Annual Report 2014

For Financial Year ended June 30, 2014

Leading the way Towards a Sustainable Future

Dominica Agricultural Industrial and Development Bank

OUR MISSION

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

OUR VISION

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

Contents

Acronyms & Abbreviations

AFS	Available for Sale
BANDES	Banco de Desarrollo Económico y Social de Venezuela
CARICRIS	Caribbean Information & Credit Rating Services Limited
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CDF	CARICOM Development Fund
DAIDB	Dominica Agricultural Industrial & Development Bank
DPAC	Loan Management Software produced by FDSL
ECCB	Eastern Caribbean Central Bank
EC$	Eastern Caribbean Dollar
EIB	European Investment Bank
FEEF	Foreign Exchange Equalization Fund
FDSL	Financial Data Systems Limited
GDP	Gross Domestic Product
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IFRIC	International Financial Reporting Interpretations Committee
IEU	Industrial Estate Unit
NBD	National Bank of Dominica
NP	Non-performing
OCI	Other Comprehensive Income
SFR-D	Special Fund Resources – Dominica
US$	United States dollar

Values in are in Eastern Caribbean Dollars unless otherwise stated.

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

September 30, 2014

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, 2014.

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

Yours sincerely,

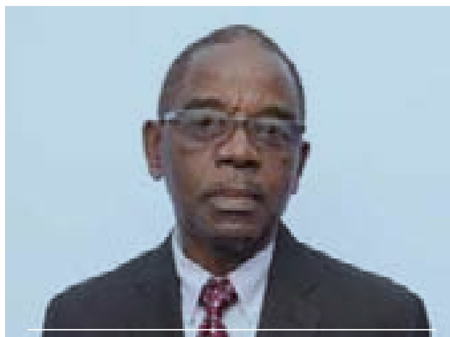
DOMINICA AGRICULTURAL INDUSTRIAL AND DEVELOPMENT BANK

Mr. Martin Charles
Chairman
Board Of Directors

Board of Directors

Members as at June 30, 2014

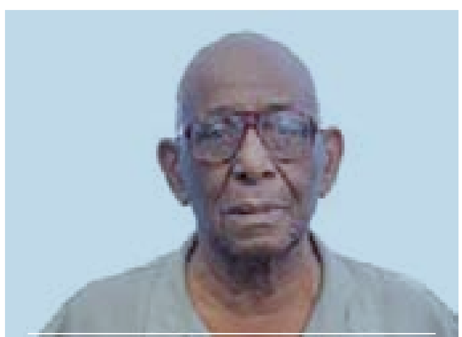
Mr. Martin Charles
Chairman



Mr. Simpson Gregoire
Deputy Chairman

Ms. Denise Charles
Director

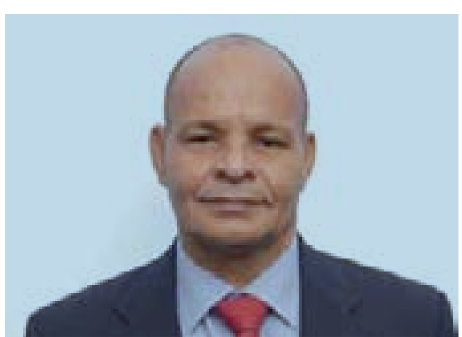
Mrs. Evannah Emanuel
Director



Mr. Hubert Joseph
Director

Mr. Leon LeBlanc
Director

Ms. Helen Pascal
Director



Mr. Colbert Pinard
Director

Ms. R Thomas
Secretary to the Board

Chairman's Statement

Dear Shareholders,

I am honored to present the Bank's Annual Report for the financial year ended June 30, 2014.

The Dominican economy faces a more complex and challenging global environment than before the global financial crisis, when external conditions were generally more favorable for economic growth.

The Bank is affected by a sustained period of low growth, high credit risk resulting in increased levels of delinquency and modest growth. Notwithstanding the adverse impact the bank has already effected changes that will improve its overall performance.

The country is also addressing these challenges by pursuing appropriate policies to stabilize the economy that will translate modest growth into sustainable growth.

