unit

Chairman's Statement

June 2016

Dear Shareholders,

On behalf of the Board of Directors, I am especially delighted to present the Bank's Annual Report for the financial year ended June 30, 2016.

The financial year 2016 was indeed a challenging one, particularly in light of the loss of human life, destruction of physical infrastructure and negative impact on the Dominican economy caused by Tropical Storm Erika in August 2015. As a result of this storm, the country's economic output declined by an estimated 3.9 percent in 2015.

Nonetheless, the Bank has remained relevant to development in the face of adversities. We made direct financial contributions to persons affected by the storm, we made space available in our industrial estate for relief supplies and provided grace periods to customers where needed. We continued to prioritize sustainable investments in the productive and other important sectors of the economy. I am deeply proud of the work that this Bank has done, and the impact that it has had on thousands of lives for the past 45 years.

AID Bank plays a developmental role which is not comparable to that of commercial banks. It is expected that we serve as a vehicle to promote the economic prosperity of the citizenry and therefore, our lending decisions are not solely based on profitability but also embraces the social and economic developmental potential of projects. These types of projects are not always viable and pose a great challenge to the Bank but all the same, these are necessary risks that the bank must take in the fulfilment of its mandate.

In the past financial year, the Bank has had to work hard to achieve positive financial results, and I am pleased to report a modest profit on operations of $1,200,790, as at June 30, 2016.

Manufacturing: *Machinery*

Amid mounting uncertainty to finance its lending activities because of lack of lines of credit from our traditional lenders, the bank had to mobilize funding from local financial institutions amounting to $15 million together with the use of internally generated funds which eased liquidity pressures.

In an effort to achieve its financial targets the Bank mounted a marketing campaign in the beginning of the financial year resulting in the growth of the loan portfolio by 4.02 percent from $162.49 million in June 2015 to $169.02 million by June 2016. This is consistent with the general decline experienced in banks' credit to the private sector.

However, the subdued economic environment negatively impacted the Bank's lending activities resulting in approvals of $13.7 million, which were 52.3 percent lower than the previous year, and in disbursements of $17.45 million, which were 15.12 percent lower than the previous year.

Last year I reported that the bank would be challenged by its non-performing loans. Notwithstanding the economic climate between 2009 and 2012, the bank invested heavily in large projects which have negatively impacted the bank. To this end, the bank has had to put in place the necessary framework to deal with delinquent borrowers. I therefore, urge these borrowers to make good on their promise, to pay the bank and as a consequence, fundamental changes are being made in the approval process of loans. We can no longer operate business as usual.

Shareholders, it is the Board's collective wish that the bank will soar like an eagle and reach ever greater heights. For this reason, the bank is rebooting with a new business development and delivery model which will enhance its relationship with its clients, raise performance, efficiency and income while maintaining development impact. This we believe is the trajectory of sustainable growth for the bank and for our country.

The Bank continued to roll-out the action plans identified in its strategic plan 2014-2017. The following are the highlights of activities geared at achieving our goals and objective:

1. To enhance its customer care and corporate image, the Credit Operations and other staff received training in contemporary selling techniques and planning its marketing activities. The Bank also began exploring the rebranding of the institution.

2. To improve internal business processes, the Bank is tackling head-on its internal controls which are being strengthened through new and enhanced policies and procedures. Revised credit and human resource policies and procedures were both approved during the financial year. The internal audit function continued with comprehensive, independent and objective assurance on the internal controls by aligning audits to key business risks and operational and financial priorities based on the Bank's overall strategy.

3. To augment the data and information used in decision making, the Management Information Systems Unit was involved in several projects aimed at improving access to data and information as well as improving responsiveness to the needs and circumstances of our customers.

4. To facilitate a fresh look at the Bank's human resources and to make strategic changes that will strengthen these resources, the Bank had engaged

external consultants to review its human capacity and the final report was received during the year and is being reviewed for implementation in the financial year 2016/2017.

5. To implement an effective Enterprise Risk Management Framework, significant progress was made towards the formalization of the Bank's Risk Appetite Statement to include clearly articulated tolerance and concentration limits for loans granted in the social and productive sectors served by the Bank.

6. To facilitate space for small business enterprises, the Bank has been renovating and modifying the Geneva Shed in Grand Bay for the Ministry of Commerce, Enterprise and Small Business Development to be used as a Business Enterprise Centre targeting individuals from the South and South East who were affected by the storm.

Manufacturing: *Bee-Keeping*

We are indebted to the Government of Dominica for its continued financial and moral support. We are particularly thankful to the Honorable Prime Minister and Minister of Finance for his bold vision, expressed in his Budget Address 2016-2017, of building resilience in the economy, through various measures including pursuing export diversification and increasing access to finance.

We express heartfelt appreciation for the $25 million concessionary line of credit to the AID Bank from the Citizenship by Investment Funds for on-lending to customers in the key growth sectors of agriculture and tourism.

Manufacturing: *Teas*

We also express our profound thanks to the Financial Secretary for her steadfast support to the bank and for her oversight in ensuring that the bank operates within best practices.

Special tribute is paid to members of the Board of Directors for their unstinting support. I thank you for your great job in shepherding the bank during the year and for all the work you have done since your mandate began.

We express sincere appreciation to management and staff for their contributions and commitment throughout the year.

The Bank celebrated its 45th anniversary in November 2016. Please allow me at this juncture to salute three of our senior staff members who have journeyed with the bank. I speak here of Dr. Emaline Harris Collymore, former Executive Manager, Corporate Affairs who served the bank for 30 years, Ms. V Elfreda Abraham, former Senior Manager, Finance and Accounts who served the bank for 32 years and Mrs. Ursula McDowell-Job, former Senior Manager, Human Resource and Administration who served the bank for 27 years. All three former employees retired during the calendar year 2016. On behalf of the Board of Directors, Management and Staff, I wish to thank all three of you for your years of loyal and dedicated service to the bank. I wish you well in your future undertakings.

We are grateful to the Development Bank of St. Lucia, Grenada and Belize which readily responded to the needs of two staff members who lost their homes as a result of Tropical Storm Erika.

We express our solid commitment to our customers. As the only development Bank in Dominica we are devoted to fulfilling our role in the development of a resilient Dominica.

DAIDB Five-Year Highlights
At A Glance

INCOME STATEMENT	2016 XCD ('000)	2015 XCD ('000)	2014 XCD ('000)	2013 XCD ('000)	2012 XCD ('000)
		Restated			
Interest Income	11,191	12,447	12,697	12,681	11,107
- Interest Expense	4,444	4,694	4,834	4,848	4,233
= Net interest Income	**6,747**	**7,753**	**7,863**	**7,833**	**6,874**
+ Other Income Net	1,909	1,946	2,192	1,938	2,692
= Operating Income	**8,656**	**9,699**	**10,055**	**9,771**	**9,566**
- Staff Costs	4,044	3,677	4,100	3,594	3,506
- Administrative Costs	3,165	3,432	3,179	3,330	3,603
- Provisions	246	125	-	1,818	1,448
= Net profit	**1,201**	**2,465**	**2,776**	**1,029**	**1,009**
BALANCE SHEET	**2016 XCD ('000)**	**2015 XCD ('000)**	**2014 XCD ('000)**	**2013 XCD ('000)**	**2012 XCD ('000)**
Assets		Restated	Restated		
Cash and Balances with Central Bank	19	16	23	2	2
+ Deposit with Other Banks	2,713	5,667	8,421	3,531	8,981
+ Investments [Net of Impairment]	1,449	1,441	1,691	2,234	4,236
+ Investment Properties	33,634	33,891	31,716	30,888	30,347
+ Loans [Net of Impairment]	162,028	157,386	154,302	156,843	145,406
+ Other	12,863	12,574	9,338	9,013	9,451
= Total Assets	**212,706**	**210,975**	**205,491**	**202,511**	**198,423**
Liabilities					
Deposits	7,548	8,174	9,393	10,908	11,406
+ Borrowings	124,894	118,195	118,860	114,578	117,203
+ Other Liabilities	10,894	13,340	11,082	10,475	7,916
+ Equity	69,370	71,266	66,156	66,550	61,898
= Total Liabilities and Equity	**212,706**	**210,975**	**205,491**	**202,511**	**198,423**
OTHER INFORMATION	**2016 XCD ('000)**	**2015 XCD ('000)**	**2014 XCD ('000)**	**2013 XCD ('000)**	**2012 XCD ('000)**
Loan Approvals ('000)	13,796	28,921	26,918	24,700	34,565
Loan Disbursements ('000)	17,451	20,560	17,477	24,231	33,373
Estimated Number of Jobs Created	354	530	548	514	826
Industrial Estate Employment	916	930	773	720	663
Return on Equity (per cent)	1.73	3.46	4.20	1.55	1.63
Return on Assets (per cent)	0.56	1.17	1.35	0.51	0.51
Loan Provisions as per cent of Portfolio	8.68	7.16	7.36	9.46	8.98
Loan Provisions as per cent of NP Portfolio	56.08	54.05	71.45	71.27	58.13

The Economy

Part I

The Economy of Dominica[1]

While the economy contracted in the first half of the financial period, July 2015 to June 2016, there was improved performance in the second half. There was an estimated decline in output by 3.9 percent for 2015 resulting from the downturn in the third and fourth quarters of 2015 brought on by Tropical Storm (TS) Erika. However, the records indicated stronger performance of the Dominican economy in the first two quarters of 2016, when compared to the corresponding period of the previous year. Performances of various economic sectors were mixed.

For the period of July 2014 to June 2015 beverage production amounted to 504,472 cases increasing by 30.46 percent to 658,154 cases for the financial year ended in June 2016. This growth was primarily a result of an increase in domestic sales of beverages.

The value of beverage production increased by 6.85 percent from $ 7.74 million in the financial year ended June 2015 to $ 8.27 million in the year ended June 2016.

