ANNUAL REPORT 2012

DOMINICA AGRICULTURAL INDUSTRIAL AND DEVELOPMENT BANK

"40 YEARS OF GIVING CREDIT FOR ECONOMIC DEVELOPMENT"

AID BANK

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1971 - 2011

OUR MISSION

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

OUR VISION

To be a top rated development finance institution.

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ACRONYMS AND ABBREVIATIONS

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

LETTER OF TRANSMITTAL

Honourable Roosevelt Skerrit
Prime Minister and Minister for Finance,
Foreign Affairs and Information Technology

Prime Minister's Office
Financial Centre, Kennedy Avenue
Roseau, Commonwealth of Dominica

November 21, 2012

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, 2012.

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

Mr. Ambrose M.J. Sylvester
Chairman up to April 18, 2012

Mr. Martin Charles
Deputy Chairman up to April 18, 2012
Chairman from April 19, 2012

Mr. Simpson Gregoire
Director up to April 18, 2012
Deputy Chairman from April 19, 2012

Ms. Denise Charles
Director

Mrs. Evannah Emmanuel
Director from April 19, 2012

Mr. Elford Henry
Director deceased August 2012

Mr. Hubert Joseph
Director

Mr. Leon LeBlanc
Director

Mr. Colbert Pinard
Director

Mr. Reuben Thomas
Director

Ms. Roan Thomas
Secretary to the Board

SENIOR MANAGEMENT TEAM AND STAFF

Mr. Kingsley Charles Thomas
General Manager/Consultant

Dr. Emaline Harris Collymore
Executive Manager, Corporate Affairs

Mrs. Mathilda John Rose
Executive Manager, Credit Operations

Ms. V Elfreda Abraham
Senior Manager, Finance and Accounts

Mrs. Avril Coipel
Senior Manager, Management Information Systems

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

Mrs. Liane Irish-Wade
Internal Auditor

Mrs. Martha Abel
Manager, Credit

Ms. Patricia Etienne
Manager, Recoveries

Mr. Ian Williams
Manager, Industrial Estate Unit

DAIDB Members of Staff

MEMBERS OF STAFF AS AT JUNE 30 2010

Office of the General Manager
Mr. K. C. Thomas
General Manager/Consultant

Mrs. L. Irish-Wade
Internal Auditor

Credit Operations Division
Mrs. M. John Rose
Executive Manager, Credit Operations

Mrs. M. Abel
Manager Credit

Mrs. P. Shillingford Chambers
Mr. F. Fabien
Mrs. N. Faustin
Ms. E. Alfred
Credit Officers

Ms. H. Sylvester
Securities Officer

Mr. A. Thomas
Disbursement Officer

Ms. M. Robinson
Customer Service Rep.

Ms. S. Victor
Receptionist

Recoveries Unit
Ms. P. Etienne
Manager Recoveries

Mr. C. Lloyd
Senior Recoveries Officer

Ms. G. Shillingford
Mrs. R. Xavier
Mr. K. Albert
Recoveries Officers

Corporate Services Division
Mrs. E. Harris Collymore
Executive Manager, Corporate Affairs

Mrs. J. Dechausay Titre
Special Projects/ Communications Coordinator

MIS Unit
Mrs. A. Coipel
Senior Manager, Information Systems

Mrs. L. Gonzalez-Peltier John
Applications Support Analyst, MIS

Mr. K. Sylvester
Technical Officer, MIS

Industrial Estate Unit
Mr. I. Williams
Manager, IEU

Mr. A. H. LeBlanc
Assistant Manager, IEU/ Technical Advisor

Mrs. R. Hyacinth
Administrative Officer

Mr. G. Eloi
Technical Officer

Mr. John O'garro
Maintenance Officer

Legal Division
Ms. N. Winston
Legal Secretary

Finance and Accounts Division
Ms. V. E Abraham
Senior Manager, Finance and Accounts

Mrs. I. Bruno
Assistant Manager, Finance and Accounts

Ms. A. Dupigny
Mr. K. Shillingford
Senior Officer, Finance and Accounts

Mr. M. Allan
Officer Finance and Accounts

Ms. N. Laurent
Accounts Officer

Human Resource Division
Mrs. U. McDowell-Job
Senior Manager, Human Resource and Administration

Ms. R. Thomas
Assistant Manager, Human Resource and Administration/ Board Secretary

Ms. G. Edwards
Registry Officer

Mr. G. Nicholls
Office Attendant

CONTACT DETAILS

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CHAIRMAN'S STATEMENT

I am honoured on behalf of the Board of Directors, having served as a Director, Deputy Chairman and now Chairman, to present this annual report which reviews the operations of the Bank for the financial year ended June 30, 2012.

Earlier this year, the Bank mourned the death of its distinguished Director, Elford Henry. Mr. Henry served as a director for 12 consecutive years and also served on various sub committees of the board. He will forever be remembered for his sterling contribution especially during discussions as it related to his passion, Agriculture.

We would also like to recognize the sterling contribution of all past Chairmen, Directors and Staff those whose commitment, dedication and responsiveness have significantly impacted our many achievements and successes as a development Bank, and whose support during the challenges of four decades has strengthened and sustained our resolve to provide credit for economic development.

In particular we remember deceased past chairmen former president Chrispin Sorhaindo and Dr. J Bernard Yankey.

The financial year ended June 30, 2012 marked the 40th year of the Bank's operation, a major milestone.

The Bank celebrated this anniversary with an Awards Dinner which was attended by the President of Dominica, the Acting Prime Minister and other members of Cabinet, Government Officials, members of the diplomatic corps, the President of the Caribbean Development Bank, Customers, Representatives of affiliated institutions and current and past members of the Board, Management and Staff of the Bank.

The AID Bank's growth from its inception has been remarkable. In its first year of operations, 1971/2 it reported the following: (i) Total Income – XCD 214.22; (ii) Net Income XCD 135.12; (iii) Expenditure XCD 79.02; and (iv) Total Assets XCD 43,703.06.

In the financial year ended June 30, 2012 the following was reported: (i) Total Income of XCD 13.79 million; (ii) Net Income of XCD 1.0 million; (iii) Expenditure of XCD 11.34 million; and (iv) Total Assets of XCD 198.42 million.

Over the past 40 years the bank has approved loans of XCD538.34 million for economic and social development in Dominica. This includes over $86.14 million for agriculture, $106.43 million for services, manufacturing and transportation, $81.87 million for tourism, $122.90 million for housing, and $93.31 million for students, $39 million for personal lending, $6.50 million for infrastructure and equity investments of $2.13 million.

Of these approvals the Bank has disbursed XCD 455.86 million to these sectors or an average of 85 percent of approvals.

The year in review was also the third of the Bank's five year strategic plan for the period 2009 to 2014 and in the face of continued uncertainty in the global environment the AID Bank continues to make a solid contribution to private sector growth and to roll out new elements of its strategy.

The first order of business in the first two years of the plan was organisational restructuring, improving organisational efficiency, repositioning of the Bank and expansion of its core business activities of lending and mobilising funds for development of the productive and social sectors of the economy.

Monthly and annual reports on the implementation of the strategic plan indicate that for the activities, which are in the control of the management, the objectives and targets of the Strategic and Operational Plan are substantially being achieved.

As indicated by the number of applications for loans being received from the private sector it is reasonable to conclude that the image of the Bank as viewed by its publics has improved.

Loan approvals over the past three years have amounted to $112.81 million or 20.95 per cent of total approvals over the past 40 years. Disbursements over the past three years of $85.72 million amounted to 18.80 per cent of total disbursements over the entire period of the bank's existence.

In the third year of the strategic plan the Bank took on some special projects of national significance with a view to improving the competitiveness of local industries on the eve of the creation of the single economic and financial space within the Organisation of Eastern Caribbean States (OECS) scheduled for July 2013.

During the year, in addition to the redevelopment of DPAC, the loan management software used by the Bank, the Bank also engaged an International Business Consulting Firm to commence the process of seamlessly integrating its technology systems to its overall Business Strategy and Goals.

The major highlights of the operations of the DAIDB for the year in review were as follows:

(a) There were approvals of 381 loans with a total value of XCD 34.56 million. This compares with the XCD 36.33 million approved in the preceding financial year.

An estimated 826 jobs were created in the economy.

(b) Total disbursements amounted to XCD 33.37 million. This amount was 6.6 per cent greater than total disbursements for the period ended June, 2011 when XCD 31.29 million was disbursed.

(c) At the end of June 2012, the principal outstanding in the Bank's loan Portfolio grew by 12.71 per cent to XCD 153.36 million compared to XCD 136.06 million outstanding as at June 30, 2011.

(d) As at June 30, 2012 non-performing (NP) loans totalled XCD 23.68 million or 15.44 per cent of total loans outstanding of XCD 153.36 million. This achievement represents a 22.88 per cent decline from the NP ratio of 20.02 per cent prior to the plan period.

(e) Operations for this financial year recorded a net profit of XCD 1.01 million which was approximately 55.18 per cent less than the net profit of XCD 2.35 million recorded at June 30, 2011.

(f) Total Revenue recorded as at June 30, 2012 was XCD 13.79 million which was 12.76 per cent more than the XCD 12.23 million recorded for the comparative period ended June 30, 2011.

(g) The Bank raised Euro 104,800 from the EU-funded Centre for Development of Enterprises (CDE) to enhance quality management and compliance of bread and pastry producers here In Dominica, to meet the requirements of the national mandatory specification for the labelling of pre-packaged foods.

(h) CariCRIS reaffirmed the BBB – rating of the Bank which underscores the Bank's successes in critical metrics including loan portfolio quality, access to funding for its core operations and its financial performance. The ratings also reflect Government's support and the Bank's stable, highly experienced and well qualified senior management team.

The Dominica Agricultural Industrial and Development Bank (DAIDB), like its regional counterparts, was born out of a response to an appeal for development finance institutions to be established within the territories of the Caribbean to provide micro, medium and long-term loans for projects in the productive sectors such as agriculture, tourism and industry, concurrently with providing technical assistance.

As such, From the time it was incorporated by an Act of Parliament on 8th July, 1971, the AID Bank's pursuit of promoting and influencing the economic development of Dominica and mobilizing funds for the purpose of such development has been resolute, in spite of changes in the chairmanship, directorship, management and the periodic re-structuring of its staff complement.