Prudent fiscal policy has enabled Dominica's economy to maintain stability that has caused us to weather the adverse impacts of the global financial crisis. Measures have been put in place to improve the stability of the financial system so as to enhance the resilience of the economy.

In keeping with accepted prescriptions for boosting growth momentum the Government of the Commonwealth of Dominica has been making strategic investments in infrastructure and human capital. Investments in infrastructure and education are increasingly recognized as critical to increasing both-short term and long-term growth. Investments in education are particularly important to addressing the challenges of increasing competitiveness and growth potential.

Exploration for geothermal energy and a climate change policy demonstrates a commitment to sustainable use of natural resources and to enhance our competitive advantage for business development. There are also other ongoing efforts to improve the business and regulatory environment.

The country is also making progress in tackling the challenge of advancing fiscal consolidation while preserving economic growth.

The AID Bank plays an important role in supporting government's growth initiatives. It represents government's active partnership with the private sector in making investments which have the capacity to stimulate and sustain economic growth.

For the year in review, the Bank is pleased to report a cautiously good performance with loan approvals amounting to $26.92 million, which was 8.98 per cent higher than the previous year's total of $24.70 million. Of these approvals 53.58 per cent were for economics sector projects reflecting the Bank's focus on expanding the economy. Social Sector lending as a percentage of total approvals included student loans which accounted for 17.20 per cent and housing and other loans which accounted for the remaining 29.22 per cent.

The Bank is also pleased to announce that it recorded a net profit of $1.12 million which grew by 9.85 per cent compared to restated net profit of $ 1.03 million in the previous financial year.

The quality of the loan portfolio continues to improve with the non-performing loans ratio falling to a new low of 10.72 per cent or 2.56 percentage points lower than the previous year's figure of 13.28 per cent.

I take this opportunity to urge all delinquent borrowers to come in to make a firm commitment to settle your debts. The bank is firmly resolute in its quest to collect on its bad debts.

The financial year ended June 30, 2014 marked the end of the strategic plan period which commenced in the financial year ended June 30, 2010.

A review of the Bank's performance over the five year period of the past strategic plan revealed the following achievements:

(a) The average net income during the plan period was $1.42 million, compared to $0.63 for the previous five years.

(b) Total loan approvals for the plan period amounted to $197.31 million compared to $ 105.85 million approved in the previous five years. Total disbursements of $152.91 million during the last plan period compares with $99.85 million in the previous five years.

(c) The portfolio size increased to $159.99 million as at June 2014, from $115.08 million as at June 30, 2009.

(d) The portfolio quality improved with a non performing ratio which declined from 18.66 percent in June 2009 to 10.72 percent in June 2014. Provisions for loan losses as a percentage of the non performing portfolio rose from 42.48 per cent in June 2009 to 94.94 per cent in June 2014.

(e) The Bank mobilized $102 million from local regional and international lenders during the plan period, compared to $10 million in the previous five years.

(f) The Bank obtained its first credit rating by CariCRIS, a Caribbean rating agency. The investment grade credit rating of BBB – was again reaffirmed for the financial year under review.

(g) The Bank celebrated its 40th anniversary in 2011.

2014 could be characterized as one of the most challenging years the bank has ever experience in its 43 year history. In 2005 the Government of Dominica commissioned the IMF to conduct a review of the bank. A report was submitted with various recommendations one of which was not accepted by the Government. The Government in its wisdom did not agree to the privatization of the bank. This was one of the many brave, courageous, visionary and forward thinking and wise decisions that our Government has taken in the best interest of our beloved country. This decision enabled the customers of the bank to access loans at very concessionary interest rates and we have seen a more productive and settled staff.

The bank continues to fulfill its mandate by influencing economic development. In 2014 we continued to aggressively pursue new possibilities and to this end we have completed our new strategic plan for a three year period from 2014 to 2017.

In its new strategic plan the Bank has decided to focus on sustainable development as being critical to its future and the future of the country. Sustainable development requires a new mindset and way of doing things so as to ensure that today's development activities secure a better quality of life for this generation as well as generations to come. The Bank recognizes that this new direction will require a comprehensive policy, education, action, commitment and time.