The production of chemicals declined sharply by 75.71 percent from 6,196.1 tonnes in the financial year ended June 2015 to 1,504.82 tonnes in the financial year ended June 2016. The value of chemicals produced recorded a similar decline of 75.48 percent from $ 36.01 million to $ 8.83 million over the same period. This decline was attributed to the closure of a major manufacturing company after TS Erika.

Construction activity reduced significantly in the last two quarters of 2015 and then expanded significantly in the first two quarters of 2016. The result was an increase by 26.23 percent in the number of construction

Sources:
Central Statistical Office, 'Quarterly Economic Indicators', Third and Fourth Quarters, 2015 and First and Second Quarters 2016.
ECCB, Economic and Financial Review, Volume 36, Number 1, March 2016.
International Monetary Fund, IMF Executive Board Concludes the 2016 Article IV Consultation with Dominica, Press Release No. 16/346, July 20, 2016.

starts from 61 in the financial year ended June 2015 to 77 in the financial year ended June 2016. The value of construction starts increased slightly by 1.04 percent from $ 23.16 million to $ 23.4 million over the same period.

Housing

The tourism industry was affected in the first half of the financial year under review by the temporary closure of the airport after Tropical Storm Erika, but there was an improvement in the second half of the financial year mainly due to an increase in cruise passenger arrivals and an influx of persons and groups involved in reconstruction and benevolence activities. The overall impact was a marginal increase of 0.51 percent in total visitor arrivals from 278,427 in the financial year ended June 2015 to 279,855 in the financial year ended June 2016.

Cruise passenger arrivals increased by 3.13 percent from 209,768 in the financial year ended June 2015 to 216,332 in the financial year ended June 2016. However, stay over visitors declined slightly by 1.17 percent from 66,865 in the previous financial year to 66,081 in the financial year under review. Visitor expenditure is reported to have increased by 8.6 percent from $ 506.99 million to $ 550.59 million over the same period.

Central Government recorded an increase of $ 29.33 percent in current revenue from $ 369.1 million in the financial year ended June 2015 to $ 477.37 million in the financial year ended June 2016. Current expenditure increased by 8.77 percent from $ 341.71 million to $ 371.69 million over the same period. As a result, the current balance surplus grew substantially by 284.88 percent from $ 27.39 million in the previous financial year to $ 105.42 million in the financial year under review.

The consumer price index recorded a decline of 0.68 percent in 2015 and a decline of 0.14 percent over the first two quarters of 2016. The food group index recorded an increase of 0.79 percent in 2015 and 0.31 percent over the period of January to June 2016.

The International Monetary Fund's World Economic Outlook Update of April 2016 indicated a projection for global economic growth of 3.2 percent in 2016.

The forecast for growth of the Dominican economy in 2016 is a positive 1.3 percent, conditional on the progress of continued recovery, investment in reconstruction and receipt of donor grants.

Part II

The Performance of the DAIDB

CREDIT OPERATIONS

Approvals

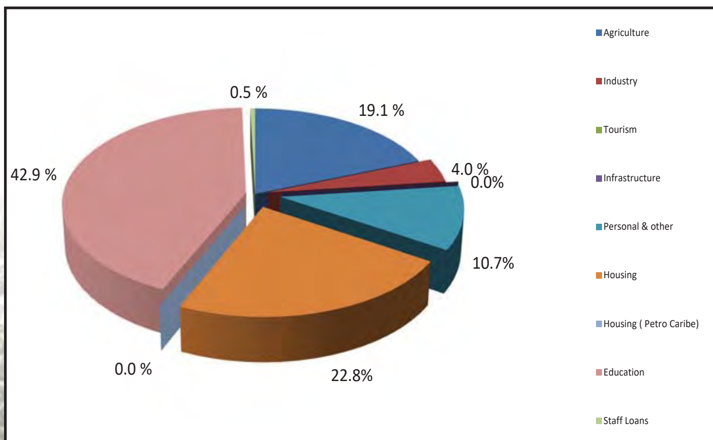
For the year ended June 30, 2016 the Bank approved 390 loans with a total value of $ 13.80 million. Education loans valued at $ 5.03 million and Housing loans valued at $ 3.83 million combined accounted for 64.20 percent of the total approvals for the period. The sectoral allocation of approvals is presented in Graph 1.

Performance

Graph 1

LOAN APPROVALS BY SECTOR

June 30, 2015



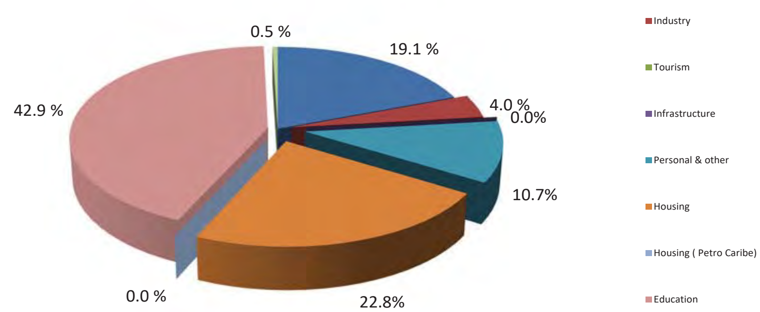
Tourism: *Hotel Pool*

Disbursements

For the twelve months ended June 30, 2016, disbursements totalled $ 17.45 million. This amount was lower than the actual disbursements for the period ended June 30, 2015 by 15.12 percent, when an amount of $ 20.56 million was disbursed. The level of disbursements for the period was attributed in part to the low level of activity in the economy directly after Tropical Storm Erika.

Disbursements for the year ended June 30, 2016 were made primarily for the Housing sector which accounted for a value of $ 7.29 million or 41.79 percent of total disbursements and the Education sector valued at $ 3.52 million or 20.15 percent of total disbursements. The sectoral distribution of disbursements is presented in Graph 2 below.

Loan Disbursements by Sector
June 30, 2015



Graph 2

The Bank disbursed $ 0.2 million on behalf of the Agriculture Investment Unit of the Ministry of Agriculture for the year in review and a cumulative total of $ 2.25 million since its inception in November 2009. For the financial year ended June 2016, the Bank had no disbursements on behalf of the Dominica Banana Recovery Programme of the Ministry of Agriculture. To date a total of $ 0.63 million was disbursed in loans while $ 0.48 million was disbursed in grants under the Banana Recovery Program.

The Bank disbursed $ 0.62 million under the Government of Dominica Student Loan Facility during the year under review. To date the Bank has received $ 5.0 million from Government and has disbursed an accumulated total of $ 4.51 million under two student loan facilities, the first of which commenced in November 2010 and the second of which began in September 2011.

Rescheduling

For the twelve months ended June 30, 2016, ninety-five loans valued at $ 8.96 million were approved for rescheduling. This comprised seven loans in the agriculture sector valued at $ 0.08 million, eleven loans in the Industry sector valued at $ 0.91 million, seven loans in the Tourism sector valued at $ 4.15 million, four loans in the Personal and Other Sector valued at $ 0.04 million, twenty loans in the Housing sector valued at $ 1.39 million, forty-five loans in the Education sector valued at $ 2.31 million and one staff loan valued at $ 0.07 million.

When compared to the twelve months ended June 30, 2015, one hundred and sixteen loans valued at $ 20.14 million were approved for rescheduling. This comprised ten loans in the agriculture sector valued at $ 0.24 million, fifteen loans in the Industry sector valued at $ 11.82 million, three loans in the Tourism sector valued at $ 3.96 million, five loans in the Personal & Other sector valued at $ 0.09 million, eighteen loans in the Housing sector valued at $ 1.56 million and sixty-five loans in the Education sector valued at $ 2.46 million.

Non-Performing Loans

As at June 30, 2016 non-performing (NP) loans totalled $ 27.61 million or 16.34 percent of total loans outstanding of $ 169.02 million.

For the corresponding period of June 30, 2015, NP loans totalled $ 22.46 million or 13.83 percent of total loans outstanding of $ 162.49 million. The non-performing loans ratio increased by 2.51 percent over the same period last year.

Industry loans accounted for the largest value or 28.06 percent of the loans portfolio, and the sector was also responsible for the largest value or 49.55 percent of NP loans. This was followed by the Tourism sector which made up 24.78 percent of the portfolio and contributed 18.83 percent of NP loans. The Housing sector was 24.42 percent of the total portfolio and contributed 12.30 percent of NP loans.

Loan Migration

For the twelve month period of July 2015 to June 2016, 59 loans valued at $ 8.46 million migrated into NP, while 48 loans valued at $ 3.01 million migrated from NP to performing category for the same period. Therefore the net migration was a negative value of $ 5.46 million. During this period more loans migrated into the NP category than the previous year when the total value of migrations was $ 8.03 million.

The Education sector recorded the highest number of migrations of 21 loans, while the Tourism sector recorded the highest in value of $ 425 million.

Of the fifty-nine loans which migrated into NP for the financial year July 2015 to June 2016, twenty-six loans with a value of $ 6 million are still in the NP category.

Portfolio at Risk (PAR) Ratio

As at year end the portfolio at risk ratio was 34.28 percent.

Loan Portfolio

At the end of the financial year, June 2016, the principal outstanding of the Bank's loan portfolio totalled $ 169.02 million which increased by 4.02 percent over the principal outstanding of $162.49 million, as at June 30, 2015.

FUNDING

The Bank continued drawdowns from existing lines of credit and obtained approvals from two local financial institutions for lines of credit amounting to $ 15 million.

Caribbean Development Bank (CDB)

The CDB disbursed an initial tranche from its US$ 0.5 million energy efficiency line of credit to the Bank.

A CDB Energy Efficiency Specialist carried out training of Credit and other staff of the AID Bank on February 18, 2016 in order to sensitise them to the opportunities for energy efficiency initiatives in local projects.