The Bank recognises the support over the past 40 years of the Government of the Commonwealth of Dominica, our majority shareholder, which in addition to providing the guarantees for loans obtained from Regional and international funding agencies, strengthened the capital base of the institution by transferring the assets of the Industrial Estate Unit to the Bank.

The Bank owes its sustainability over the past 40 years to the support of its long-standing and new customers and we therefore express sincerest appreciation to them, to our minority shareholder – the Dominica Social Security – and to all our partners in both the public and private sectors for their valuable support.

There are a number of regional and International funding partners to whom we also owe a debt of gratitude, primary among which are: Banco de Desarrollo Económico y Social de Venezuela [BANDES], the Caribbean Development Bank [CDB], the European Investment Bank [EIB] and the Commonwealth Secretariat which, through The Commonwealth Fund for Technical Cooperation [CFTC], supported the assignment of the General Manager/Consultant to the Bank for the initial two years of his assignment and has agreed to continue such support for the extension of his tenure.

Finally, we thank most sincerely the Members of the Board of Directors, the Management and Staff for their commitment and contributions to accomplishing the goals of the institution.

The Bank has shown considerable resilience over the years despite various challenges, among them the recent global financial crisis which continues to impact the region.

The Bank's current strategic plan has injected new life into the institution, which is now making a much more significant impact on local growth and development.

As a growth Institution, the bank will over the next few weeks begin to roll out some bold initiatives all geared at stimulating economic activity within the local economy. These initiatives would require the full and unequivocal support of the Government and other stakeholders.

Since the global financial crisis, the counter cyclical role of national development banks has been highlighted as a positive trend. In the new financial year the Bank intends to review its organisational structure and to introduce a separate risk assessment and management function.

The Bank is mindful of the rapid increase in its assets therefore, we are putting in place measures to successfully mitigate against inherent risks. We are moving ahead and making changes we believe will enable us to continue to effectively and efficiently manage these assets.

To this end, the Board of Directors will for the first time in the Bank's 40 year history appoint a sub – Committee called the RISK AND ASSET LIABILITY COMMITTEE and a RISK OFFICER/MANAGER.

The task of molding the institution to improve effectiveness and efficiency continues.

The Bank will undertake a more visible corporate presence, which, along with the continued support of its shareholders – i.e. the Government of Dominica and the Dominica Social Security (DSS) will continue to validate its existence with an incomparable level of steadfastness and diligence.

DAIDB FIVE-YEAR HIGHLIGHTS AT A GLANCE

INCOME STATEMENT	2012 XCD ('000)	2011 XCD ('000)	2010 XCD ('000)	2009 XCD ('000)	2008 XCD ('000)
Interest Income	11,107	10,843	10,307	10,609	11,685
Interest Expense	4,233	3,964	3,699	4,076	4,459
Net Interest Income	**6,874**	**6,879**	**6,608**	**6,533**	**7,226**
Other Income Net	2,692	1,590	2,417	1,235	626
Operating Income	**9,566**	**8,469**	**9,025**	**7,768**	**7,852**
Staff Costs	3,506	3,078	3,126	2,548	2,360
Administrative Costs	3,603	2,805	1,693	1,516	2,723
Provisions	1,448	238	2,612	2,418	1,948
Net Profit for the Year	**1,009**	**2,348**	**1,594**	**1,286**	**821**
BALANCE SHEET	2012 XCD ('000)	2011 XCD ('000)	2010 XCD ('000)	2009 XCD ('000)	2008 XCD ('000)
Assets					
Cash and Balances with Central Bank	2	2	23	3,112	1,039
Deposit with Other Banks	8,981	8,961	6,309	3,689	4,935
Investments [Net of Impairment]	4,236	4,120	4,648	5,920	5,793
Investment Properties	30,347	30,215	-	-	-
Loans [Net of Impairment]	145,406	129,508	116,549	112,686	114,169
Other	9,451	9,276	5,009	5,246	5,408
Total Assets	**198,423**	**182,082**	**132,538**	**130,652**	**131,343**
Liabilities					
Deposits	11,406	11,223	10,824	10,167	13,182
Borrowings	117,203	103,069	82,888	84,094	83,979
Other Liabilities	7,916	6,629	6,259	5,168	3,951
Equity	61,898	61,161	32,567	31,222	30,232
Total Liabilities and Equity	**198,423**	**182,082**	**132,538**	**130,652**	**131,343**
OTHER INFORMATION	2012 XCD ('000)	2011 XCD ('000)	2010 XCD ('000)	2009 XCD ('000)	2008 XCD ('000)
Loan Approvals	34,565	36,333	41,910	13,456	20,357
Loan Disbursements	33,373	31,293	21,050	14,282	18,683
Estimated Number of Jobs Created	826	802	805	487	701
Return on Equity	1.63%	3.84%	4.90%	4.12	2.72
Return on Assets	0.51%	1.29%	1.20%	0.98	0.63
Loan Provisions as % of Portfolio	8.98%	9.20%	7.48%	7.49	6.46
Loan Provisions as % of Non-performing Portfolio	58.13%	62.87%	46.95%	42.48	32.40

PART 1
THE ECONOMY OF DOMINICA

THE ECONOMY OF DOMINICA[1]

Dominica's economy exhibited a continued though weak recovery with a growth rate of 1.2 per cent in 2010, an estimated rate of 1.0 per cent in 2011 and a projection of 0.4 per cent in 2012. The increase in 2011 has been credited to growth in the agriculture, construction, and tourism sectors.

In 2011, production of bananas totalled 4,160 metric tonnes an increase of 26.79 per cent compared with 3,281 metric tonnes produced in 2010. Banana exports increased to XCD 7.21 million by 37.07 per cent in 2011 from XCD 5.26 million in 2010.

In the first quarter of 2012, banana production grew by 8.74 per cent to 842 metric tonnes and the value of exports by 5.74 per cent to XCD 1.33 million.

The tourism sector experienced growth of 2.82 per cent in stay over visitors to 75,593 in 2011 from 73,517 in 2010. Cruise ship visitors declined by 31.81 per cent from 516,820 in 2010 to 352,437 in 2011. Estimates of visitor expenditure increased by 18.25 per cent to XCD 304 million in 2011 compared to XCD 257.10 million in 2011.

In the first quarter of 2012, stay over visitor arrivals grew by 10 per cent to 19,062 from 17,296 in the same period of 2011. Cruise ship visitors declined by 15.92 per cent from 195,269 in the first quarter of 2011 to 164,177 in 2012. Estimates of visitor expenditure declined marginally by 0.82 per cent in the first quarter of 2012 compared with the previous year.

The value of production in the manufacturing sector declined in 2011 resulting primarily from a decline in beverage production by 27.55 per cent, a consequence of the restructuring of a major beverage company which began in 2010.

In the first quarter of 2012, there was growth of 14.33 per cent in the value of total manufactured production to XCD 12.39 million in 2011 from XCD 10.84 million in 2010. This growth was due to the 29.61 percentage increase in soap production from XCD 7.21 million in 2010 to XCD 9.35 million in 2011. There was also a 26.46 percentage increase in the value of soap exports to XCD 9.09 million in 2012 from XCD 7.18 million in the same period of 2011.

In 2011 the number of construction starts increased by 21.88 per cent from 96 in 2010 to 117 in 2011. However, the value of construction starts declined by 21.81 per cent from XCD 42.5 million in 2010 to XCD 33.23 million in 2011.

Central Government experienced a decline in its current balance by 13.42 per cent from XCD 49.62 million in 2010 to XCD 42.96 million in 2011. This decline resulted from the fact that current expenditures which were XCD 301.20 million in 2010 increased by 4.16 per cent to XCD 313.73 million in 2011, while current revenue increased by 1.67 per cent from XCD 350.82 million in 2010 to XCD 356.69 million in 2011.

The Consumer Price Index rose by 1.82 in 2011 and by 2.73 per cent in the first quarter of 2012.

[1]**Sources:**

IMF, Public Information Notice (PIN) No. 12/126, IMF Executive Board Concludes 2012 Article IV Consultation with Dominica, November 13, 2012.

Central Statistical Office, 'Quarterly Economic Indicators', Fourth Quarter, 2011 and First quarter, 2012.

PART 2
THE PERFORMANCE OF DAIDB

LENDING OPERATIONS

Loan Approvals

For the twelve months ended June 30, 2012, 383 loans were approved with a total value of XCD 34.63 million. Loans to the Industrial sector valued at XCD 15.90 million and Housing loans valued at XCD 7.73 million combined accounted for 68.38 per cent of the total approvals for the period.

There were an estimated 826 jobs created for the period.

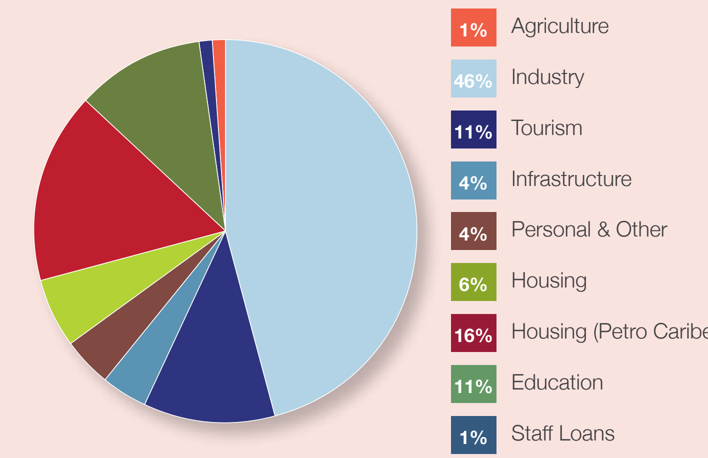
The Petro Caribe Housing Facility accounted for 71.57 per cent of the loans approved under the Housing sector.

The Petro Caribe Housing facility of XCD 10 million is a special mortgage programme of the Government of the Commonwealth of Dominica providing loans at a maximum interest rate of 5 per cent per annum to lower income earners. The first tranche of XCD 5 million which was obtained in October 2011 was fully committed to 29 households by April 2012. The remaining tranche of XCD 5 million is expected to be disbursed to the Bank in the current financial year.

The cumulative loan approvals were 4.87 per cent below that recorded for the same period ended June 30, 2011 when loan approvals totalled XCD 36.33 million.