The new plan also places special emphasis on institutional strengthening and capacity building in order to be able to provide excellent service to our customers. The Bank as an institution must itself operate from a position of strength in order to be able to contribute to a strong business climate in Dominica.

Other innovations in the strategic plan 2014-2017 include new products and services which will be rolled out over the next three years, expansion of our investment portfolio, the transformation of the industrial estates into a modern business park, strengthening the AID Bank brand, improving on our customer service and continuous improvement of the Bank's portfolio.

A development bank is expected to play the role of leader and catalyst by financing new and innovative investments in the economy. In so doing the bank creates new opportunities for the entire financial sector. A case in point is the student loan product which was once synonymous with the AID Bank but is now being offered by other financial institutions.

The Bank therefore is delighted to roll out three new products,

(1) Startups for Young Business Professionals

(2) Financing for Women in Agriculture

(3) A revolving line of Credit for Business persons

This pioneering role compels the Bank to finance start-ups and other special target sectors and groups which means operating on the more risky end of the market. In order to be sustainable the Bank must therefore improve its risk assessment and management capabilities.

One of the new initiatives taken in the year in review was the recruitment of a Risk Officer to take responsibility for enterprise risk management of the Bank with the officer taking up his position on July 1, 2014.

I take great pleasure in formally welcoming on staff Mr. Stephen Lander who is a professional with both local and regional experience in the financial sector. We have high expectations of his capacity to build and administer the bank's risk management framework.

The Banks achievements over the past financial year are thanks to the hard work and dedication of the Board of Directors, Management and Staff of the Bank.

We owe a debt of gratitude to the Government of the Commonwealth of Dominica for its continued strong support of the Bank. We identify fully with the theme of government's recent budget which is 'towards expansion of the economy'. We would also like to express our thanks for the establishment of the National Employment program (NEP). Through this program the bank has facilitated some fourteen (14) interns, all of whom were still with the Bank at the end of the financial year in review.

We are thankful to our lenders including the Caribbean Development Bank, the European Investment Bank, Banco de Desarollo Económico y Social de Venezuela, the CARICOM Development Fund, the Dominica National Petroleum Company Ltd. (DNPC) some of which provide both financial and technical assistance to the Bank.

We are here because of our existing and new customers, we appreciate their patronage and we pledge to focus in the coming years on delivering consistently superior service quality.

We are grateful for our many development partners and look forward to continue working with them in order to accomplish our ambitious work program in the new financial year. We are passionate about making a difference in the expansion of our economy.

Five Year Highlights

INCOME STATEMENT	2014 $ ('000)	2013 $ ('000) Restated	2012 $ ('000)	2011 $ ('000)	2010 $ ('000)
Interest Income	12,054	12,681	11,107	10,843	10,307
− Interest Expense	4,834	4,848	4,233	3,964	3,699
= **Net Interest Income**	**7,220**	**7,833**	**6,874**	**6,879**	**6,608**
+ Other Income Net	1,894	1,937	2,692	1,590	2,417
= **Operating Income**	**9,114**	**9,771**	**9,566**	**8,469**	**9,025**
− Staff Costs	4,100	3,594	3,506	3,078	3,126
− Administrative Costs	3,178	3,330	3,603	2,805	1,693
− Provisions	721	1,818	1,448	238	2,612
= **Net Profit for the Year**	**1,115**	**1,028**	**1,009**	**2,348**	**1,594**
BALANCE SHEET					
Assets					
+ Cash and Balances with Central Bank	23	2	2	2	23
+ Deposit with Other Banks	8,421	3,531	8,981	8,961	6,309
+ Investments [Net of Impairment]	1,691	2,234	4,236	4,120	4,648
+ Investment Properties	31,274	30,888	30,347	30,215	–
+ Loans [Net of Impairment]	148,499	152,404	145,406	129,508	116,549
= Other	9,338	9,013	9,451	9,276	5,009
Total Assets	**199,246**	**198,072**	**198,423**	**182,082**	**132,538**
Liabilities					
+ Deposits	9,393	10,908	11,406	11,223	10,824
+ Borrowings	118,859	114,578	117,203	103,069	82,888
+ Other Liabilities	7,647	10,475	7,916	6,629	6,259
= Equity	63,347	62,111	61,898	61,161	32,567
Total Liabilities and Equity	**199,246**	**198,072**	**198,423**	**182,082**	**132,538**
OTHER INFORMATION					
Loan Approvals ($'000)	26,918	24,700	34,565	36,333	41,910
Loan Disbursements ($'000)	17,477	24,231	33,373	31,293	21,050
Estimated Number of Jobs Created	548	514	826	802	805
Return on Equity	1.80	1.10	1.63	3.84	4.90
Return on Assets	0.57	0.52	0.51	1.29	1.20
Loan Provisions as % of Portfolio	10.18	9.46	8.98	9.20	7.48
Loan Provisions as % of Non-performing Portfolio	94.94	71.27	58.13	62.87	46.95