At the request of the AID Bank, the Caribbean Technological Consultancy services (CTCS), the technical assistance arm of the CDB, also carried out a training workshop for potential energy auditors in the country. The lack of local auditors is considered an impediment to advancing the energy efficiency and renewable energy initiatives.

The CDB has also approved grant assistance for on-line training programs for several local persons interested in becoming certified energy auditors.

CARICOM Development Fund (CDF)

The Bank obtained two tranches during the year amounting to full disbursement of its US$ 4 million CDF line of credit for onlending to private sector enterprises.

National Bank of Dominica (NBD)

The National Bank of Dominica approved a loan facility of $ 3 million, in addition to the $ 7.5 million approved in the previous financial year, increasing the facility to $10.5 million. These funds were provided at a concessionary rate and serves as a bridging finance facility.

Dominica Social Security (DSS)

In May 2016, the Dominica Social Security approved a loan of $ 12 million at a concessionary rate for onlending to sub-borrowers for productive enterprises, mortgages and student loans.

European Investment Bank (EIB)
The Ministry of Finance signed the amendment for the one-year extension of the terminal commitment and disbursement dates for the Energy Efficiency and Renewable Energy (EE/RE) line of credit amounting to US$ 1.25 million approved under Contract B.

Bank's Credit Rating
The CariCRIS conducted its 2016 review and gave the bank a credit rating of BB+ in line with the credit rating of the Government of the Commonwealth of Dominica.

MANAGEMENT INFORMATION SYSTEM

The Management Information Systems Unit of the Bank is committed to ensuring that the information system enhances the efficiency and effectiveness of the Bank. The Unit therefore engaged in several projects all aimed at improving access to data and information for decision making. This included enhancing data collection with a view to more accurately measuring the impact that the Bank has on national development through its financing activities.

In the year under review, the MIS Unit completed an extensive testing and review process and finalised conversion to the new DPAC Loans Administration system. The system will facilitate loan monitoring and information generation that is critical to improving responsiveness to the needs and circumstances of customers. The Bank will continue to work with Financial Data Systems Limited to develop new modules all aimed at evolving the system into one that meets all the information needs of development finance institutions.

The Unit made some key changes including upgrading the network and telecommunications infrastructure at both the Goodwill and Canefield locations. This process will continue as the Unit seeks to meet the growing technology needs of the Bank and its customers.

The staff of the Unit needs to be knowledgeable about business processes in order to understand the needs of the users. The Unit staff therefore participated in sales training, AML training and other non-MIS training delivered to all staff during the year. Unit staff also conducted several training sessions including one-on-one sessions throughout the year.

HUMAN RESOURCES

The financial year under review was an eventful year for the staff in the Human Resource Division.

Our Senior Manager Human Resource & Administration retired within the year and the Bank has been evaluating the changing needs of the division along with initiatives that are in planning. The Bank takes this opportunity to thank Mrs. Ursula McDowell Job and Mrs. Roan Thomas -Pipe for their valuable services over the years.

Staffing requirements continue to be an area of emphasis for the Bank. The AID Bank has significantly benefited from placement of nineteen (19) interns for the past 2 ½ years. As at June 30, 2016 there were eleven (11) interns still on staff within seven Divisions of the Bank.

The Bank's human resources are well trained and one incentive offered to staff is that of ensuring that they are developed professionally. The Bank has therefore facilitated staff members' attendance at training programs locally and externally. The Bank also sponsored staff members who pursued the professional development courses offered by the UWI Open Campus during the financial year.

In order to have a fresh look at the Bank's human resources and to make strategic changes that will strengthen these resources, the Bank engaged external consultants to review its human resource capacity. The consultant's final report to the

Bank was submitted and is being reviewed for implementation.

The intention of the Bank is to improve the performance management system so as to increase employees' efficiency and productivity, ensure effective management of human resources and contribute to the overall success of the Bank, thereby making it a great working environment.

In the aftermath of the Tropical Storm Erika in August 2015, the Bank formed a committee to provide assistance to two staff members from Petite Savanne, who were affected by the disaster.

The Bank made financial and other contributions such food, clothing and other resources available to the staff members displaced by the storm. The Bank recognises with sincere appreciation the generous contributions by the Development Banks of St. Lucia, Grenada and Belize towards this cause.

Throughout the year the Activities Committee organized various events to engender fellowship and cooperation among staff.

INTERNAL AUDIT FUNCTION

In the financial year ended June 30, 2016, the internal audit function continued with comprehensive, independent and objective assurance on the internal controls by aligning audits to key business risks and operational and financial priorities based on the Bank's overall strategy.

This risk based approach to auditing continued to set the tone for the internal audit strategy in identifying major risks to the Bank as the third line of defence in the risk management framework. This year, greater initiatives were employed in the audits through the use of online anonymous surveys to obtain perspectives and views from various employees in an effort to add value to the audit process.

The internal audit function remains committed to maintaining independence by reporting directly to the Board's Finance and Audit Committee. During the financial year under review, 24 audits including three special audits were conducted on various divisions, procedures and processes. Follow-up on previous recommendations continued to be a major priority and a large part of the audit program despite the slow implementation of recommendations. The internal audit function also played a vital role in the review of new performance management systems in the Bank.

With the evolving role of internal auditing and changes to some of the internal audit standards, the success of the internal audit function depends on the commitment to ongoing learning and capacity building. Hence, during the financial year the Internal Auditor participated in a number of online training programs and seminars to keep abreast of developments within the internal audit field and regularly reads articles and shared in various professional forums. This served to improve strategic partnership and the level of value added to the Board and Management by the internal audit function.

In continued efforts to add value to the Bank, the internal audit function in the next financial year intends to focus on four main areas. These areas include working with the first two lines of defence for improved risk mitigation, following up on the implementation of recommendations, updating its internal audit manual and revisiting and validating its mission and value statements in ensuring that the internal audit function remains relevant to the achievement of the Bank's mission and vision statements.

ENTERPRISE RISK MANAGEMENT

The Bank faces a broad range of inherent risks associated with development financing . These risks include those resulting from measures targeted at achieving the Bank's strategic objectives and financial stability as well as its day-to-day operational activities. The Bank recognizes that effective risk management is integral to all aspects of its activities and in that regard a new Risk Officer was hired in April 2016 to provide the overall leadership, vision and direction of its enterprise risk management function.

The Risk Officer enhanced the Bank's Enterprise Risk Register which was approved by the Board of Directors during the year under review. Management was responsible for identifying the top risks to which the Bank is exposed and proposing mitigating actions and internal controls to reduce these risks to reasonably practicable levels by agreed timelines. Training for managers on the Enterprise Risk Management Framework with particular emphasis on the Risk Register was also held during the year.

Credit risk was ranked as the most significant risk to which the Bank is exposed at this time. During the financial year under review the Bank continued working towards the development of customer risk profiles for individuals and businesses and the implementation of customer risk rating tools which highlight the probability of default of a borrower and magnitude of likely loss on the exposure.

The Bank is also keen on assessing the money laundering risks which customers may pose and was developing an Anti-Money Laundering Customer Risk Assessment Tool which would require that enhanced due diligence be conducted on customers assessed as posing a high risk.

Significant progress was made towards the formalisation of the Bank's Risk Appetite Statement to include clearly articulated tolerance and concentration limits for loans granted in the social and productive sectors served by the Bank. It is expected that this statement will be completed, approved and embraced by all staff as a fundamental part of the Bank's culture in the new financial year.

Enterprise risk management is an ongoing and dynamic process which requires continuous professional development in order to keep abreast of emerging trends and adequately implement mitigating measures. In light of this, the Risk Officer attended a conference and workshop on anti-money laundering, counter-financing of terrorism, anti-fraud and financial crimes during the financial year. A number of current and relevant issues were examined including de-risking and correspondent banking issues with the United States and the Caribbean, the risks of ignoring AML/CFT sanctions, ethically based governance as a sustainable business strategy, transforming investigations into effective Suspicious Activity Reports (SARs) and a team approach to boardroom excellence.

An organisation wide approach to risk management was adopted where it was recognised that the benefits of providing adequate and timely training to staff cannot be underestimated. In keeping with Section 7 of the Money Laundering (Prevention) Regulations, 2013 an Anti-Money Laundering and Counter Financing of Terrorism refresher training was held for all Management and Staff during the year under review.

The Financial Intelligence Unit (FIU) officially launched Dominica's National Risk Assessment towards the end of the 2015/2016 financial year and the Risk Officer actively participated by serving as Recording Secretary of the Financial Inclusion Team. The Risk Officer also contributed to the development of the questionnaire which was posed to institutions providing financial inclusion products in an effort to identify and analyse the money laundering and financing of terrorism risks faced by their institution and the jurisdiction as a whole.

INDUSTRIAL ESTATE UNIT

As an "Investment Property", the Industrial Estates complement the AID Bank's overall objectives of promoting and influencing economic development in Dominica by providing affordable rental buildings and land for manufacturing, warehousing, ICT services and other commercial activities.

The Estates comprise 20 buildings with eighteen in Canefield, one in Geneva and one in Picard. These buildings have a total floor space of 147,000 sq. ft. and are divided into 36 Units, ranging in size from 780 sq. ft. to 21,000 sq. ft.. The Estates also include lands in Canefield and Hertford which are leased for industrial purposes.

The Industrial Estate Unit is staffed with five employees responsible for daily operations, new construction works, rental collection, preventive maintenance works on buildings and maintenance of the general surroundings. A comprehensive system of scheduling maintenance works was implemented to ensure early detection of defects and timely rectification of problems and this is expected to enhance customer service and minimise tenant complaints.

The Unit has endeavoured to fulfil its mandate, despite challenges of delinquency by some tenants. Some achievements during the year in review include increased occupancy of sheds, decreased rental delinquency and increased employment by Tenants on the Estate. In addition, the unit was able to support the Government through the provision of storage facilities for relief supplies after the passing of Tropical Storm Erika.