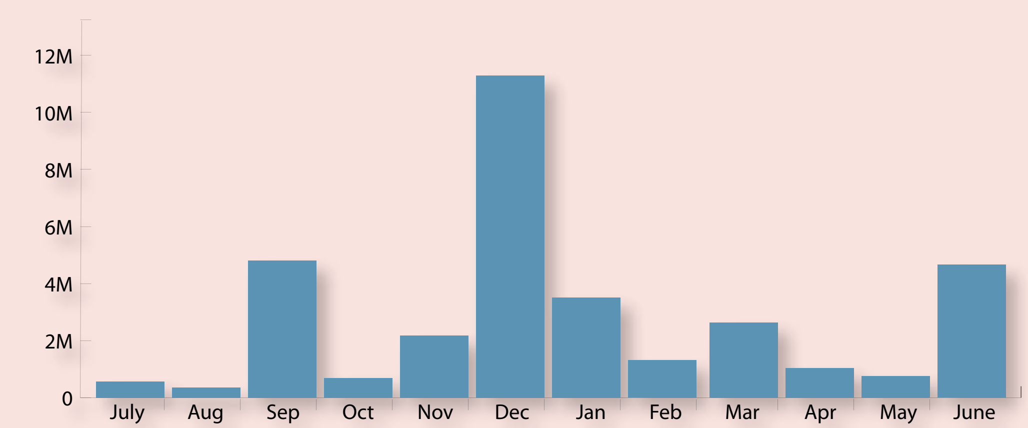
The distribution of loan approvals for the year under review is presented in Graph 1 following.

LOAN APPROVALS FOR THE PERIOD ENDED JUNE 2012



MONTHLY LOAN APPROVAL FOR FINANCIAL YEAR ENDED JUNE 2012

XCD Millions



Disbursements

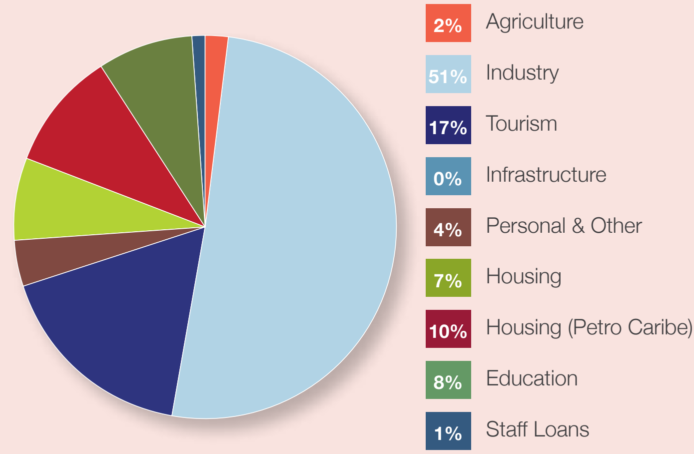
For the twelve months ended June 30, 2012 disbursements totalled XCD 33.37 million. This amount was more than disbursements for the period ended June 30, 2011 by 6.65 per cent when an amount of XCD 31.29 million was disbursed.

In addition, there were cumulative disbursements of XCD 1.82 million on behalf of the Agricultural Investment Unit (AIU) since its inception in November 2009.

The Bank continued to facilitate disbursements on behalf of the Dominica Banana Recovery Programme which commenced in October 2010. To date a total of XCD 0.48 million has been disbursed, with an equal amount disbursed in grant.

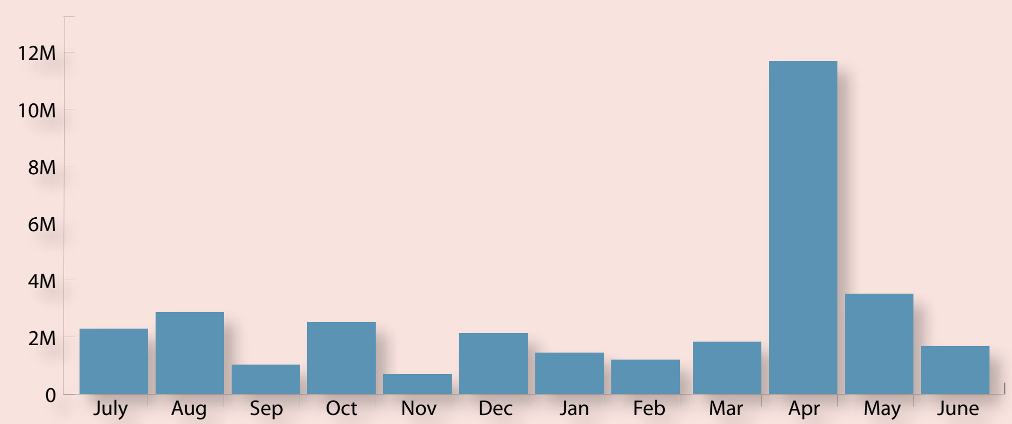
The Bank commenced disbursements on behalf of the Government of Dominica Student Loan facility in November 2010 and a second tranche was received in September 2011. The total disbursement to date under that programme is XCD 1.44 million. From the second tranche a total of XCD 0.51 million has been disbursed, as at June 30, 2012. A total of XCD 1.95 million was disbursed under this student loan facility as at June 30, 2012.

LOAN DISBURSEMENTS FOR THE PERIOD ENDED JUNE 2012



MONTHLY LOAN DISBURSEMENT FOR FINANCIAL YEAR ENDED JUNE 2012

XCD Millions



Rescheduling

For the twelve months period ended June 30, 2012, 48 loans with a total value of XCD 9.22 million were approved for rescheduling. This consisted of thirty (30) loans with a value of XCD 1.39 million in the Education sector, six (6) loans with a value of XCD 4.77 million in the Industry Sector, four (4) loans with a value of XCD 0.40 million in the Agriculture Sector, six (6) loans in the Housing Sector with a value of XCD 0.66 million and two (2) loans in the tourism sector with a value of XCD 2.00 million.

Compared to the twelve months ended June 30, 2011 forty-three (43) loans valued at XCD 11.57 million were approved for rescheduling. This comprised twenty-six (26) loans in the Education sector valued at XCD 1.23 million, one (1) Infrastructure loan valued at XCD 5.00 million, three (3) tourism loans valued at XCD 4.77 million, six (6) housing loans valued at XCD 0.42 million, two (2) loans in the industry sector valued at XCD 0.06 million, two (2) agricultural loans valued at XCD 0.06 million and three (3) loans in the Personal and Other category valued at XCD 0.04 million.

Report on Non-performing Loans

As at June 30, 2012 non-performing (NP) loans totalled XCD 23.69 million or 15.45 per cent of total loans outstanding of XCD 153.36 million.

For the corresponding period as at June 30, 2011, NP loans totalled XCD 19.91 million or 14.63 per cent of total loans outstanding of XCD 136.06 million.

Total interest outstanding on non-performing loans for the month ended June 30, 2012 amounted to XCD 7.73 million as compared to XCD 6.02 million for the corresponding period last year.

Principal in arrears as at June 30, 2012 on NP loans totalled XCD 14.51 million, which represents 69.32 per cent of total principal arrears of XCD 20.94 million.

The Housing, Education and Industry Sectors are the best performing sectors for the Bank, with 9.96 per cent, 10.55 per cent and 13.77 per cent of NP ratios respectively, whereas, Agriculture, Tourism and Personal & Other account for the highest NP ratios with 49.38 per cent, 22.46 per cent and 17.43 per cent respectively.

The Education sector recorded the highest number of non-performing loans, while the Tourism sector recorded the highest in value.

There were two loans, both within the Tourism sector, with a combined principal outstanding of XCD 4.28 million which contributed to the increase in the value of non-performing loans.

Of the sixty-three (63) loans which migrated into non-performing for the financial year July 2011 to June 2012, twenty-two (22) loans with a value of XCD 4.95 million are still in the non-performing category.

Loan Portfolio

At the end of June 2012, the principal outstanding in the Bank's loan portfolio totalled XCD 153.36 million compared to XCD 136.06 million outstanding as at June 30, 2011. The principal outstanding as at June 30, 2012 represented an increase of 12.71 per cent over the same period last year.

In terms of distribution of the outstanding loan portfolio among the various sectors, Industry Loans totalling XCD 45.02 million was the largest beneficiary, accounting for 29.36 per cent of the total loan portfolio. This sector was followed by the Tourism sector with 24.36 per cent and Education with 19.84 per cent of the total loan portfolio.

Funding

The Bank continued to pursue opportunities for funding from new and existing sources throughout the year.

Special Mortgage Programme Funded by Petro Caribe

The Government of the Commonwealth of Dominica approved a line of credit of XCD 10.0 million from the Petro-Caribe Fund to the Bank for a special mortgage facility to be on lent to low-income customers at a concessionary interest rate of 5 percent per annum. The Bank received the first tranche of XCD 5.0 million in October, 2011, which was fully committed in loans to sub-borrowers by April 2012.

Caribbean Development Bank [CDB]

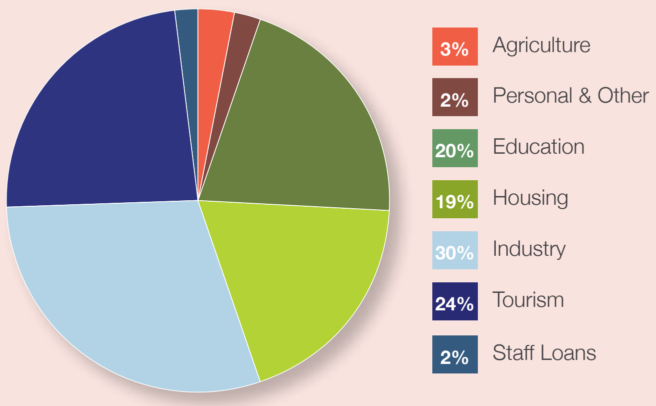
The DAIDB made an application to the Caribbean Development Bank for a new consolidated Line of Credit of USD 15.0 million for funding Agricultural,

Atlantique View Resort and Spa

Industrial and Tourism loans, Mortgage and Education loans over the next three years.

This application was based on the bank's record level of utilisation of the 8th consolidated line of credit of USD 8.0 million which was fully committed in one year, well in advance of the three years allowed under the agreement.

Loan Portfolio For the period ended June 2012



CARICOM Development Fund [CDF]

Discussions were advanced during the year with the CDF for a line of credit of XCD 11.0 million enhanced by a technical assistance grant of approximately XCD 800,000.