Part One

The Economy of Dominica[1]

[1]**Sources:**

Central Statistical Office, 'Quarterly Economic Indicators', Fourth Quarter and January to December 2013.

ECCB, Annual Economic and Financial Review, 2013.

ECCB, Economic and Financial Review , Volume 34, Number 1, March 2014

The Economy

Economic activity in Dominica was mixed in 2013. However, the data for the first quarter of 2014 indicates positive trends and there are favourable prospects for the remainder of 2014.

The positive growth recorded in first quarter of 2014 was supported by the strengthening of global economic activity which has been underway in 2013 and first quarter of 2014.

In 2013, there was an increase in output in the manufacturing sector, while activity in the construction sector declined.

For the period January to December 2013 the manufacturing sector recorded growth in the production of beverages to 141,116 cases, an increase by 19.39 per cent relative to 2012. There was also an estimated increase by 2.82 per cent in the production of chemicals and related products to 1,655.7 tonnes, primarily as a result of increased demand for soap in regional markets.

In the agricultural sector, it is estimated that production of non-banana crops and livestock increased in 2013 relative to 2012. However, over the same period banana production from leading banana exporting companies declined by 29.29 per cent and export revenue is estimated to have declined by 31.25 per cent.

There was a reduction in construction activity by 22.45 percent in 2013, and a corresponding decline in the value of those starts by 27.02 per cent.

In 2013, the performance of the tourism industry was mixed. Stay over visitors increased slightly by 1.05 per cent. However, cruise-ship arrivals declined leading to an overall decline in total visitors by 10.26 per cent from 342,732 in 2012 to 307,552 in 2013. Nonetheless, there was an estimated increase in total visitor expenditure by 9.2 per cent to XCD 224.49 million.

Estimates of economic activity in the first quarter of 2014 indicate strengthened performances in agriculture, construction and tourism.

Banana production of 330 tonnes in the first quarter of 2014 was 13.5 per cent lower than production in the corresponding period of 2013. The output of non-banana crops including cocoa, coffee and hot peppers were estimated to have increased, indicating positive responses to diversification efforts. There have also been estimated increases in livestock production resulting from farmers' expectations of the opening of the pork and poultry abattoir.

In the first quarter of 2014 the number and value of construction starts rose by 8.6 per cent and 3.6 per cent respectively. This increase partly reflected public sector capital spending for road development, water supply networks, the geothermal energy initiative, an abattoir, for pork and poultry, an agricultural centre and coffee plant and other construction work.

There was an improvement in the cruise-ship segment of the tourism sector in the first quarter of 2014, with a 37.3 per cent increase in cruise visitor arrivals to 165,224. Stay-over visitor arrivals is estimated to have declined by 2.2 per cent to 19,850, principally as a result of lower tourism demand from the French West Indies, which is Dominica's largest sub-category of stay over visitors.

In the manufacturing sector, estimates for the first quarter of 2014 indicate that the volume of beverage production increased by 14.5 per cent related to increased demand from external markets. Production of chemicals and related products were lower than the corresponding period in 2013, with reductions of 7.1 per cent for soap and 3.4 per cent for paint and varnishes.

Preliminary first quarter figures for 2014 indicate that the merchandize trade deficit narrowed to $ 104.6 million from $118.2 million in the corresponding period of 2013.