As a further contribution to the relief and re-development effort of the country following Tropical Storm Erika, the Bank reversed rental and penalty charges for a few tenants at the Hertford Estate whose operations were impacted by a flooded river.

During the past year, the Unit received thirty applications for space. Of these applications, three were for manufacturing, eight for agro-processing and nineteen were for services. The IEU is selective in its allocation of factory space on the Industrial Estate with preference being given to companies expected to make greater economic contributions through investments, income creation, employment generation and foreign exchange earnings.

The Unit also seeks to minimize tenants' arrears and continues its focus on the upgrading of existing buildings and landscape, and improving the financial performance of the Estate.

In the past financial year, the Unit has been renovating and modifying the Shed at Geneva, Grand Bay for rental by the Ministry of Commerce, Enterprise and Small Business Development . The Ministry intends to use the Shed as a Business Enterprise Centre targeting individuals from the South and South East who were affected by Tropical Storm Erika.

The Unit will continue to collaborate with relevant Government Ministries, Invest Dominica Authority and all other relevant stakeholders in an effort to attract new customers in-keeping with its mandate.
The ICT sector is the largest employer and accounts for 82.8 percent of total employed on the Canefield Industrial Estate. At financial year end there were 916 persons employed in the Industrial Estates, with the Clear Harbor Call Centre being the largest employer with a total staff complement of 759. The Bank's Industrial Estate therefore continues to be one of the largest employers on island.

Part III

Other Activities

Financial Data Systems Limited (FDSL)

Financial Data Systems Limited (FDSL) is a software company set up by five Development Banks in the Organisation of Eastern Caribbean States (OECS) - including the AID Bank - to develop, maintain and market “DPAC”, a loans management software package.

This financial year, the AID Bank was voted to chair the FDSL, when it met with other current shareholders - namely, St. Kitts Development Bank, Grenada Development Bank, Antigua Development Bank and Bank of St. Lucia, at FDSL’s Annual General Meeting in Jamaica.

The year continued to be very engaging as FDSL fully transitioned two additional customers to the newly redeveloped system. DPAC is now currently used by the AID Bank, Government Housing Loan Board in Dominica and the development Banks in St. Lucia and Belize. Enhancements to the system are ongoing as users continue to realize the potential of this redeveloped DPAC to fit more of their needs.

The newly developed “DPAC” is now a fully integrated loans management software comprising of the following modules; customer visits management, customer management, loan application management, loan management, collections management, collateral management, reminders administration, letters management as well as a wide range of accounting functions.

In the upcoming financial year, the primary focus of the FDSL’s is to continue to market the DPAC software so as to remain competitive in the region as a provider of loans management software.

Part IV

AID Bank's Corporate/Social Responsbility

Dedicated to Working Within the Sectors that Support Our Vision

The Dominica Agricultural Industrial and Development Bank's corporate social responsibility programme is imbedded in its mission to partner with organisations and programmes which meaningfully impact the social and economic development of the publics which we serve.

The AID Bank is always mindful that it must balance its role as a good corporate citizen with effective administration of its financial resources. The Bank has preferred, though not exclusive, areas of philanthropic undertakings: educational initiatives that raise aspirations and enhance educational opportunities of pupils and students; and children and youth programmes that improve their quality of life and allow them to thrive in their communities.

The Bank is also strengthening its support for arts and cultural platforms that cultivate an appreciation for the visual and performing arts, services that are essential to medical care and focus on mental, physical and emotional wellness and community and development programmes in sectors served by the Bank that foster job creation and revenue generation.

For the Financial year ended June 2016, over seventy-two thousand, five hundred dollars were spent on the Bank's corporate social responsibility programme. These included responses to diverse requests for donations and events that enhance the Bank's visibility as a good corporate citizen.

Particular attention was given to the national relief effort - post Tropical Storm Erika very early in the financial period under review. The Bank's empathy

Damages from Tropical Storm Erika

during this sorrowing time transcended words, and were directed to the national relief effort.

The Bank engaged in a variety of hurricane relief activities: the use of vacant industrial estate sheds to house relief supplies, donations of water and non-perishable goods and distribution of cooked meals to disaster victims; collaborating with the Dominica Social Security (DSS) on a fun day for the children of Tropical Storm Erika, and; contribution to the humanitarian assistance (cash and kind) to staff members (and their families) directly affected by the storm and through the President's Charities Foundation. The Bank was also very pleased to contribute to the refurbishment of an art-room at a primary school and the wash-room facilities of a community centre.

Throughout the financial year, the Bank gave support for the medical needs of various persons and events related to diverse pursuits in the fields of sporting, financial, intellectual or entrepreneurial in nature, singly or in collaboration with affiliates within both the public and private sectors.

As is customary, the AID Bank continued its support for graduation awards and special programmes at various educational institutions. Corporate deeds this year also included activities to enhance the visibility of senior citizens and environmental or beautification projects.

The Bank derives great satisfaction from contributing to national conferences within the productive sector, such as the first University of the West Indies Open Campus Dominica Conference on Agriculture or sharing in the positive competitive outcomes of groups such as the 4-H clubs at the local and regional levels.

While the demand for funds are always in excess of our giving capacity, the understanding of the public is sought in the maxim that "the value of the donation to a worthy or special cause should not be determined by the amount given".

Kwéyòl Spelling Bee

1st Dominica Country Conference for Agriculture

Sisserou Singers

2015 International College Fair Debate

Warner Primary School Graduation

Part V

Financial Performance

Net Profit

The AID Bank recorded a net profit of XCD 1.2 million in the financial year ended June 30, 2016. This figure was 51.29 per cent less than the restated XCD 2.47 million net profit recorded in 2015 as indicated in the table below.

Total comprehensive income was XCD 1.2 million for the year under review or approximately 80 per cent less than that recorded for the preceding financial year. The table below presents a summary of the financial results for the last two financial years.

Table 1

	2016 - XCD	2015 - XCD
Interest income	11,190,798	12,446,819
Other operating income	1,909,194	1,945,874
Total income	13,099,992	14,392,693
Interest Expense	(4,443,837)	(4,693,613)
Staff Costs	(4,043,621)	(3,676,814)
Administrative Expenses	(1,458,344)	(1,580,769)
Factory sheds expenses	(463,126)	(459,174)
Other operating expenses	(521,109)	(596,228)
Depreciation	(466,286)	(467,828)
Total expenses	(11,396,323)	(11,474,426)
Net income from operations before the following income/ (charges):	**1,703,669**	**2,918,267**
(Decrease)/Increase in Fair Value Investment Properties	(257,002)	560,227
Impairment Losses on Property, Plant and Equipment	-	(672,603)
Impairment Losses on Loans and Receivables	(245,877)	(124,669)
Impairment Losses on Available for Sale Investments	-	(216,000)
Net Profit	1,200,790	2,465,222
Revaluation Excess Office Building	-	3,424,796
Unrealized gain available-for-sale investments	-	2,000
Total Comprehensive Income	**1,200,790**	**5,892,018**

Income

Total income recorded for the financial year was XCD 13.10 million which was 8.98 per cent lower than the XCD 14.39 million achieved in 2015.

Interest income decreased by 10.09 per cent and other operating income also decreased by 1.89 per cent from the previous financial year.

Expenses

Financial Expenses of XCD 4.44 million were 5.32 per cent lower than the previous year's XCD 4.70 million due mainly to a reduction in CDB's variable interest rate, commitment fees and interest paid on fixed deposits.

Total staff expenses of XCD 4.04 million increased by 9.98 per cent.

Administrative Expenses of XCD 1.46 million decreased by 7.74 per cent over the previous year.

Total operating expenses of XCD 11.40 million were less than the XCD 11.47 million recorded in the previous financial year by 0.68 per cent.

Assets

At June 30, 2016, assets totalled XCD 212.71 million representing a 0.82 percentage increase from last year's XCD 210.98 million.

The major component of assets, net loans and advances valued at XCD 162.03 million registered a 2.95 per cent increase from last year's XCD 157.39 million and adequately offset total long-term liabilities of XCD 124.89 million.

Net loans and advances comprised of gross loan balance of XCD 169.02 million - (2015: XCD 162.49m) and interest receivable of XCD 8.42 million – (2015: XCD 7.04m) less loan provision of XCD 15.41 million – (2015: XCD 12.14m).

The long-term debt to equity ratio of 1.80:1 was within the suggested range for the industry of 4:1.

Cash in current and operating account, and short-term investments totalled XCD 2.71 million, which was 52.14 per cent less than last year's XCD 5.67 million.

Other receivables of XCD 2.17 million were 29.32 per cent more than last year's XCD 1.68 million. Other receivables include insurance premiums arrears, legal and other fees paid on behalf of clients and industrial estate rental arrears.

Net investments in treasury bills, Government debentures and shares in companies totalled XCD 35.08 million, of which XCD 33.63 million represents Investment Properties of the Industrial Estate Unit (IEU). Net Investments were 0.70 per cent less than last year's XCD 35.33 million

Net total fixed assets of XCD 10.69 million were 1.87 per cent lower than last year's XCD 10.90 million.

Liabilities

Total liabilities were XCD 143.34 million, which was 2.60 per cent more than last year's XCD 139.71 million.

Due to customers was XCD 7.55 million which was 7.66 per cent lower than the XCD 8.17 million in the previous financial year.

Borrowed funds of XCD 124.89 million registered a net increase of 5.67 per cent from last year's XCD 118.20 million.

Shareholders' Equity

Shareholders' Equity of XCD 69.37 million decreased by 2.66 per cent from last year's XCD 71.27 million.

Retained Earnings of XCD 3.70 million increased by 24.09 per cent from last year's XCD 2.99 million.