It is expected that the facilities will be approved and disbursements begin in the second quarter of the current financial year.

European Investment Bank [EIB]

All pre conditions were satisfied for the EIB line of credit and the EIB made its first disbursement on June 25, 2012 for two tranches with a combined total of USD 2.24 million [XCD 6.0 million approximately].

Bank's Credit Rating

The credit rating of BBB – which rated the institution as having "acceptable risk" was maintained by the regional credit rating agency – CariCRIS for the year.

This is a clear indication of the recognition of noteworthy improvements in the operations of the organisation over the past two years.

Management Information System

Information technology and Information systems are critical to the AID Bank's operation and survival. It is well known that the most successful institutions are the ones that can deliver the right products and services at the right time to their customers – all the while doing so at less cost, and more securely than the competition.

To achieve such a high standard, the technology that drives the business should be mature, dynamic and properly aligned with the strategic goals of the institution.

AID Bank is no different and so building on the review and upgrade exercise conducted in the previous financial year, the bank has further seen the need to more closely align and seamlessly integrate its technology systems to its overall Business Strategy and Goals.

This alignment will involve optimization of the bank's technology infrastructure, implementing dynamic technologies which will enable employees to interact in new ways and allow management to have the right data, at the right time to positively impact the decision making process and reducing cost.

The added benefit to this improvement is increased productivity and improved agility of the bank. The Bank will be able to better adapt to a complex and highly pressed business climate all the while achieving a competitive edge in the financial space.

To achieve the overall goal of simplifying and transforming AID Bank's IT Infrastructure into a Strategic Business Asset, the bank contracted the services of an international Business Consulting firm to advise the bank in this regard.

Internally the Bank also underwent a Microsoft Infrastructure Optimization comprehensive assessment in hardware, software, systems, processes, procedures, security and documentation.

The results and recommendations of this exercise together with the Consulting Firm's findings formed the foundation to drive the 2012/2013 technology projects which will simplify and transform AID Bank's IT Infrastructure into a strategic business asset.

Human Resources

As at June 30, 2012, the total staff complement was 39 which was unchanged from the preceding year.

Training

Ms. Georgina Edwards completed her Bachelor of Science Degree at the University of the West Indies in Management Studies. Mrs. Liane Irish-Wade, the Internal Auditor, received two certifications from the Institute of Internal Auditors: Certified Financial Services Auditor-Banking and a Certification in Risk Management Assurance. Ms. Roan Thomas successfully completed the program on Project Appraisal and Risk Management at Duke University, USA. Approximately thirty staff members received training in various areas of skill including Finance and related courses, Proposal Writing, Money Laundering, Occupational Health and Safety, Sign Language, Protocol and Project Appraisal. During the year a total of XCD 100,701 was spent on training to ensure that the Human Resource skills were enhanced to improve performance.

It is intended that the bank will shortly introduce an enterprise risk management function.

Staff Activities

The AID Bank celebrated its 40th Anniversary in November 2011, commencing with six church services across the island. The highlight was an Awards Dinner where 27 Staff members, customers and other stake holders received awards. On Creole day staff enjoyed creole lunch and dance together. The staff also shared lunch with the residents of Chances in Jimmit. Chances is a government facility which houses children under the age of eighteen who are abused, abandoned or need care.

The Bank will continue its 40th anniversary celebrations to November 2012.

Internal Audit Function

The internal audit work program for the financial year 2011/2012 employed a risk-based approach based on the risk ratings of the audits conducted in the 2010/2011 financial year.

The internal audit function is an integral part of the corporate governance regime of the Bank. Hence, the primary goal of the Internal Audit function is to evaluate the company's risk management, internal controls and corporate governance processes and practices and ensure that they are adequate and functioning effectively.

The scope of the Internal Auditor's work includes the review of risk management procedures, internal controls, information systems and governance processes. This work also involves periodic testing of transactions, best practice reviews, special investigations, appraisals of legal and regulatory requirements, and measures to help prevent and detect fraud.

During the year, 13 audits were conducted (planned and special audits) on various departments, procedures and policies. Each audit was classified in terms of the risk impact to the organization. This assists the Bank in prioritizing the implementation of the recommendations provided by the Internal Auditor. A number of independent consulting services were also provided in specific areas that are independent of regular internal audit review procedures.

The bank has already commenced adjustment and establishment of policies and procedures and the

Left: Exceptional AID Bank Farmer Julien Theophile
Right: Lovely Fast Ferry

enhancement of controls in keeping with recommendations from the Internal Auditor.

The Internal Auditor continues to demonstrate objectivity by not being involved in the day-to-day bank operations or internal control procedures and reports directly to the Board of Director's Finance and Audit Committee.

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

Industrial Estate Unit (IEU)

The Industrial Estate Unit's mandate is to stimulate, facilitate and encourage the establishment and development of industry. The Industrial Estate provides space for manufacturers, information, communication and technology companies including call centres, other service industries and warehousing.

The total employment currently at the Industrial Estate is 663, Clear Harbor a call centre being the largest employer with a total of 509 employees.

The Industrial Estate consists of twenty (20) buildings with a total floor space of 147,140sq.ft. The buildings have been sub divided into 31 units ranging from 780sq.ft. to 21,000sq.ft. Twenty-six (26) tenants currently rent building space at the Industrial Estate with some tenants occupying more than one unit. Twelve (12) tenants rent land.

The Canefield Industrial Estate is the most developed of the four (4) Industrial Estates with twenty-one (21) out of the twenty-three (23) buildings being occupied. At present two buildings are vacant and available for rent, one building in Geneva with a floor area of (6,400sqft) and one building in Canefield with a floor area of 10,000sq.ft.

Located about three miles from the Capital Roseau, the IEU's office is housed on the Canefield Estate with a complement of five staff members who manage the daily functions of the Industrial Estate program.

Since the Bank's acquisition of all the assets of the Industrial Estate from the Government of Dominica the Unit has maintained its objectives of providing factory/ office space for local and foreign enterprises, encouraging industrial production for local and export consumption, thereby creating employment while generating foreign exchange in keeping with Government's policy of job creation.

The Unit has been continuing its focus on rental collection which has shown some improvement. Works have been carried out on several buildings to improve their condition. The Unit has also re-located some tenants in an effort to maximize the use of available space.

In the 2012/2013 financial year there will be a focus on landscaping of the industrial estate and the development of the Picard Industrial Estate.

Apartment Complex in Picard

PART 3
OTHER ACTIVITIES

OTHER ACTIVITES

Financial Data Systems Limited (FDSL)

The redevelopment of DPAC, the loans management system used by the Bank, is advanced and there is on-going consultation with both current and potential users of the software.

The overall goal of this project is to redevelop DPAC into a premier banking system for development finance institutions.

The targeted date for completion remains December 2012.

His Excellency Dr. Nicholas Liverpool presents award for longest serving staff member to Ms. Glynis Shillingford

PART 4
AID BANK'S CORPORATE/ SOCIAL RESPONSIBILITY

CORPORATE / SOCIAL RESPONSIBILITY

Overview

The seriousness with which the Bank commits to its role of facilitating investment, partnering with the public and private sector, within the context of good corporate governance, prudent and responsible fiscal management and environmental sustainability, continues to be evident in the Bank's 40th year of operations.

During the financial year, 2011-2012, the AID Bank collaborated with some of its partners on special initiatives, geared at enhancing the operations of some key sectors within the local economy.

Two of the most notable of these initiatives were (i) the assessment of twenty-one accommodation properties within the tourism industry, pursuant to much concern by the Government of Dominica about the lack of export-ready rooms on island and (ii) a project to enhance quality management and compliance of bread and pastry producers in Dominica to meet the requirements of the national mandatory specification for the labelling of pre-packaged foods.

Special Initiatives

Assessment of Accommodation Properties

In the first exercise, the Bank partnered with the Physical Planning Division and the Discover Dominica Authority to assess a number of accommodation properties island-wide, with respect to their need to meet minimum certification requirements under the Discover Dominica Authority Tourism Standard Guidelines for Accommodation Properties.

It was observed that the properties under review were impeded by a number of challenges, namely: (i) physical structure, design and layout (ii) quality assurance to meet minimum industry standards (iii) the lack of financial resources, and (iv) the ability to support any financial debt for property upgrade. The assessment also considered the managerial operations and scope or potential of these properties,

Dominica Bakery Project

With respect to the second exercise, the Bank was pleased to engage the services of the Dominica Bureau of Standards (DBOS), the Invest Dominica Authority (IDA) and the Environmental Health Department, to embark on a project to enhance quality management and compliance of bread and pastry producers in Dominica, to meet the requirements of the national mandatory specification for the labelling of pre-packaged foods.

To advance this important programme, a grant of XCD 104,800 was received from the EU-funded Centre for Development of Enterprises (CDE).

In this project, concern was centred on food safety in the Dominican society with regard to public health, and its impact on the local economy.

The beneficiaries of this initiative – a group of 20 small, medium and large-sized bakeries appreciated the consultancies undertaken to: (i) audit their bakeries – with respect to the plant, lay out/design (ii) analyse the grade/type of flour used in bakery operations; (iii) standardize the labelling information on pre-packaged bread, cakes, pastries and other bakery products; (iv) engender a greater appreciation for the development of the business through an insight in business planning; and (v) facilitate the supply of packaging material for these bakeries.

In addition to sourcing the technical resources for the Bakery Project through the CDE, the AID Bank will customize a special package to help these bakeries implement the recommendations from the various consultancies that will improve the overall operations and standards of these enterprises. Additionally, the AID Bank will develop a mechanism to have the requisite inventory appropriately stored to enable the smoother flow of bakery operations.

Ice-cream Manufacturers

During the period in review, the Bank provided support to a group of local ice-cream manufacturers for the formation of an Ice-cream Manufacturer's Co-operative. A major goal of this Co-operative is to explore the ways in which members can be facilitated to improve their operations, efficiency, market competitiveness and profitability, address issues of affordability, training and enjoy economies of scale.

The Bank has also initiated another Project with the assistance of the CDE to enhance the operations of a variety of small enterprises.