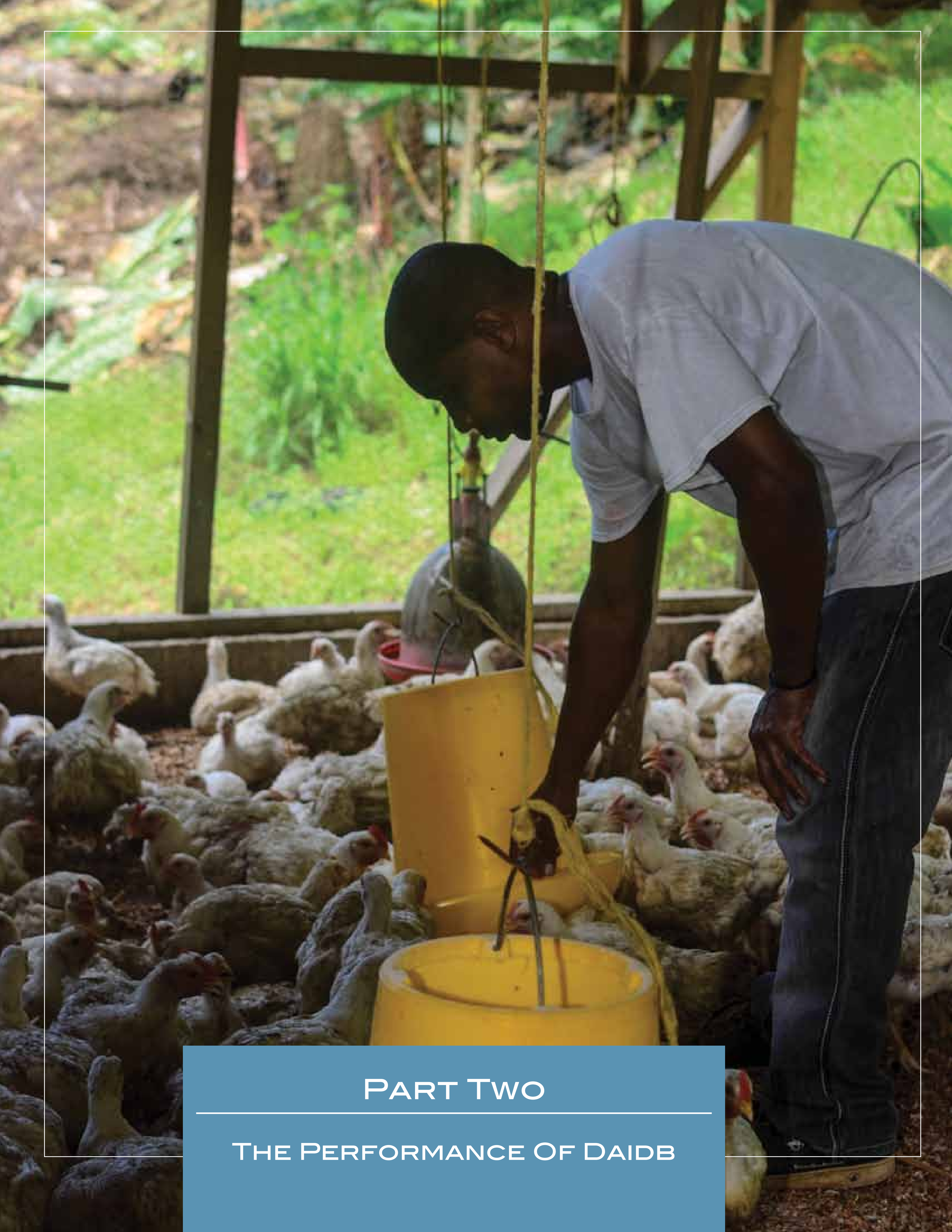
There was a decline by 9.6 per cent in the value of imports and a marginal increase in the total value of exports, partly related to the increased value of soap exports.

The fiscal operations of the central government yielded a narrowing of the surplus on the current account to $ 11.1 million in the first quarter of 2014 from $17.3 million in the same period of 2013 resulting from lower current grants. Tax revenue rose by 8.1 per cent to $ 70.6 million, consistent with the recovery in the local economy. Current expenditure contracted slightly by 0.7 per cent to $ 80.2 million.