Dominica Agricultural Industrial and Development Bank

AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

Financial Statements

June 30, 2016

[Expressed in Eastern Caribbean dollars]

Grant Thornton

January 23, 2017

Grant Thornton
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Independent Auditor's Report

To the Shareholders of
Dominica Agricultural Industrial and Development Bank

Report on the financial statements

We have audited the accompanying financial statements of **Dominica Agricultural Industrial and Development Bank** which comprise the financial position as of June 30, 2016 and the statements of comprehensive income, equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

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 misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Audit - Tax - Advisory

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Page 2

Independent Auditor's Report...*continued*

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respect, the financial position of **Dominica Agricultural Industrial and Development Bank** as of June 30, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton

Chartered Accountants

Audit - Tax - Advisory
Member of Grant Thornton International Ltd

Dominica Agricultural Industrial and Development Bank

Statement of Financial Position

As of June 30, 2016

(expressed in Eastern Caribbean dollars)

	Notes	2016 $	2015 $ (Restated)	2014 $ (Restated)
Assets				
Cash and balances with Central Bank	7	**18,766**	15,952	22,782
Treasury bills	8	**411,722**	410,000	410,000
Deposits with banks and other financial institutions	9	**3,351,752**	6,299,121	8,837,285
Loans and advances to customers	10	**162,028,031**	157,386,114	154,301,617
Available-for-sale investments	12	**398,899**	398,899	864,502
Investment properties	13	**33,633,572**	33,890,574	31,715,654
Property, plant and equipment	14	**10,693,511**	10,897,697	8,284,453
Other assets	15	**2,169,829**	1,677,140	1,054,233
Total Assets		**212,706,082**	210,975,497	205,490,526
Liabilities				
Bank overdraft	16	**142,575**	–	186,899
Due to customers	17	**7,548,073**	8,174,524	9,393,385
Borrowed funds	18	**124,893,832**	118,195,595	118,859,488
Other liabilities	19	**10,751,177**	13,339,694	10,894,608
Total Liabilities		**143,335,657**	139,709,813	139,334,380
Shareholders' Equity				
Share capital	21	**47,970,205**	47,970,205	47,970,205
Contributed capital	22	**1,616,030**	1,616,030	–
Revaluation surplus	23	**3,356,300**	3,424,796	–
Reserves	24	**12,723,621**	15,269,472	13,181,661
Retained earnings		**3,704,269**	2,985,181	5,004,280
Total Equity		**69,370,425**	71,265,684	66,156,146
Total Liabilities and Shareholders' Equity		**212,706,082**	210,975,497	205,490,526

Approved by the Board of Directors on 14th October 2016

Director

Director

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

Dominica Agricultural Industrial and Development Bank

Statement of Comprehensive Income
For the year ended June 30, 2016

(expressed in Eastern Caribbean dollars)

	Notes	2016 $	2015 $ (Restated)
Interest income	25	**11,190,798**	12,446,819
Interest expense	25	**(4,443,837)**	(4,693,613)
Net interest income		**6,746,961**	7,753,206
Other operating income	26	**1,909,194**	1,945,874
Other operating expenses	27	**(6,952,486)**	(6,996,813)
(Decrease)/increase in fair value of investment property	13	**(257,002)**	560,227
Impairment loss on property, plant and equipment	14	–	(672,603)
Impairment losses on loans receivables	11	**(245,877)**	(124,669)
Net profit and comprehensive income for the year		**1,200,790**	2,465,222
Other comprehensive income			
Revaluation of land and buildings	14	–	3,424,796
Unrealised gain on available-for-sale investments	24	–	2,000
Total other comprehensive income		–	3,426,796
Total comprehensive income for the year		**1,200,790**	5,892,018

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

Dominica Agricultural Industrial and Development Bank

Statement of Changes in Equity

For the year ended June 30, 2016

(expressed in Eastern Caribbean dollars)

	Notes	Share capital $	Contributed capital $	Revaluation surplus $	Reserves $	Retained earnings $	Total equity $
Balance at July 1, 2014, as previously reported		47,970,205	–	–	13,912,457	7,196,667	69,079,329
Prior period adjustment	35	–	–	–	(730,796)	(2,192,387)	(2,923,183)
Balance at July 1, 2014, as restated		47,970,205	–	–	13,181,661	5,004,280	66,156,146
Comprehensive income:							
Profit for the year, as previously reported		–	–	–	–	2,690,983	2,690,983
Prior period adjustment	35	–	–	–	–	(225,761)	(225,761)
Profit for the year, as restated		–	–	–	–	2,465,222	2,465,222
Other comprehensive income:							
Unrealised gain on available-for-sale investments	24	–	–	–	2,000	–	2,000
Unrealised gain on revaluation of land and buildings	14	–	–	3,424,796	–	–	3,424,796
		–	–	3,424,796	2,000	–	3,426,796
Total comprehensive income, as restated		–	–	3,424,796	2,000	2,465,222	5,892,018
Transaction with owners:							
Contributed capital	22	–	1,616,030	–	–	–	1,616,030
Dividends	30	–	–	–	–	(2,398,510)	(2,398,510)
Transfer to statutory reserve	24	–	–	–	616,306	(616,306)	–
Transfer to loan loss reserve	24	–	–	–	1,469,505	(1,469,505)	–
		–	1,616,030	–	2,085,811	(4,484,321)	(782,480)
Balance at June 30, 2015, as restated		**47,970,205**	**1,616,030**	**3,424,796**	**15,269,472**	**2,985,181**	**71,265,684**

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

Dominica Agricultural Industrial and Development Bank

Statement of Changes in Equity *...continued*

For the year ended June 30, 2016

(expressed in Eastern Caribbean dollars)

	Notes	Share capital $	Contributed capital $	Revaluation surplus $	Reserves $	Retained earnings $	Total equity $
Balance at June 30, 2015, as previously reported		47,970,205	1,616,030	3,424,796	16,056,708	5,346,889	74,414,628
Prior period adjustment	35	–	–	–	(787,236)	(2,361,708)	(3,148,944)
Balance at June 30, 2015, as restated		47,970,205	1,616,030	3,424,796	15,269,472	2,985,181	71,265,684
Total comprehensive income:							
Profit for the year		–	–	–	–	1,200,790	1,200,790
Transaction with owners:							
Dividends	30	–	–	–	–	(250,000)	(250,000)
Transfer to statutory reserve	24	–	–	–	300,198	(300,198)	–
Loan loss reserve utilized during the year	24	–	–	–	(2,846,049)	–	(2,846,049)
Amortization of revaluation surplus	23	–	–	(68,496)	–	68,496	–
		–	–	(68,496)	(2,545,851)	(481,702)	(782,480)
Balance at June 30, 2015, as restated		**47,970,205**	**1,616,030**	**3,356,300**	**12,723,621**	**3,704,269**	**69,370,425**

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

Dominica Agricultural Industrial and Development Bank

Statement of Cash Flows

For the year ended June 30, 2016

(expressed in Eastern Caribbean dollars)

	Notes	2016 $	2015 $ (Restated)
Cash flows from operating activities			
Net profit for the year		**1,200,790**	2,465,222
Adjustments for:			
Impairment losses on loans and receivables, net of recoveries	11	**416,881**	124,669
Depreciation	14	**466,286**	467,828
Change in fair value of investment properties	13	**257,002**	(560,227)
Loss on investments	27	**–**	216,000
Loss on disposal of assets		**2,640**	225
Interest and similar income	25	**(11,190,798)**	(12,446,819)
Interest expense and similar charges	25	**4,443,837**	4,693,613
Cash flows before changes in operating assets and liabilities		**(4,403,362)**	(5,039,489)
Change in loans and advances to customers		**(6,528,802)**	(2,736,943)
Change in deposits with banks and other financial institutions		**300,000**	2,339,010
Change in other assets		**(492,689)**	(622,907)
Change in due to customers		**(681,691)**	(1,218,861)
Change in other liabilities		**560,427**	(179,185)
Cash used in operations		**(11,246,117)**	(7,458,375)
Interest received		**9,733,916**	11,717,436
Interest paid		**(4,525,813)**	(4,517,149)
Net cash used in operating activities		**(6,038,014)**	(258,088)
Cash flows from investing activities			
Purchase of investment property	13	**–**	(69,957)
Decrease in available for sale –net		**–**	465,603
Purchase of property, plant and equipment	14	**(264,740)**	(270,964)
Proceeds on disposal of asset		**–**	13,154
Net cash (used in)/ generated from investing activities		**(264,740)**	137,836
Cash flows from financing activities			
Borrowed funds		**11,175,000**	10,395,169
Repayment of borrowed funds		**(7,488,491)**	(9,635,437)
Dividends paid		**(250,000)**	(250,000)
Net cash generated from financing activities		**3,436,509**	509,732
Net (decrease)/increase in cash and cash equivalents		**(2,866,245)**	389,480
Cash and cash equivalents, beginning of year		**4,046,852**	3,657,372
Cash and cash equivalents, end of year	32	**1,180,607**	4,046,852

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

(expressed in Eastern Caribbean dollars)

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 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. Subsequent reporting of the assets acquired is at fair value at balance sheet date. The movement in fair value reflected in comprehensive income.

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.

3 Basis of preparation of financial statements

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 October 14, 2016.

Basis of Measurement
These financial statements are prepared under the historical cost basis, as modified by the revaluation of land and buildings, investment properties and available-for-sale investments.

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.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies

(a) Changes in accounting policies and disclosures

(i) New and revised standards that are effective for annual periods beginning on or after July 1, 2015

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after July 1, 2015 that would be expected to have a material impact on the Bank's financial results or position. Accordingly, the Bank have made no changes to its accounting policies in the financial year beginning July 1, 2015.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank for the financial year beginning July 1, 2015

At the date of the authorization of these financial statements, certain new standards and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Bank. Information on those expected to be relevant to the Bank's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Bank's financial statements.