Other Corporate Activities

During this fiscal year, the Bank's public relations effort continued to promote the Bank's special/ concessionary loan facilities for Housing from Petro Caribe and Education from CDB. Preparations were also in high gear to celebrate the Bank's 40th Anniversary, a milestone in development banking. The recognition of the Bank's longest serving staff member of 36 years and other long-serving employees of the Bank was the highlight of the Bank's Anniversary Awards Dinner and attests to the Bank's stability and obligation to honour and fulfil its mandate.

The Bank continues to partner with the Invest Dominica Authority (IDA), the Discover Dominica Authority (IDA), the Dominica Library and Information Services, the Eastern Caribbean Bank Local Agency Office and other Financial Institutions in joint attempts to apprise the public of the Bank's services and prudent banking practices. Also, through the services of the Caribbean Consultancy Services Network (CTCS), the Bank has intervened to facilitate the technical assistance needs of small local entities.

Staff members of the Bank continue to support the efforts of the Dominica Youth Business Trust (DYBT) by serving on its Board or as Mentors to budding entrepreneurs.

For a number of years, the AID Bank has adopted that part of the Edward Oliver Highway, between the Goodwill School bus-stop and the Public Works Offices. The Bank has on occasion, partnered with or complemented the efforts of other businesses to upkeep this area.

As part of its 40th Anniversary Activities, the Bank had the pleasure of serving lunch to the children and staff at "CHANCES," at Jimmit. During this year as well, the Bank supported donations to worthy causes, national events, schools, training programmes for the public, sports and creative industries.

Left: Man at work in Bakery
Right: Customers at Piwi's Ice Cream

PART 5
FINANCIAL PERFORMANCE

FINANCIAL PERFORMANCE

Net Profit

The AID Bank recorded a net profit of XCD 1.01 million in the financial year ended June 30, 2012. This figure was 55.18 per cent lower than the XCD 2.35 million net profit recorded in 2011 as indicated in the Table below.

Total comprehensive income was XCD 0.99 million for the year under review, after the foreign exchange loss of XCD 21,003.

Income

Total income recorded for the financial year was XCD 13.79 million which was 12.79 per cent higher than the XCD12.23 million achieved in 2011. Interest income increased by 2.44 per cent and other operating income increased by 93.67 per cent over the previous financial year.

Expenses

Financial Expenses of XCD 4.23 million were 6.77 higher than the previous year as a result of the new lines of credit from external funding agencies.

Total staff expenses of XCD 3.51 million increased by 13.88 per cent.

Administrative Expenses of XCD 2.10 million increased by 65.72 per cent over the previous year.

Total operating expenses of XCD 11.34 million were 24.18 per cent more than the XCD 9.13 million recorded in the previous financial year.

Table 1

Summary of Financial Performance

	2012 EC$	2011 XCD
Interest income	11,107,051	10,842,663
Other operating income	2,687,346	1,387,555
Total income	**13,794,397**	**12,230,218**
Interest Expense	(4,232,586)	(3,964,162)
Staff Costs	(3,505,666)	(3,078,264)
Administrative Expenses	(2,097,004)	(1,265,423)
Factory sheds expenses	**(568,433)**	-
Other operating expenses	(566,340)	(542,062)
Depreciation	(372,720)	(284,058)
Total expenses	**(11,342,749)**	**(9,133,969)**
Net income from Operations before the following income/ (charges):	**2,451,648**	**3,096,249**
Gain/ (Loss) on foreign exchange	-	(712,607)
Impairment Losses on loans and Receivables	(1,447,943)	(237,939)
Negative Goodwill	-	187,008
Impairment (losses)/gains on available for sale investments	5,000	15,000
Net Profit	**1,008,705**	**2,347,711**
Foreign Exchange loss utilization	(21,003)	(77,157)
Total Comprehensive Income	**987,702**	**2,270,554**

Assets

At June 30, 2012, assets totalled XCD 198.42 million representing an 8.97 percentage increase from last year's XCD 182.08 million.

The major component of assets, loans and advances valued at XCD 145.41 million adequately offset total long-term liabilities of XCD 117.20 million. The long-term debt to equity ratio of 1.89:1 was within the suggested range for the industry of 4:1.

Loans and advances to customers of XCD 145.41 million increased by 12.28 per cent compared to last year's balance of XCD 129.51 million.

Cash in current and operating account, and short-term investments totalled XCD 8.98 million, which was 0.22 per cent more than last year's XCD 8.96 million.

Other receivables of XCD 1.42 million were more than last year's XCD 1.33 million. Other receivables include insurance premiums arrears, legal and other fees paid on behalf of clients and rental arrears.

Net investments in treasury bills, Government debentures and shares in companies totalled XCD 34.17 million, of which XCD 30.35 million represents Investment Properties of the Industrial Estate Unit (IEU). Net Investments were 0.44 per cent more than last year's XCD 30.22 million

Net total fixed assets of XCD 8.03 million were 1.12 per cent more than last year's XCD 7.95 million.

Liabilities

Total consolidated liabilities were XCD 136.52 million, which was 12.90 per cent more than last year's XCD 120.92 million.

Due to customers was XCD 11.41 million which was 1.63 per cent higher than the XCD11.22 million in the previous financial year.

Borrowed funds of XCD 117.20 million and registered a net increase of 13.71 per cent from last year's XCD 103.07 million.

Shareholders' Equity

Shareholders' Equity of XCD 61.90 million increased by 1.21 per cent from last year's XCD 61.16 million.

Retained Earnings of XCD5.47 million increased by 10.21 per cent from last year's XCD 4.96 million.

Apartment at Picard

DOMINICA AGRICULTURAL INDUSTRIAL AND DEVELOPMENT BANK

AUDITORS REPORT AND FINANCIAL STATEMENTS

KPMG

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Dominica Agricultural Industrial and Development Bank (the Bank), which comprise the statement of financial position as at June 30, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at June 30, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

INDEPENDENT AUDITORS' REPORT

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

Emphasis of Matter

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

KPMG

Chartered Accountants
November 9, 2012

Antigua and Barbuda

DOMINICA AGRICULTURAL INDUSTRIAL AND DEVELOPMENT BANK

Statement of Financial Position

June 30, 2012

(Expressed in Eastern Caribbean Dollars)

	Notes		2012	2011
Assets				
Cash and balances with Central Bank	7	$	2,345	2,345
Treasury bills	8		2,412,000	2,432,819
Deposits with banks and other financial institutions	9		9,396,941	9,380,322
Loans and advances to customers	10		145,405,600	129,508,316
Available-for-sale investments	12		1,408,299	1,267,340
Investment properties	13		30,347,346	30,215,374
Property, plant and equipment	14		8,034,683	7,945,741
Other assets	15		1,415,769	1,329,627
Total Assets			198,422,983	182,081,884
Liabilities				
Due to customers	16	$	11,405,589	11,223,196
Borrowed funds	17		117,202,580	103,069,377
Other liabilities	18		7,916,551	6,628,750
Total Liabilities		$	136,524,720	120,921,323
Equity				
Share capital	20	$	47,970,205	47,970,205
Reserves	21		8,460,783	8,229,610
Retained earnings			5,467,275	4,960,746
Total Equity		$	61,898,263	61,160,561
Total Liabilities and Shareholders' Equity		$	198,422,983	182,081,884

Approved by the Board of Directors on September 19, 2012

Director.................................... Director....................................

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

DOMINICA AGRICULTURAL INDUSTRIAL AND DEVELOPMENT BANK

Statement of Comprehensive Income

Year ended June 30, 2012

(Expressed in Eastern Caribbean Dollars)

	Notes		2012	2011
Interest income	22	$	11,107,051	10,842,663
Interest expense	22		(4,232,586)	(3,964,162)
Net interest income	22		6,874,465	6,878,501
Other operating income	23		2,687,346	1,387,555
Other operating expenses	24		(7,110,163)	(5,882,414)
Impairment losses on loans and receivables			(1,447,943)	(237,939)
Impairment reversal on AFS investment			5,000	15,000
Negative goodwill	25		-	187,008
Net profit for the year			1,008,705	2,347,711
Other Comprehensive Income:				
Foreign exchange loss utilization			(21,003)	(77,157)
Total comprehensive income		$	987,702	2,270,554

DOMINICA AGRICULTURAL INDUSTRIAL AND DEVELOPMENT BANK

Statement of Changes in Equity

Year ended June 30, 2012

(Expressed in Eastern Caribbean Dollars)

	Notes	Share Capital	Reserves	Retained Earnings	Total
Balance as at June 30, 2010 as restated		$ 17,547,631	7,719,839	7,299,429	32,566,899
Profit for the year		-	-	2,347,711	2,347,711
Foreign exchange loss utilization	21	-	(77,157)	-	(77,157)
Total comprehensive income		-	(77,157)	2,347,711	2,270,554
Transfer to statutory reserve	21	-	586,928	(586,928)	-
Transfer to provision for loan losses in compliance with EIB		-	-	(3,849,466)	(3,849,466)
Additional issue of shares	20	30,422,574	-	-	30,422,574
Dividends on ordinary shares	28	-	-	(250,000)	(250,000)
Balance as at June 30, 2011		$ 47,970,205	8,229,610	4,960,746	61,160,561
Profit for the year		-	-	1,008,705	1,008,705
Foreign exchange loss utilization	21	-	(21,003)	-	(21,003)
Total comprehensive income		-	(21,003)	1,008,705	987,702
Transfer to statutory reserve		-	252,176	(252,176)	-
Dividends on ordinary shares		-	-	(250,000)	(250,000)
Balance as at June 30, 2012		$ 47,970,205	8,460,783	5,467,275	61,898,263

DOMINICA AGRICULTURAL INDUSTRIAL AND DEVELOPMENT BANK

Statement of Cash Flows

Year ended December 31, 2012

(Expressed in Eastern Caribbean Dollars)

	2012	2011
Cash flows from operating activities		
Net profit for the year	1,008,705	2,347,711
Adjustments for:		
Unrealized foreign exchange (gain)/loss	(703,076)	712,607
Impairment on investments	-	457,798
Depreciation	372,720	284,058
Negative goodwill	-	(187,008)
Impairment losses on loans and receivables	1,528,479	-
Reversal of impairment losses on available-for-sale investments	(5,000)	(15,000)
Interest and similar income	(11,107,051)	(10,842,663)
Interest expense and similar charges	4,232,586	3,964,162
Cash flows before changes in operating assets and liabilities	(4,672,637)	(3,278,335)
Increase in loans and advances to customers	(16,328,983)	(16,941,695)
Increase in deposits with banks and other financial institutions	(60,048)	(2,999,997)
Increase in other assets	(86,142)	(623,898)
Increase in due to customers	44,151	391,354
Increase in other liabilities	1,287,801	1,034,117
Cash used in operations	(19,815,858)	(22,418,454)
Interest received	10,010,272	10,975,077
Interest paid	(5,226,253)	(4,009,276)
Net cash used in operating activities	(15,031,839)	(15,452,653)
Cash flows from investing activities		
Purchase of investment property	(131,971)	-
Purchase of property, plant and equipment	(461,662)	(391,970)
Purchase of available-for-sale investment	(135,958)	-
Net cash used in investing activities	(729,591)	(391,970)
Cash flows from financing activities		
Borrowings	24,044,344	27,418,879
Issuance of shares	-	66,261
Foreign exchange utilization	(21,003)	(77,157)
Dividends paid	(250,000)	(250,000)
Repayment of borrowings	(8,076,159)	(11,768,321)
Net cash from financing activities	15,697,182	15,389,662
Net decrease in cash and cash equivalents	(64,248)	(454,961)
Cash and cash equivalents, beginning of year	7,161,826	7,616,787
Cash and cash equivalents, end of year	7,097,578	7,161,826

1. **Reporting Entity**:

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

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

2. **Basis of Preparation**:

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

The Bank's financial statements were approved for issuance by the Board of Directors on September 19, 2012.