Domestic credit, which amounted to $ 704.8 million, fell by 2.4 per cent in the first quarter of 2014. Liquidity in the commercial banking system rose during this period.

The consumer price index declined by 0.6 per cent during the first quarter of 2014. In the corresponding period of 2013 there was also a decline of 0.3 per cent.

Prospects for the rest of 2014 favour an increase in economic activity led by positive trends in agriculture, construction and tourism. Downside risks include adverse weather, further exposure to plant disease in the agricultural sector and delayed grant receipts.



Part Two

The Performance Of DAIDB

The Performance of DAIDB

Lending Activities

Approvals

For the twelve month period ended June 30, 2014, 437 loans were approved with a total value of $26,917,954. Industry loans valued at $10,788,923 and Housing loans valued at $5,708,513 combined accounted for 61.29 per cent of the total approvals for the period.

Cumulative loan approvals were higher than that recorded for the financial year ended June 30, 2013 by 8.98 per cent when a total of 24,699,988 was approved.

As at June 30, 2014, approvals in the Industry, Education and Personal and Other sectors exceeded their projections.

Disbursements

For the financial year ended June 30, 2014 disbursements totalled $17,477,224. This amount was lower than the actual disbursements for the period ended June 30, 2013 by 27.87 per cent, when an amount of $24,230,741 was disbursed.

Disbursements for the period ended June 30, 2014 were made primarily in the Housing sector with a value of $4,491,401 or 25.70 per cent, Education sector with a value of $3,894,984 or 22.29 per cent and the Tourism sector valued at $2,981,745 or 17.06 per cent.

Disbursements for the period ended June 30, 2014 were short of the budgeted disbursement by $19,614,978 or 52.88 per cent.

Rescheduling

For the financial year ended June 30, 2014, ninety (90) loans valued at $20,945,136 were approved for rescheduling. This value was comparable to loans rescheduled in the financial year ended June 2013, when seventy (70) loans valued at $20,915,757 were approved for rescheduling.

Rescheduled loans by sector comprised of fifty-one (51) loans in the Education sector valued at $2,219,661, seventeen (17) loans in the Housing sector valued at $1,354,694, eleven (11) loans in the Industry sector valued at $12,744,654, three (3) loans in the Agriculture sector valued at $93,661, three (3) Tourism loans valued at $4,414,840 and five (5) loans in the Personal and Other sector valued at $117,626.

Figure 1

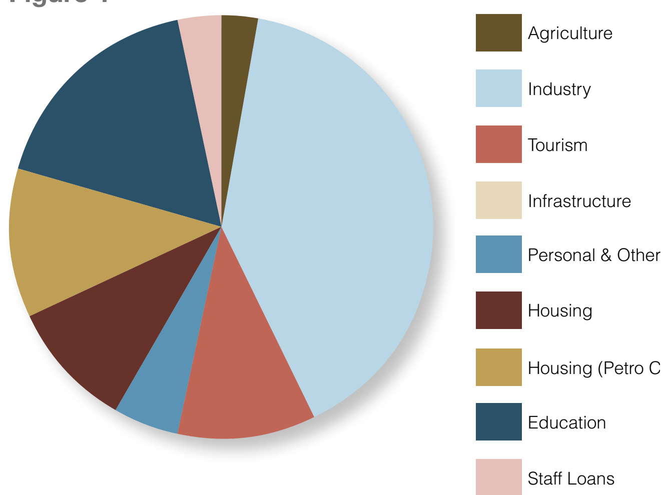
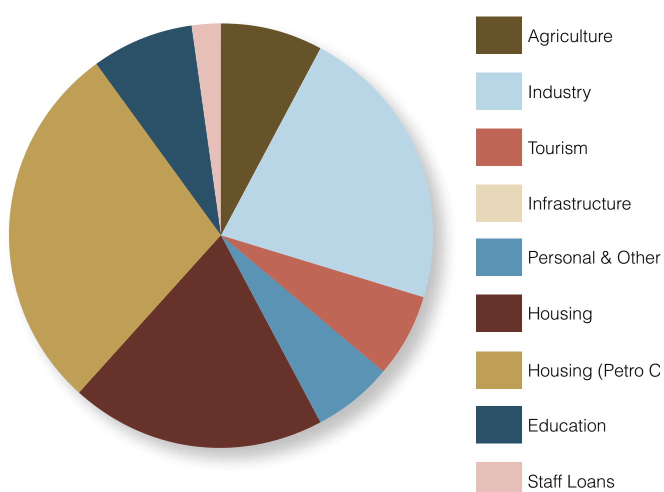