- ***IFRS 9, 'Financial Instruments'***. The IASB recently released IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The Bank has yet to assess the impact of IFRS 9 on the Bank's financial statements. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies ....*continued*

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances 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.

(c) 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:

- 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 cash and cash equivalents, 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, less provision for impairment.

(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.

Purchases 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 income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income 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.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies ...*.continued*

(d) 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.

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.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies *....continued*

(d) Impairment of financial assets *....continued*

Assets carried at amortised cost ....continued

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.

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.

(e) 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.

(f) 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.

Dominica Agricultural Industrial and Development Bank

Notes to Financial Statements

June 30, 2016

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies *....continued*

(g) 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.

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.

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.

iii. 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.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies *....continued*

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

Investment properties are measured initially at their 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.

(i) 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).

(j) 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.

(k) 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 costs that they are intended to compensate.

(l) 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.

(m) Contributed capital
Contributed capital is reported as part of shareholders' equity and represents the excess value of assets for additional land owned by the Bank during the financial year.

(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.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies ...*continued*

(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 recognised 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.

(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.

(s) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(expressed in Eastern Caribbean dollars)

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.

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.

(expressed in Eastern Caribbean dollars)

5 Financial risk management ....*continued*

(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.

(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

(expressed in Eastern Caribbean dollars)

5 Financial risk management ....*continued*

(b) Credit risk ....*continued*

(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.

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.

(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.

(expressed in Eastern Caribbean dollars)

5 Financial risk management *....continued*

(b) Credit risk *....continued*

(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. 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:

	2016		2015	
Bank's rating	**Loans and advances (%)**	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
1. Pass	**58.29**	**6.30**	59.58	16.35
2. Special mention	**6.80**	**1.90**	21.20	6.25
3. Sub-standard	**6.45**	**23.67**	2.60	1.66
4. Doubtful	**10.56**	**10.21**	1.08	2.11
5. Loss	**17.90**	**57.92**	15.54	73.63

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.

(expressed in Eastern Caribbean dollars)

5 Financial risk management....*continued*

(b) Credit risk....*continued*

Maximum exposure to credit risk before collateral held or other credit enhancements

	2016 $	2015 $
Credit risk exposures relating to on-balance sheet assets		
Treasury bills	**411,722**	410,000
Deposits with banks and other financial institutions	**3,351,752**	6,299,121
Loans and advances to customers:		
- Demand loans	**120,650,512**	121,214,424
- Mortgage loans	**41,377,519**	36,171,690
Other assets	**2,109,116**	1,550,023
	167,900,621	165,645,258
Credit risk exposures relating to off-balance sheet items		
Loan commitments	**21,895,546**	23,272,944
	189,796,167	188,918,202

The above table represents a worst case scenario of credit risk exposure to the Bank at June 30, 2016 and 2015, 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, 85.37 % (2015 - 83.31 %) 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:

- 65.09% (2015 - 80.78%) of the loans and advances portfolio is categorised in the top two grades of the internal rating system;

- 34.63% (2015 - 42.14%) 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.

(expressed in Eastern Caribbean dollars)

5 Financial risk management ....*continued*

(b) Credit risk ....*continued*

Loans and advances
Loans and advances are summarised as follows:

	2016 $	2015 $
Neither past due nor impaired	**61,445,220**	71,434,752
Past due but not impaired	**88,516,872**	75,629,497
Impaired	**27,471,958**	22,464,954
Gross	**177,434,050**	169,529,203
Less allowance for impairment losses on loans and advances	**(15,406,019)**	(12,143,089)
	162,028,031	157,386,114

The total impairment provision for loans and advances is $15,406,019 (2015 - $12,143,089) of which $13,328,484 (2015 - $9,115,893) represents the individually impaired loans and the remaining amount of $2,077,535 (2015 - $3,027,196) 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, 2016			
Grades			
I. Pass	**37,356,178**	**24,089,042**	**61,445,220**
June 30, 2015			
Grades			
I. Pass	50,924,732	20,510,020	71,434,752

(expressed in Eastern Caribbean dollars)

5 Financial risk management *....continued*

(b) Credit Risk *....continued*

(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:

	Demand loans $	Mortgage loans $	Total $
At June 30, 2016			
Past due up to 30 days	69,513,388	14,083,145	83,596,533
Past due 30-60 days	511,588	28,475	540,063
Past due 60-90 days	700,364	24,538	724,902
Past due over 90 days	3,443,439	211,935	3,655,374
	74,168,779	14,348,093	88,516,872
At June 30, 2015			
Past due up to 30 days	56,728,130	12,840,860	69,568,990
Past due 30-60 days	570,586	37,033	607,619
Past due 60-90 days	676,506	40,346	716,852
Past due over 90 days	4,448,328	287,708	4,736,036
	62,423,550	13,205,947	75,629,497

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, 2016			
Individually impaired loans	**23,896,878**	**3,575,080**	**27,471,958**
At June 30, 2015			
Individually impaired loans	19,776,936	2,688,018	22,464,954

(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 $8,964,765 as of June 30, 2016 (2015 - $20,135,254).

(expressed in Eastern Caribbean dollars)

5 Financial risk management *....continued*

(b) Credit risk *....continued*

(v.) Repossessed collateral
At the end of 2016, the Bank had repossessed collateral valued at $38,000 (2015 - $10,000).

(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:

	%	2016 000' $	%	2015 000' $
Industrial	**27.57**	**48,920**	28.31	47,992
Tourism	**23.92**	**42,445**	24.21	41,038
Mortgage	**23.49**	**41,676**	21.30	36,111
Education	**16.20**	**28,750**	17.16	29,090
Agricultural	**2.77**	**4,914**	2.87	4,868
Distribution and commerce	**0.02**	**31**	0.02	30
Other consumers	**6.03**	**10,698**	6.13	10,400
Total before deduction for allowance for losses on loans and advances	**100.00**	**177,434**	100.00	169,529

(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, 2016, if equity securities prices had been 10% higher/lower with all other variables held constant, equity for the year would have been $8,200 (2015 - $16,533) higher/lower as a result of the increase/decrease in fair value of available-for-sale equity securities.

(expressed in Eastern Caribbean dollars)

5 Financial risk management....*continued*

(c) Market risk....*continued*

(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, 2016 there were no borrowings held in Euro currency.

The following table summarises the Bank's exposure to foreign currency exchange rate risk at June 30, 2016. Included in the table are the Bank's assets and liabilities at carrying amount, categorised by currency.

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

As at June 30, 2016	EC$	US$	Total
Assets			
Cash and balances with Central Bank	18,766	–	18,766
Treasury bills	411,722	–	411,722
Deposits with banks and other financial institutions	3,344,145	7,607	3,351,752
Loans and advances to customers	162,028,031	–	162,028,031
Available-for-sale investments	398,899	–	398,899
Other assets	2,169,829	–	2,169,829
Total financial assets	168,371,392	7,607	168,378,999
Liabilities			
Due to customers	7,548,073	–	7,548,073
Borrowed funds	44,460,775	80,433,057	124,893,832
Other liabilities	10,751,177	–	10,751,177
Total financial liabilities	62,760,025	80,433,057	143,193,082
Net on-balance sheet financial position	105,611,367	(80,425,450)	25,185,917
Credit commitments	21,895,546	–	21,895,546
As at June 30, 2015 - Restated			
Total financial assets	166,179,447	7,779	166,187,226
Total financial liabilities	55,301,758	84,422,792	139,724,550
Net on-statement of financial position	110,877,689	(84,415,013)	26,462,676
Credit commitments	23,272,944	–	23,272,944

(expressed in Eastern Caribbean dollars)

5 Financial risk management ....*continued*

(c) Market Risk ....*continued*

(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.

	1 Year $	2-5 Years $	Over 5 Years $	Non-interest bearing $	Total $
As at June 30, 2016					
Cash and balances with Central Bank	–	–	–	18,766	18,766
Treasury bills	411,722	–	–	–	411,722
Deposits with banks and other financial institutions	778,565	2,373,187	200,000	–	3,351,752
Loans and advances to customers	22,349,643	46,980,481	92,697,907	–	162,028,031
Available-for-sale investments	–	–	–	398,899	398,899
Other assets	–	–	–	2,169,829	2,169,829
Total financial assets	23,539,930	49,353,668	92,897,907	2,587,494	168,378,999
Due to customers	2,307,269	5,240,804	–	–	7,548,073
Borrowed funds	16,648,248	51,566,784	56,678,800	–	124,893,832
Other liabilities	–	–	–	10,751,177	10,751,177
Total financial liabilities	18,955,517	56,807,588	56,678,800	10,751,177	143,193,082
Net interest repricing gap	4,584,413	(7,453,920)	36,219,107	(8,163,683)	25,185,917
As at June 30, 2015 - Restated					
Total financial assets	24,607,021	46,184,256	93,303,958	2,091,991	166,187,226
Total financial liabilities	14,929,722	57,722,094	53,718,303	13,354,431	139,724,550
Net interest repricing gap	9,677,299	(11,537,838)	39,585,655	(11,262,440)	26,462,676

Dominica Agricultural Industrial and Development Bank
Notes to Financial Statements
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(expressed in Eastern Caribbean dollars)

5 Financial risk management ....*continued*

(c) Market risk ....*continued*

(iii.) Interest rate risk ....continued
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$
As at June 30, 2016		
Assets		
Treasury bills	5.69	–
Deposits with banks and other financial institutions	2.93	–
Loans and advances to customers	7.01	–
Liabilities		
Due to customers	3.94	–
Borrowed funds	3.91	3.25
As at June 30, 2015		
Assets		
Treasury bills	5.66	–
Deposits with banks and other financial institutions	2.28	–
Loans and advances to customers	8.63	–
Liabilities		
Due to customers	4.45	–
Borrowed funds	4.06	3.35

(iv.) Sensitivity analysis
Cash flow interest rate risks arise from borrowings at variable rates. At June 30, 2016 if variable interest rates had been 1% higher/lower with all other variables held constant, profit for the year would have been $57,431 (2015 - $90,977) higher/lower.