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

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

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

3. **Acquisition of Business Unit**:

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

The cost of the acquisition is measured as the fair value of the assets and liabilities acquired at the date of the exchange, and the equity instruments issued plus costs directly attributable to the acquisition. The excess in fair value of the net assets of IEU over the consideration transferred resulted in a bargain purchase which was recorded as negative goodwill. See note 25.

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

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

(a) *New Standards and Interpretation of and Amendments to Existing Standards Effective During the Year*:
Certain new IFRS's and interpretations of, and amendments to, existing standards, which were in issue and were relevant to the Bank, came into effect for the current financial year. None of these pronouncements had a material effect on the financial statements.

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

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

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

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

- IFRS 13, *Fair Value Measurement,* which is effective for annual reporting periods beginning on or after January 1, 2013, defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value and is applicable to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value, or when disclosure of fair values is provided. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Bank is assessing the impact that this standard will have on its financial statements when effective.

- IAS 1 *Presentation of Financial Statements*: *Presentation of Items of Other Comprehensive Income (OCI)* effective for annual reporting periods beginning on or after 1 July 2012. It requires an entity to present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. It does not change the existing option to present the profit or loss and other comprehensive income in two statements. It changes the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income. The Bank is assessing the impact this standard will have on its 2013 financial statements.

(c) 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.

(d) Financial Assets:

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

(i) Loans and Receivables:

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

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

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

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

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

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

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

(ii) Available for Sale:

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

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

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

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

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

(e) *Impairment of Financial Assets*:

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

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

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

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

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

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

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

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

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

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

DOMINICA AGRICULTURAL INDUSTRIAL
AND DEVELOPMENT BANK

Notes to Financial Statements *(cont'd)*

June 30, 2012

(Expressed in Eastern Caribbean Dollars)

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

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

Assets Carried at Amortised Cost: (cont'd)

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

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

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

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

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

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

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

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

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

(f) *Renegotiated Loans:*
Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

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

(h) *Property, Plant and Equipment*:

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

**DOMINICA AGRICULTURAL INDUSTRIAL
AND DEVELOPMENT BANK**

Notes to Financial Statements *(cont'd)*

June 30, 2012

(Expressed in Eastern Caribbean Dollars)

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

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

ii. *Subsequent Measurement:*

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

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

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

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

Land is not depreciated.

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

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

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

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

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

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

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

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

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

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

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

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

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

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

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

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

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

(o) Interest Income and Expense:

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in profit or loss using the effective interest method.

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

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

(p) Fees and Other Income:

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

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

(q) Termination Benefits:

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

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

(r) Foreign Currency Translation:

Functional and Presentation Currency:

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

Transactions and Balances:

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

5. Financial Risk Management:

(a) Financial Risk Factors

The Bank has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Market Risk
- Liquidity Risk

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

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

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

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

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

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

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

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

(b) *Credit Risk*:

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

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

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

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

(b) *Credit Risk*:

(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.

The Bank's exposure to credit risk is disclosed in Note 4.

(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 counterpart. They have been developed based on the Eastern Caribbean Central Bank guidelines. Customers of the Bank are segmented into five rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary.

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

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

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

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

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

(iv) *Risk Limit Control and Mitigation Policies:*

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

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

Some other specific control and mitigation measures are outlined below.

(i) *Collateral*

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

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

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

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

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

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

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

(ii) *Credit –Related Commitments*

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

(iii) *Impairment and Provisioning Policies*

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

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

	2012		2011	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
Bank's rating				
1. Pass	58.32	3.90	87.82	15.22
2. Special mention	23.06	0.69	0.48	0.48
3. Sub-standard	3.35	15.57	0.30	1.85
4. Doubtful	3.57	12.15	0.39	4.75
5. Loss	11.20	67.69	11.01	77.70
		100.00		100.00

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

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

(iii) *Impairment and Provisioning Policies (cont'd)*
The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

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

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

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

Credit Risk Exposures relating to on-balance sheet assets		**2012**	**2011**
Treasury bills	$	2,412,000	2,432,819
Deposits with banks and other financial institutions		9,396,941	9,380,322
Loans and advances to customers:			
- Demand loans		115,516,340	101,657,888
- Mortgage loans		29,889,260	27,850,428
Other assets		1,415,769	1,325,327
		158,630,310	142,646,784
Credit risk exposures relating to off-balance sheet items			
Loan commitments		23,039,176	25,472,683
	$	181,669,486	168,119,467

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

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

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

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

The above table represents a worst case scenario of credit risk exposure to the Bank at June 30, 2012 and 2011, 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, 80.09 % (2011 – 77.03 %) 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:

- 81.88% (2011 – 88.30%) of the loans and advances portfolio is categorised in the top two grades of the internal rating system;
- 41.58% (2011 – 40.13%) of the loans and advances portfolio are considered to be neither past due nor impaired; and
- The Bank has introduced a more stringent selection process upon granting loans and advances.

Loans and Advances

Loans and advances are summarised as follows:

		2012	**2011**
Neither past due nor impaired	$	66,182,208	56,989,293
Past due but not impaired		69,306,724	65,126,561
Impaired		23,684,226	19,911,535
Gross		159,173,158	142,027,389
Less allowance for impairment losses on loans and advances		(13,767,559)	(12,519,073)
	$	145,405,599	129,508,316

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

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

Loans and Advances (cont'd)

The total impairment provision for loans and advances is $13,767,559 (2011 - $12,519,073) of which $9,528,073 (2011 - $9,206,731) represents the individually impaired loans and the remaining amount of $4,239,986 (2010 - $3,312,342) 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 Past Due but Not 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, 2012				
Grades				
1. Pass	$	51,839,776	14,342,432	66,182,208
June 30, 2011				
Grades				
1. Pass	$	46,292,795	10,696,497	56,989,292

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

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

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

Loans and Advances (cont'd)

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

		Demand loans	Mortgage loans	Total
At June 30, 2012				
Past due up to 30 days	$	51,405,441	12,662,831	64,068,272
Past due 30-60 days		657,068	61,713	718,781
Past due 60-90 days		600,860	51,493	652,353
Past due over 90 days		3,468,047	399,265	3,867,312
	$	56,131,416	13,175,302	69,306,718
At June 30, 2011				
Past due up to 30 days	$	46,155,054	14,217,296	60,372,350
Past due 30-60 days		436,176	59,967	496,143
Past due 60-90 days		480,470	53,691	534,161
Past due over 90 days		3,334,027	389,880	3,723,907
	$	50,405,727	14,720,834	65,126,561

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, 2012				
Individually impaired loans	$	21,388,786	2,295,491	23,684,227
At June 30, 2011				
Individually impaired loans	$	17,191,773	2,719,762	19,911,535

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

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

(iv.) Loans and Advances Renegotiated
Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of Bank's management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totaled $9,224,971 (2011: $11,574,995).

(v.) Repossessed Collateral
At the end of 2012, the Bank had no repossessed collateral (2011 – $41,000).

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:

		2012		2011
	%	000'	%	000'
Education	19.51	31,049	23.48	33,350
Mortgage	19.16	30,490	19.81	28,137
Tourism	24.78	39,445	24.58	34,909
Industrial	29.31	46,655	23.45	33,312
Agricultural	3.32	5,285	4.09	5,814
Other consumers	3.90	6,212	4.52	6,418
Distribution and commerce	0.02	37	0.07	87
Total before deduction for allowance for loans and advances	100.00	159,173	100.00	142,027

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

(c) *Market Risk:*
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate and price risk will affect the value of the Bank's assets, the amount of its liabilities and/or income Market risk arises from fluctuations in the value of liabilities and the value of investments held. Th Bank is exposed to market risk on certain of its financial assets.

The Bank takes on exposure risks, which is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in market prices. Market risks arise from ope positions in interest rate and equity products, all of which are exposed to general and specific marke 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 aris from its non-trading portfolios.

Non-trading portfolios primarily arise from the interest rate management of the Bank's retail an commercial banking assets and liabilities. Non-trading portfolios also consist of equity risks arisin 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 Ban and classified on the statement of financial position as available for sale. To manage its pric risk arising from investments in equity securities, the Bank diversifies its portfolio.

At June 30, 2012, if equity, securities prices had been 10% higher/lower with all othe variables held constant, equity for the year would have been $14,833 higher/lower as a resu of the increase/decrease in fair value of available-for-sale equity securities.

(ii.) Currency Risk:
The Bank takes on exposure to effects of fluctuations in the prevailing foreign currenc exchange rates on its financial position and cash flows, primarily with respect to the Unite States dollar (US$) and Euro. The Board of Directors sets limits on the level of exposure b currency and in total which are monitored daily. The Bank's exposure to currency risk i minimal with respect to the US$ 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, 2012, if the Currency had weakened/strengthened by 5% against the Euro with a other variables held constant, profit for the year would have been $110,513 lower/higher as result of foreign exchange losses/gains on translation of Euro-denominated borrowings.