Figure 2



Non-Performing Loans

As at June 30, 2014 non-performing (NP) loans totalled $17,146,526.74 or 10.72 per cent of total loans outstanding of $159,993,572.56.

For the corresponding period of June 2013, NP loans totalled $21,555,028.95 or 13.28 per cent of total loans outstanding of $162,319,410.73.

The Non-Performing ratio improved by 2.56 percentage points over the same period last year, due to a reduction in the non-performing loans from $21.56M to $17.15M.

The Tourism, Housing and Education Sectors were the best performing sectors for the Bank, with 1.69 per cent, 6.76 per cent and 10.00 per cent of NP ratios respectively; whereas, Agriculture, Personal & Other and Industry accounted for the highest NP ratios of 50.48 per cent, 19.67 per cent and 14.75 per cent, respectively.

Funding

In the year under review, through the support of the Government of the Commonwealth of Dominica the Bank signed a loan agreement with one of its funding agencies and obtained a few local credit lines. Activities during the year with primary lending sources are summarised below.

Special Mortgage Programme Funded by Petro Caribe

The Bank requested a new line of credit for on-lending for the purpose of low-income housing. The Bank received word that an amount of $ 2 million was approved. However, this amount was not received during the financial year.

Caribbean Development Bank (CDB)

The CDB appraised an amount of USD 500,000 for an energy efficiency line of credit pilot project. This loan was expected to be presented to the Board of Directors for approval early in the financial year commencing July 1, 2014. This is the first loan considered by the CDB for the AID Bank without a government guarantee.

The Bank organised two workshops, both well attended, in partnership with the Caribbean Technological Consultancy Services of the CDB. One was on marketing techniques for small hotel facilities.

The second was a workshop on renewable energy (RE) and energy efficiency (EE) initiatives. The aim of this workshop was to expose persons to the available options and financial benefits of such initiatives and to promote the Bank's concessionary financing for such projects.

CARICOM Development Fund [CDF]

In the financial year in review the Bank signed the loan agreement with the CDF for USD 4 million and received its first disbursement.

European Development Bank (EIB)

The Bank has continued to drawdown funds from the EIB and begun making some progress in reducing its portfolio at risk ratio in its efforts to satisfy finance covenants of the EIB.

Bank's Credit Rating

The CariCRIS conducted its annual supervision visit during the financial year. The regional credit rating agency has reaffirmed the Bank's credit rating of BBB – or "adequate creditworthiness".

Management Information System

The Management Information systems Unit continued its drive to keep critical systems up to date in order to improve operational efficiency and reduce costs.

During the last financial year, the Bank embarked on a project to upgrade the Loans Administrations system. The new system is expected to provide a more integrated loans information system which will allow for easier generation of information required for effective decision-making. The initial stage involved user testing and training and initial data conversion.

The project will continue into the next financial year as the Bank moves to the phase of parallel testing. This phase is for the purpose of ensuring consistency between the two versions of the software.

The upgrade is part of a larger process of integrating all systems as the Bank seeks to ensure interoperability, reduce duplication and improve its monitoring capabilities.

Human Resources

The AID Bank has been honoured by the National Employment Program (NEP) to be the employer of choice for fourteen qualified young persons who are registered as interns.

The Interns have been with the Bank from December 2013 and have acquired new skills and competencies and the Bank in turn has benefited from their service and performance over the period.

Special recognition is given to the following interns for their valued contributions to AID Bank and FDSL during the latter six months of the financial year under review: Ayeola George, Mervin Henry, Dahreo Tyson, Ike Bannis, Karren Winston, Shannon Laudat, Karen Riviere Cuffy, Ayodele Roache, Neithel Matthew, Verlena Henderson, Sherese Magloire. FDSL: Jozreel Laurent, Vernell Sylvester and Kemuel Lodrick.