(expressed in Eastern Caribbean dollars)

5 Financial risk management ....*continued*

(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 $
As at June 30, 2016				
Financial liabilities				
Due to customers	2,399,560	5,398,028	–	7,797,588
Borrowed funds	20,902,819	63,536,420	63,840,626	148,279,865
Other liabilities	2,005,000	3,250,000	5,496,177	10,751,177
Total financial liabilities	25,307,379	72,184,448	69,336,803	166,828,630
As at June 30, 2015 - Restated				
Financial liabilities				
Due to customers	1,445,373	6,923,427	–	8,368,800
Borrowed funds	17,472,839	61,765,690	60,860,373	140,098,902
Other liabilities	4,968,359	7,517,308	868,764	13,354,431
Total financial liabilities	23,886,571	76,206,425	61,729,137	161,822,133

(expressed in Eastern Caribbean dollars)

5 Financial risk management *....continued*

(d) Liquidity risk *....continued*

(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, 2016			
Loan commitments	11,500,000	10,395,546	21,895,546
As at June 30, 2015			
Loan commitments	11,476,785	11,796,159	23,272,944

(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.

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.

Investment securities

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

(expressed in Eastern Caribbean dollars)

5 Financial risk management ....*continued*

(e) Fair values of financial assets and liabilities ....*continued*

<u>Due to other banks and customers, other deposits and other borrowed funds</u>
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	
	2016 $	2015 $	2016 $	2015 $
Financial assets				
Loans and advances to customers	162,028,031	157,386,114	151,413,915	139,806,457
Financial liabilities				
Due to customers	7,548,073	8,174,524	7,548,074	8,174,524
Borrowed funds	124,893,832	118,195,595	120,682,029	114,121,459

(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	–	182,930	215,969	398,899

There were no transfers between Level 2 and Level 3 in 2016 or 2015.

(expressed in Eastern Caribbean dollars)

5 Financial risk management ....*continued*

(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 $7,909,619 (2015 - $7,469,213) lower or higher.

(b) Revaluation of property, plant and equipment

The Bank measures land and buildings at revalued amounts through external independent valuers, but the nature of the process is such that it is subject to significant judgment, for example through the use of earnings and costs based valuation techniques where there is a lack of comparable market data.

(expressed in Eastern Caribbean dollars)

6 Critical accounting estimates and judgments in applying accounting policies...*continued*

(e) 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 $283,161 (2015 - $408,534), 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 Central Bank

	Note	2016 $	2015 $
Cash in hand		**17,456**	14,642
Balances with Central Bank		**1,310**	1,310
	32	**18,766**	15,952

8 Treasury bills

	Note	2016 $	2015 $
Treasury bills	32	**411,722**	410,000

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 2016 is 5.69% (2015 - 5.66%).

9 Deposits with banks and other financial institutions

	Note	2016 $	2015 $
Items in the course of collection with other banks	32	**892,694**	3,620,900
Placements with banks and other financial institutions		**2,459,058**	2,678,221
		3,351,752	6,299,121

The weighted average effective interest rate in respect of interest bearing deposits in 2016 is 2.93% (2015 - 2.28%).

Included in placements with banks and other financial institutions is a certificate of deposit amounting to $1,798,742 (2015 - $1,746,351) used to secure certain borrowings of the Bank (Note 18).

Dominica Agricultural Industrial and Development Bank

Notes to Financial Statements

June 30, 2016

(expressed in Eastern Caribbean dollars)

10 Loans and advances to customers

	Note	2016 $	2015 $
Demand loans		**135,421,836**	133,125,217
Mortgage loans		**42,012,214**	36,403,986
		177,434,050	169,529,203
Less allowance for impairment losses on loans and advances	11	**(15,406,019)**	(12,143,089)
		162,028,031	157,386,114
Current		**22,349,643**	25,776,500
Non-current		**139,678,388**	131,609,614
		162,028,031	157,386,114

The weighted average effective interest rate on productive loans at June 30, 2016 is 7.01% (2015 - 8.63%).

11 Allowance for impairment losses on loans and advances

	Note	2016 $	2015 $
Demand loans			
At beginning of year		**11,910,793**	12,051,686
Provision transferred from reserve (Note 24)		**2,468,812**	–
Provision for the year		**245,877**	124,669
Amounts recovered during the year		**164,877**	379,179
Written-off during the year as uncollectible		**(19,035)**	(644,741)
At end of year		**14,771,324**	11,910,793
Mortgage loans			
At beginning of year		**232,296**	208,345
Provision transferred from reserve (Note 24)		**377,237**	–
Amounts recovered during the year		**89,246**	26,647
Written-off during the year as uncollectible		**(64,084)**	(2,696)
At end of year		**634,695**	232,296
	10	**15,406,019**	12,143,089

(expressed in Eastern Caribbean dollars)

12 Available-for-sale investments

	2016 $	2015 $
Equity securities - at fair value		
- Listed	**165,330**	165,330
- Unlisted	**233,569**	233,569
	398,899	398,899

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

	2016 $	2015 $
At beginning of year	**398,899**	864,502
Equity investment liquidated	–	(467,603)
Unrealised gain on investments	–	2,000
At end of year	**398,899**	398,899

13 Investment properties

	Note	Land $	Building $	Total $
As at June 30, 2014		12,161,363	19,554,291	31,715,654
Additions during the year		–	69,957	69,957
Transfer from property, plant and equipment	14	1,544,736	–	1,544,736
Increase in fair value		–	560,227	560,227
As at June 30, 2015		13,706,099	20,184,475	33,890,574
As at June 30, 2015		13,706,099	20,184,475	33,890,574
Decrease in fair value		(58,100)	(198,902)	(257,002)
As at June 30, 2016		13,647,999	19,985,573	33,633,572

Included in the investment property is land amounting to $2,556,339 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.

An independent valuation of the Bank's investment properties was performed by professionally-qualified property valuers in 2016 to determine the fair value. The valuation was carried out using a market approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the property in question, including plot size, location and current use.

(expressed in Eastern Caribbean dollars)

14 Property, plant and equipment

	Notes	Land $	Buildings $	Motor vehicles $	Furniture and equipment $	Computer equipment $	Work-in-progress $	Total $
At June 30, 2014								
Cost or valuation		1,896,183	7,482,693	165,863	1,521,223	1,139,229	446,737	12,651,928
Accumulated depreciation		–	(2,250,756)	(33,172)	(1,174,567)	(908,980)	–	(4,367,475)
Net book amount		1,896,183	5,231,937	132,691	346,656	230,249	446,737	8,284,453
Year ended June 30, 2015								
Opening net book amount		1,896,183	5,231,937	132,691	346,656	230,249	446,737	8,284,453
Revaluation surplus	23	–	3,424,796	–	–	–	–	3,424,796
Impairment loss		–	(672,603)	–	–	–	–	(672,603)
Contributed capital	22	1,616,030	–	–	–	–	–	1,616,030
Additions		–	17,250	–	212,028	41,686	–	270,964
Depreciation	27	–	(149,816)	(33,173)	(166,873)	(117,966)	–	(467,828)
Transfers	13	(1,544,736)	–	–	–	–	–	(1,544,736)
Disposals		–	–	–	(250,973)	(18,937)	–	(269,910)
Accumulated depreciation on disposals		–	–	–	250,438	6,093	–	256,531
Closing net book amount		1,967,477	7,851,564	99,518	391,276	141,125	446,737	10,897,697
At June 30, 2015								
Cost or valuation		1,967,477	10,252,136	165,863	1,482,278	1,161,978	446,737	15,476,469
Accumulated depreciation		–	(2,400,572)	(66,345)	(1,091,002)	(1,020,853)	–	(4,578,772)
Net book amount		1,967,477	7,851,564	99,518	391,276	141,125	446,737	10,897,697
Year ended June 30, 2016								
Opening net book amount		1,967,477	7,851,564	99,518	391,276	141,125	446,737	10,897,697
Additions		–	3,850	–	252,657	8,233	–	264,740
Depreciation	27	–	(160,673)	(33,173)	(186,760)	(85,680)	–	(466,286)
Disposals		–	–	–	(8,708)	–	–	(8,708)
Accumulated depreciation on disposals		–	–	–	6,068	–	–	6,068
Closing net book amount		1,967,477	7,694,741	66,345	454,533	63,678	446,737	10,693,511
At June 30, 2016								
Cost or valuation		1,967,477	10,255,986	165,863	1,726,227	1,170,211	446,737	15,732,501
Accumulated depreciation		–	(2,561,245)	(99,518)	(1,271,694)	(1,106,533)	–	(5,038,990)
Net book amount		1,967,477	7,694,741	66,345	454,533	63,678	446,737	10,693,511

(expressed in Eastern Caribbean dollars)

14 Property, plant and equipment…*continued*

An independent valuation of the Bank's land and buildings was performed by professionally-qualified property valuers in 2016 to determine the fair value. The valuation was carried out using a market approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the property in question, including plot size, location and current use. The revaluation surplus was credited to other comprehensive income and is shown in 'revaluation surplus' in equity.

If land and buildings were stated on the historical cost basis, the amount would be $7,268,715 as at June 30, 2016 (2015 - $7,472,901).

15 Other assets

	2016 $	2015 $
Rent receivable	**688,812**	668,486
Other receivables	**2,006,753**	1,467,986
Less allowance for impairment losses	**(586,449)**	(586,449)
	2,109,116	1,550,023
Prepayments	**60,713**	127,117
	2,169,829	1,677,140

16 Bank overdraft

	Note	2016 $	2015 $
National Bank of Dominica	32	**142,575**	–

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% per annum.