The following table summarises the Bank's exposure to foreign currency exchange rate risk a June 30, 2012. Included in the table are the Bank's assets and liabilities at carrying amount, categorised by currency.

(Expressed in Eastern Caribbean Dollars)

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

(c) Market Risk: (cont'd)

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

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

	EC$	US$	EURO	Total
As at June 30, 2012				
Assets				
Cash and balances with the Central Bank	2,345	-	-	2,345
Treasury bills	2,412,000	-	-	2,412,000
Deposits with banks and other financial institutions	6,099,684	3,297,257	-	9,396,941
Loans and advances to customers	145,405,600	-	-	145,405,600
Available-for-sale investments	1,408,299	-	-	1,408,299
Other assets	1,415,769	-	-	1,415,769
Total financial assets	156,743,697	3,297,257	-	160,040,954
Liabilities				
Due to customers	11,405,589	-	-	11,405,589
Borrowed funds	39,113,325	75,576,065	2,513,190	117,202,580
Other liabilities	7,916,551	-	-	7,916,551
Total financial liabilities	58,435,465	75,576,065	2,513,190	136,524,720
Net on-balance sheet financial position	98,308,232	(72,278,808)	(2,513,190)	23,516,234
Credit commitments	23,039,176	-	-	23,039,176
As at June 30, 2011				
Total financial assets	141,372,890	2,547,879	-	143,920,769
Total financial liabilities	42,628,823	74,087,377	4,205,124	120,921,324
Net on-statement of financial position	98,744,067	(71,539,498)	(4,205,124)	22,999,445
Credit commitments	25,472,683	-	-	25,472,683

DOMINICA AGRICULTURAL INDUSTRIAL
AND DEVELOPMENT BANK

Notes to Financial Statements *(cont'd)*

June 30, 2012

(Expressed in Eastern Caribbean Dollars)

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

(c) Market Risk: (cont'd)

(iii.) Interest Rate Risk:

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

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

DOMINICA AGRICULTURAL INDUSTRIAL
AND DEVELOPMENT BANK

s to Financial Statements *(cont'd)*

30, 2012

essed in Eastern Caribbean Dollars)

Financial Risk Management: *(cont'd)*

Market Risk: (cont'd)

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

		1 Year	1-5 Years	Over 5 Years	Non-interest bearing	Total
As at June 30, 2012						
Cash and balances with the Central Bank	$	-	-	-	2,345	2,345
Treasury bills		2,412,000	-	-	-	2,412,000
Deposits with banks and other financial institutions		9,196,941	-	200,000	-	9,396,941
Loans and advances to customers		19,400,008	49,843,421	76,162,171	-	145,405,600
Available-for-sale investments		-	-	-	1,408,299	1,408,299
Other assets		-	-	-	1,415,769	1,415,769
Total financial assets		31,008,949	49,843,421	76,362,171	2,826,413	160,040,954
Due to customers		4,873,545	6,532,044	-	-	11,405,589
Borrowed funds		9,129,199	50,083,956	57,989,425	-	117,202,580
Other Liabilities		-	-	-	7,916,551	7,916,551
Total financial liabilities		14,002,744	56,616,000	57,989,425	7,916,551	136,524,720
Net interest repricing gap		17,006,205	(6,772,579)	18,372,746	(5,090,138)	23,516,234
As at June 30, 2011						
Total financial assets		30,572,393	47,550,810	63,436,629	2,360,947	143,920,779
Total financial liabilities		(13,056,847)	(42,064,270)	(59,171,456)	(6,628,750)	(120,921,323)
Net interest repricing gap	$	17,515,546	5,486,540	4,265,173	(4,267,803)	22,999,456

**DOMINICA AGRICULTURAL INDUSTRIAL
AND DEVELOPMENT BANK**

Notes to Financial Statements *(cont'd)*

June 30, 2012

(Expressed in Eastern Caribbean Dollars)

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

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

(iii.) Interest Rate Risk: (cont'd)
The table below summarises the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss:

	EC$	US$	EURO
As at June 30, 2012			
Assets			
Treasury bills	6.05	-	-
Deposits with banks and other financial institutions	3.54	-	-
Loans and advances to customers	7.30	-	-
Liabilities			
Due to customers	7.71	-	-
Borrowed funds	3.89	3.05	2.00
As at June 30, 2011			
Assets			
Treasury bills	5.93	-	-
Deposits with banks and other financial institutions	2.52	-	-
Loans and advances to customers	8.15	-	-
Liabilities			
Due to customers	5.82	-	-
Borrowed funds	3.89	3.49	2.00

(iv.) Sensitivity Analysis
Cash flow interest rate risks arise from borrowings at variable rates. At June 30, 2012 if variable interest rates had been 1% higher/lower with all other variables held constant, profit for the year would have been $233,445 higher/lower.

(Expressed in Eastern Caribbean Dollars)

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

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

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and different types. An unmatched position potentially enhances profitability, but also increases the risks of losses.

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

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

		1 Year	2 – 5 Years	Over 5 Years	Total
Assets at June 30, 2012					
Financial liabilities					
Due to customers	$	4,873,545	6,532,044	-	11,405,589
Borrowed funds		12,802,895	61,304,273	67,359,937	141,467,105
Other liabilities		1,834,182	6,082,369	-	7,916,551
Total financial liabilities	$	19,510,622	73,918,686	67,359,937	160,789,245
Assets at June 30, 2011					
Financial liabilities					
Due to customers	$	3,851,364	8,004,216	-	11,855,580
Borrowed funds		12,380,794	45,888,616	69,852,106	128,121,516
Other liabilities		2,583,233	4,045,517	-	6,628,750
Total financial liabilities	$	18,815,391	57,938,349	69,852,106	146,605,846

(Expressed in Eastern Caribbean Dollars)

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

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

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

		1 Year	2 – 5 Years	Total
As at June 30, 2012				
Loan commitments	$	9,811,475	13,227,701	23,039,176
As at June 30, 2011				
Loan commitments	$	15,427,683	10,000,000	25,472,683

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

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

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

(ii.) *Investment Securities*
Assets classified as available for sale are measured at fair value.

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

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

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

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

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

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

		Carrying Value		Fair Value	
		2012	**2011**	**2012**	**2011**
Financial assets					
Loans and advances to customers	$	145,405,600	129,508,316	145,405,600	129,508,316
Financial liabilities					
Due to customers	$	10,746,344	11,223,196	10,746,344	11,223,196
Borrowed funds		117,202,580	103,069,377	82,478,987	69,200,264

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

(f) Fair Value Hierarchy

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

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

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

Assets measured at fair value

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

(g) Capital Management

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

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

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

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

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

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

(a) *Impairment Losses on Loans and Advances*
The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated $2,045,819 lower or higher.

(b) *Impairment of Available-for-Sale Equity Investments*
The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, evidence of deterioration in the financial health of the investee industry and sector performance, changes in technology and operational and financing cash flows. There were no declines in fair value below cost considered significant or prolonged as at June 30, 2012.

DOMINICA AGRICULTURAL INDUSTRIAL
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Notes to Financial Statements *(cont'd)*

June 30, 2012

(Expressed in Eastern Caribbean Dollars)

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

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

During the year, the IEU did not recognize revenue on rental amounting to $249,483 (2011 - $278,414), as significant uncertainties regarding recovery exist. This relates to rental from tenants who are in difficult economic situations and have not paid their rents for several years now.

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

	Note		2012	2011
Cash in hand		$	1,100	1,100
Balances with Central Bank			1,245	1,245
Included in cash and cash equivalents	29	$	2,345	2,345

8. **Treasury Bills**:

	Note		2012	2011
Treasury bills	29	$	2,412,000	2,432,819

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 2012 is 6.05% (2011 – 5.94%).

(Expressed in Eastern Caribbean Dollars)

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

	Note		2012	2011
Items in the course of collection with other banks	29	$	4,683,233	4,726,663
Placements with banks and other financial institutions			4,713,708	4,653,659
		$	9,396,941	9,380,322

The weighted average effective interest rate in respect of interest bearing deposits in 2012 is 3.54% (2011 – 2.52%).

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

	Note		2012	2011
Demand loans		$	128,886,823	113,890,296
Mortgage loans			30,286,336	28,137,093
			159,173,159	142,027,389
Less allowance for impairment losses on loans and advances	11		(13,767,559)	(12,519,073)
			145,405,600	129,508,316
Current			19,400,008	18,720,877
Non-current			126,005,592	110,787,439
		$	145,405,600	129,508,316

The weighted average effective interest rate on productive loans stated at amortised cost at June 30, 2012 is 7.30% (2011 – 8.15%).

DOMINICA AGRICULTURAL INDUSTRIAL
AND DEVELOPMENT BANK

Notes to Financial Statements *(cont'd)*

June 30, 2012

(Expressed in Eastern Caribbean Dollars)

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

		2012	2011
Demand loans			
At beginning of year	$	12,232,408	8,464,292
Provision for impairment losses		1,345,710	-
Amounts recovered during the year		41,570	-
Transfer from retained earnings		-	3,849,466
Transfer from mortgage loans		-	15,485
Written-off during the year as uncollectible		(249,205)	(96,835)
At the end of year		13,370,483	12,232,408
Mortgage loans			
At beginning of year		286,665	465,473
Provision for impairment losses		102,233	-
Transfer to demand loans		-	(15,485)
Amounts recovered during the year		38,966	-
Written-off during the year as uncollectible		(30,788)	(163,323)
At the end of year		397,076	286,665
	$	13,767,559	12,519,073

DOMINICA AGRICULTURAL INDUSTRIAL AND DEVELOPMENT BANK

Notes to Financial Statements *(cont'd)*

June 30, 2012

(Expressed in Eastern Caribbean Dollars)

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

		2012	2011
Equity securities – at fair value:			
- Listed	$	143,330	143,330
- Unlisted		1,264,969	1,124,010
	$	1,408,299	1,267,340

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

		2012	2011
At beginning of year		1,267,340	1,252,340
Acquisition of ordinary shares		135,959	-
Unrealised gain from changes in fair value charge to profit and		5,000	15,000
	$	1,408,299	1,267,340

13. **Investment Properties**:

		Land	Factory Building	Total
Cost/Valuation:				
As at July 01, 2010		-	-	-
Acquisition		12,161,363	18,054,011	30,215,374
As at June 30, 2011	$	12,161,363	18,054,011	30,215,374
Acquisition		-	131,972	131,972
As at June 30, 2012	$	12,161,363	18,185,983	30,347,346