(expressed in Eastern Caribbean dollars)

17 Due to customers

	2016 $	2015 $
Fixed deposits	**3,585,902**	4,488,800
Refundable deposits	**2,499,565**	2,492,871
Loan prepayments	**1,462,606**	1,192,853
	7,548,073	8,174,524
Current	**2,307,269**	1,420,282
Non-current	**5,240,804**	6,754,242
	7,548,073	8,174,524

All fixed deposits carry fixed interest rates. The weighted average effective interest rate of fixed deposits at June 30, 2016 is 3.94% (2015 - 4.45%).

18 Borrowed funds

	Note	2016 $	2015 $
Caribbean Development Bank		**33,183,949**	39,369,930
European Investment Bank		**22,796,783**	23,914,965
BANDES – Economic and Social Development Bank of Venezuela		**12,882,713**	14,238,787
Dominica Social Security	31	**13,516,713**	11,993,712
Petrocaribe Fund		**10,000,000**	10,000,000
National Bank of Dominica		**15,582,457**	6,090,044
Caricom Development Fund		**10,190,306**	5,400,000
Government of Dominica	31	**3,449,045**	3,689,048
Dominica National Petroleum Company Ltd.		**1,912,560**	2,000,000
Republic of China		**1,379,306**	1,499,109
		124,893,832	118,195,595
Current		**16,648,248**	13,509,441
Non-current		**108,245,584**	104,686,154
		124,893,832	118,195,595

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

The National Bank of Dominica loan is secured by the Bank's certificate of deposit amounting to $1,798,742 (2015 - $1,746,351) (Note 9) and certificate of titles to land and building.

(expressed in Eastern Caribbean dollars)

19 Other liabilities

	2016 $	2015 $
Agency liabilities	**4,593,884**	7,267,708
Dividends payable	**2,398,510**	2,398,510
Deferred income	**396,968**	429,324
Grants	**230**	230
Others	**3,361,585**	3,243,922
	10,751,177	13,339,694
Current	**2,005,000**	4,953,622
Non-current	**8,746,177**	8,386,072
	10,751,177	13,339,694

Deferred income relates to unearned portion of appraisal fees from loans and advances to customers.

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:

	2016 $	2015 $
Gratuity payable	**2,443,026**	2,323,585
Vacation leave and salaries payable	**343,659**	368,345
IEU tenants security deposits	**253,309**	250,537
Other payables	**321,591**	301,455
	3,361,585	3,243,922

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 contractual agreement.

(expressed in Eastern Caribbean dollars)

21 Share capital

	2016 $	2015 $
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.

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 Contributed capital

	Note	2016 $	2015 $
Land on which AID Bank is located	14	**1,616,030**	1,616,030

23 Revaluation surplus

	Note	2016 $	2015 $
At beginning of year		**3,424,796**	–
Revaluation of the AID Bank office building	14	–	3,424,796
Amortization for the year		**(68,496)**	–
At end of year		**3,356,300**	3,424,796

(expressed in Eastern Caribbean dollars)

24 Reserves

	2016 $	2015 $ (Restated)
General reserve	**88,234**	88,234
Statutory reserve	**9,517,935**	9,217,737
Loan loss reserve	**2,654,330**	5,500,379
Special reserves	**441,122**	441,122
Unrealised gain from changes in fair value	**22,000**	22,000
	12,723,621	15,269,472

Movements in reserves were as follows:

	2016 $	2015 $
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.

	2016 $	2015 $ (Restated)
Statutory reserve		
At beginning of year	**9,217,737**	8,601,431
Transfer from retained earnings	**300,198**	616,306
At end of year	**9,517,935**	9,217,737

This represents 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.

	2016 $	2015 $
Loan loss reserve		
At beginning of year	**5,500,379**	4,030,874
Transfer from retained earnings	**–**	1,469,505
Utilized during the year (Note 11)	**(2,846,049)**	–
At end of year	**2,654,330**	5,500,379

The loan loss reserve was set up in compliance with the provision of European Investment Bank (EIB) loan agreement, which requires the Bank to set aside provision to cover potential loan losses, which shall not be less than 40% of the Portfolio at Risk as of June 30, 2016 (2015 - 40%).

Dominica Agricultural Industrial and Development Bank

Notes to Financial Statements

June 30, 2016

(expressed in Eastern Caribbean dollars)

24 Reserves...*continued*

	2016 $	2015 $
Special reserves		
Caribbean Development Consolidated Entity Provision		
At beginning and end of year	**441,122**	441,122

Under the provision of Caribbean Development Bank (CDB) loan 16/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. The loan to EIB was closed last financial year ended June 30, 2015.

	2016 $	2015 $
Revaluation reserve – available-for-sale investments		
At beginning of year	**22,000**	20,000
Unrealized gain from changes in fair value	**–**	2,000
At end of year	**22,000**	22,000

25 Net interest income

	2016 $	2015 $ (Restated)
Interest income		
Loans and advances	**11,060,181**	12,189,659
Deposits with banks	**130,617**	257,160
	11,190,798	12,446,819
Interest expense		
Long-term debt	**(4,340,056)**	(4,548,105)
Interest on deposits	**(103,781)**	(145,508)
	(4,443,837)	(4,693,613)
	6,746,961	7,753,206

(expressed in Eastern Caribbean dollars)

26 Other operating income

	2016 $	2015 $
Rental income from IEU operations	**1,427,430**	1,383,060
Commitment fees	**211,997**	224,867
Agency fees	**5,759**	95,452
Others	**264,008**	242,495
	1,909,194	1,945,874

27 Other operating expenses

	Notes	2016 $	2015 $
Staff costs	28	**4,043,621**	3,676,814
Administrative expenses	29	**1,458,344**	1,536,912
Depreciation	14	**466,286**	467,828
Factory sheds expenses		**463,126**	459,174
Building occupancy expenses		**455,802**	547,521
Foreign exchange loss		**65,307**	48,481
Loss on investments		–	216,000
Bad debt expense		–	44,083
		6,952,486	6,996,813

28 Staff costs

	Note	2016 $	2015 $
Salaries and wages		**2,991,900**	2,735,818
Social security costs		**155,456**	147,926
Group insurance		**66,216**	76,921
Other staff costs		**830,049**	716,149
	27	**4,043,621**	3,676,814
Number of employees		**50**	49

(expressed in Eastern Caribbean dollars)

29 Administrative expenses

	Note	2016 $	2015 $
Legal and professional fees		**519,731**	520,690
Directors' emoluments and expenses		**273,112**	221,366
Advertising		**147,727**	158,951
Telephone, postage and fax		**129,380**	102,431
Subscriptions and donations		**121,284**	144,174
Printing, stationery, and office supplies		**74,487**	84,618
Motor vehicle expenses		**33,959**	38,696
Insurance		**32,375**	31,625
Annual report		**30,916**	42,225
Repair and maintenance of furniture and equipment		**15,000**	37,861
Miscellaneous expenses		**80,373**	154,275
	27	**1,458,344**	1,536,912

30 Dividends

On March 23, 2016, the Directors of the Bank declared a 5% dividend amounting to $250,000 with respect to the ordinary shares held by the Dominica Social Security. The amount of dividends declared in 2015 was $250,000 for Dominica Social Security and $2,148,000 for the Government of Dominica.

31 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.

(expressed in Eastern Caribbean dollars)

31 Related party transactions ....*continued*

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:

	2016 $	2015 $
Financial Data Services Limited	**756,725**	789,195

At year-end, directors of the Bank and companies in which they have an interest had fixed deposits with the Bank of $11,500 (2015 - $11,500) and had loans and guaranteed loans with outstanding balances of $323,592 (2015 - $323,645).

In 2016, the total remuneration paid to directors and key management personnel was $1,430,364 (2015 - $1,354,012).

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

	Note	2016 $	2015 $
Dominica Social Security	18	**13,516,713**	11,993,712
Government of Dominica	18	**3,449,045**	3,689,048
		16,965,758	15,682,760

32 Cash and cash equivalents

	Notes	2016 $	2015 $
Cash and balances with Central Bank	7	**18,766**	15,952
Treasury bills	8	**411,722**	410,000
Items in the course of collection with other banks	9	**892,694**	3,620,900
Bank overdraft	16	**(142,575)**	–
		1,180,607	4,046,852

(expressed in Eastern Caribbean dollars)

33 Contingent liabilities and commitments

As at year-end, loans and advances approved by the Bank but not yet disbursed, amounted to approximately $21,895,546 (2015 - $23,272,944).

34 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.

35 Prior period adjustment

The financial statements of 2014 and 2015 have been restated to recognise the un-accrued interest being charged by Dominica Social Security to the Bank in relation to their sale and administration agreement on certain mortgage loans in 2002.

The effect of the prior period adjustment on the statement of financial position at July 1, 2014 and June 30, 2015 are as follows:

	Other liabilities $	Reserves $	Retained earnings $
Balance at July 1, 2014, as previously reported	7,971,425	13,912,457	7,196,667
Un-accrued interest expense	2,923,183	(730,796)	(2,192,387)
Balance at July 1, 2014, as restated	10,894,608	13,181,661	5,004,280
Balance at June 30, 2015, as previously reported	10,190,750	16,056,708	5,346,889
Un-accrued interest expense, brought forward	2,923,183	(730,796)	(2,192,387)
Un-accrued interest expense, charged to comprehensive income	225,761	(56,440)	(169,321)
Balance at June 30, 2015, as restated	13,339,694	15,269,472	2,985,181

The effect of the prior period adjustment on the statement of comprehensive income for the year ended June 30, 2015 is as follows:

	2015 $
Comprehensive income, as previously reported	2,690,983
Un-accrued interest expense	(225,761)
Comprehensive income, as restated	2,465,222