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

DOMINICA AGRICULTURAL INDUSTRIAL AND DEVELOPMENT BANK

Notes to Financial Statements *(cont'd)*

June 30, 2012

(Expressed in Eastern Caribbean Dollars)

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

		Land	Buildings	Motor Vehicles	Furniture and Equipment	Computer Equipment	Work in Progress	Total
Cost:								
Balance – June 30, 2010	$	40,527	5,970,275	133,000	1,005,248	903,500	-	8,052,550
Additions and transfers		-	140,125	-	173,744	78,101	446,737	838,707
Acquisition		1,855,656	953,106	-	27,919	-	-	2,836,681
Disposals		-	-	-	(76,521)	(161,673)	-	(238,194)
Balance - June 30, 2011		1,896,183	7,063,506	133,000	1,130,390	819,928	446,737	11,489,744
Cost:								
Balance – June 30, 2011		1,896,183	7,063,506	133,000	1,130,390	819,928	446,737	11,489,744
Additions and transfers		-	110,000	-	310,026	41,636	-	461,662
Disposals		-	-	-	(4,808)	(8,858)	-	(13,666)
Balance – June 30, 2012	$	1,896,183	7,173,506	133,000	1,435,608	852,706	446,737	11,937,740
Accumulated Depreciation								
Balance – June 30, 2010	$	-	1,686,200	108,600	878,280	825,059	-	3,498,139
Depreciation		-	122,208	12,200	86,099	63,551	-	284,058
Disposals		-	-	-	(76,521)	(161,673)	-	(238,194)
Balance – June 30, 2011		-	1,808,408	120,800	887,858	726,937	-	3,544,003
Accumulated Depreciation								
Balance – June 30, 2011		-	1,808,408	120,800	887,858	726,937	-	3,544,003
Depreciation		-	145,388	12,200	145,027	70,105	-	372,720
Disposals		-	-	-	(4,808)	(8,858)	-	(13,666)
Balance – June 30, 2012	$	-	1,953,796	133,000	1,028,077	788,184	-	3,903,057
Net Book Value:								
Balance – June 30, 2011	$	1,896,183	5,255,098	12,200	242,532	92,991	446,737	7,945,741
Balance – June 30, 2012	$	1,896,183	5,219,710	-	407,531	64,522	446,737	8,034,683

(Expressed in Eastern Caribbean Dollars)

15. **Other assets**:

		2012	2011
Rent receivable	$	600,199	838,834
Other receivables		1,380,164	1,091,543
Less allowance for impairment losses		(568,895)	(605,051)
		1,411,468	1,325,326
Prepayments		4,301	4,301
	$	1,415,769	1,329,627

16. **Due to customers**:

		2012	2011
Fixed deposits	$	8,375,351	8,152,497
Refundable deposits		2,001,895	1,958,568
Loan prepayments		1,028,343	1,112,131
	$	11,405,589	11,223,196
Current		4,873,544	3,811,730
Non-current		6,532,045	7,411,466
	$	11,405,589	11,223,196

All fixed deposits carry fixed interest rates. The weighted average effective interest rate of fixed deposits at June 30, 2012 is 7.71% (2011 – 5.82%).

DOMINICA AGRICULTURAL INDUSTRIAL
AND DEVELOPMENT BANK

Notes to Financial Statements *(cont'd)*

June 30, 2012

(Expressed in Eastern Caribbean Dollars)

17. **Borrowed funds**:

		2012	2011
Caribbean Development Bank	$	51,381,595	55,912,312
Dominica Social Security		17,031,150	18,476,025
European Investment Bank		8,576,026	4,205,124
Government of Dominica		5,826,869	6,288,902
Republic of China		1,858,734	1,975,065
Cassie Centrale de Co-operation Economique		-	11,949
BANDES – Economic and Social Development Bank of Venezuela		16,272,900	16,200,000
Government of Dominica (Petrocaribe Fund)		5,072,222	-
National Bank of Dominica		11,183,084	-
	$	117,202,580	103,069,377
Current		12,132,307	9,245,117
Non-current		105,070,273	93,824,260
	$	117,202,580	103,069,377

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

18. **Other liabilities**:

		2012	2011
Agency liabilities	$	3,998,807	3,108,214
Deferred income		602,941	531,958
Dividends payable		250,000	250,000
Grants		10,230	10,230
Others		3,054,573	2,728,348
		7,916,551	6,628,750
Current		2,493,427	2,583,233
Non-current		5,423,124	4,045,517
	$	7,916,551	6,628,750

(Expressed in Eastern Caribbean Dollars)

18. **Other liabilities**: *(cont'd)*
Grants include funds from European Development Fund and European Union for the benefit of the Bank's customers.

Agency liabilities are funds issued to the Bank by the Government of Dominica and other local agencies to be used for specific purposes, and for which the Bank acts as executing and collecting agent. The Bank earns agency fees as prescribed by contractual agreement. The funds belong to the Government of Dominica and local agencies.

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

20. **Share Capital**:

		2012	2011
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.

**DOMINICA AGRICULTURAL INDUSTRIAL
AND DEVELOPMENT BANK**

Notes to Financial Statements *(cont'd)*

June 30, 2012

(Expressed in Eastern Caribbean Dollars)

21. **Reserves**:

		2012	2011
General reserve	$	88,234	88,234
Statutory reserve		7,276,532	7,024,356
Special reserves		1,096,017	1,117,020
	$	8,460,783	8,229,610

Movements in reserves were as follows:

		2012	2011
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.

		2012	2011
Statutory reserve			
At beginning of year	$	7,024,356	6,437,428
Transfer from retained earnings		252,176	586,928
At end of year	$	7,276,532	7,024,356

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

(Expressed in Eastern Caribbean Dollars)

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

		2012	2011
Special reserves			
Caribbean Development Consolidated Entity Provision			
At beginning and end of year	$	441,122	441,122
Foreign exchange equalization			
At beginning of year	$	675,898	753,055
Foreign exchange loss utilization		(21,003)	(77,157)
At end of year		654,895	675,898
	$	1,096,017	1,117,020

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

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

(Expressed in Eastern Caribbean Dollars)

22. **Net Interest Income**:

		2012	2011
Interest Income			
Loans and advances	$	10,716,370	10,541,332
Deposits with banks		390,681	301,331
		11,107,051	10,842,663
Interest Expense			
Long-term debt		(3,874,554)	(3,563,952)
Interest on deposits		(358,032)	(400,210)
		(4,232,586)	(3,964,162)
	$	6,874,965	6,878,501

23. **Other Operating Income**:

		2012	2011
Rental income from IEU operations	$	1,140,687	-
Refund from European Investment Bank		9,838	551,980
Commitment fees		263,583	237,382
Agency fees		138,483	166,163
Administrative fees		-	30,000
Gain on foreign exchange		703,076	-
Others		431,679	402,030
	$	2,687,346	1,387,555

24. Other Operating Expenses:

	Notes		2012	2011
Staff costs	26	$	3,505,666	3,078,264
Administrative expenses	27		2,097,004	1,265,423
Building occupancy expenses			541,340	542,062
Depreciation	14		372,720	284,058
Factory sheds expenses			568,433	-
Bad debt expense			25,000	-
Loss on foreign exchange			-	712,607
		$	7,110,163	5,882,414

25. Negative Goodwill:

		2012	2011
Asset acquired at fair value	$	-	26,875,158
Liabilities settled (Government of Dominica)		-	3,734,424
Total asset acquired		-	30,609,582
Less: Total consideration		-	(30,422,574)
Negative goodwill	$	-	187,008

26. Staff Costs:

		2012	2011
Salaries and wages	$	2,402,074	2,211,496
Social Security Costs		140,674	124,153
Group insurance		93,941	72,837
Other staff costs		868,977	669,778
	$	3,505,666	3,078,264
Number of employees		39	39

27. Administrative Expenses:

		2012	2011
Legal and professional fees	$	811,619	348,994
Advertising		370,528	158,004
Directors emoluments		168,094	143,529
Subscriptions and donations		79,640	101,567
Printing, stationery, and office supplies		102,055	92,016
Telephone, postage and fax		104,697	91,730
Annual report		41,091	40,426
Repair and maintenance of furniture and equipment		48,901	34,759
Motor vehicle expenses		48,859	34,064
Insurance		30,141	11,448
Miscellaneous expenses		291,379	208,886
	$	2,097,004	1,265,423

28. Dividends:

The Bank declared a 5% dividend amounting to $250,000 (2011 - $250,000) with respect to the ordinary shares held by the Dominica Social Security.

29. Cash and Cash Equivalents:

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 3 months maturity:

		2012	2011
Cash and balances with the Central Bank	$	2,345	2,345
Treasury Bills		2,412,000	2,432,819
Deposits with banks and other financial institutions		4,683,233	4,726,663
	$	7,097,578	7,161,827

30. **Related Party Transactions**:

A party is related to the Bank, if:

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

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

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

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

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

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

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

A number of banking transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and conditions, at market rates.

Loand and Advances outstanding from related parties are as follows:

		2012	2011
Rain Forest Tram Ltd.	$	1,759,950	1,759,950
Financial Data Services Limited		332,759	-
	$	2,092,709	1,759,950

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

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

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

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

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

At year-end, Directors of the Bank and companies in which they have an interest had no loans or fixed deposits with the Bank but guaranteed loans with outstanding balances of $143,070.

In 2012, the total remuneration paid to Directors and key management personnel was $936,244 (2011 - $1,034,836).

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

		2012	2011
Dominica Social Security	$	17,031,151	18,476,025
Government of Dominica		5,826,869	6,288,902
	$	22,858,020	24,764,927

31. **Contingent Liabilities and Commitments**:

As at year-end, loans and advances approved by the Bank but not yet disbursed, amounted to approximately $23,039,176 (2011 - $25,472,683).

32. **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.

33. **Subsequent Events**:

On July 18, 2012, a special meeting of the Shareholders of Rain Forest Aerial Tram Ltd. voted on a special resolution to wind up the Company by petition to the Court.

All of the EC$1,759,950 owed by the Company and the Bank's investment of EC$1,000,000 is expected to be recovered from the European Investment Bank. As a result no allowance for impairment has been made in these financial statements.

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