The Bank was engaged during the year in determining the new strategic direction for the next five years. This was performed collaboratively by management which fostered greater appreciation of the diversity of skills and the benefits of working together as a cohesive team.

In determining its strategic direction the Bank decided to recruit the services of an Enterprise Risk Officer in order to manage the implementation of all aspects of the risk function including implementation of processes, tools and systems to identify, assess, measure, manage, monitor and report risks. The Officer will be engaged in the new financial year.

To ensure that the Bank has the competencies to build and sustain a high level of performance the Bank spent over one hundred and eighty thousand dollars in training and development of staff. The training was obtained in Management Skills Development, Customer Service, Safety Training, Advanced Executive Assistant Management, Credit Risk Management, Health Education, Certified Underwriting Program Module II, Information Technology Audit and Control, Recoveries, Risk Assessment and Anti Money Laundering, Credit Risk for Management and Staff, Credit Appraisal, and Corporate Governance.

AID Bank Interns 2013/14

Two employees resigned from their positions in the middle of the financial year. One was from the Industrial Estate Unit and the other from Recoveries Department. They have both moved on to commence their own enterprises.

AID Bank's Staff are committed and have provided excellent service, support and focus in advancing the mission of the Bank. They take pleasure in enabling the success of our clients and stakeholders. Effective HR management allows staff to contribute to the overall success of the Bank and make AID Bank a great place to work.

Staff activities were encouraged during the year to foster cordial relations within the Bank. One of these activities was the creation of sports teams who competed against other organisations in football and basketball. Staff members also networked with the other Banks and Private companies at a shared booth at the Windsor Park during Creole Festivities, Carnival and Cricket.

Internal Audit Function

With the continued global thrust to employ a risk-based approach to internal audit function, the Bank's internal audit work program for the financial year 2013/2014 continued to be driven by areas of higher risk. Quarterly audit continued in the high risk areas while other areas were audited annual or on a rotational basis.

The internal audit function remains committed to providing independent and objective assessments on the appropriateness of the organization's activities and acts as a catalyst for change, advising or advocating improvements to enhance policies, procedures and practices of the Bank.

During the financial year 2013/2014, 21 audits and 10 reviews were conducted on various departments, procedures and processes. There was a remarkable focus on follow-up on previous audit recommendations during this financial year. There have been notable efforts from management in the update and development of various policies and procedures for improvement and enhancement of the internal controls of the Bank.

The Internal Auditor continued to function as Compliance Officer (Ag) during the financial year. The money laundering and compliance manual was updated to include a focus on risk assessment as outlined in the recently amended 2014 Proceeds of Crime Act. A money-laundering risk assessment form was developed for implementation in the new financial year.

The Internal Auditor participated in numerous training programmes to keep abreast of developments within the field. This serves to improve the performance and value-added by the internal audit function by seeking ways of finding the balance among risk, cost and value. It is intended that in the new financial year, internal audit would place greater emphasis on aligning its activities to the new strategies of the Bank to position itself as a value-driven strategic asset for the Bank.

Industrial Estate Unit (IEU)

The Industrial Estate Unit is separate from the core lending function of the Bank, but it supports the Bank's overall objectives of promoting and influencing economic development. The unit provides a platform for expansion of the economy through the provision of affordable space for investors engaged in manufacturing, warehousing, information, communication and technology (ICT) companies including Call Centres, and other service industries.

In fostering local industries the unit also promotes exports and creates employment opportunities for the citizens of the Commonwealth of Dominica.

Currently at the Industrial Estate, 773 persons are employed with Clear Harbor, a Call Centre being the largest employer with a total of 616 employees. The Bank's Industrial Estate continues to be home to one of the largest employers on Island.

The Industrial Estate consists of lands and buildings in Canefield, Portsmouth, Jimmit and Grand Bay. There are twenty (20) buildings with a total floor space of 147,140 sq. ft. which have been sub-divided into thirty six (36) units ranging from 780 sq. ft. to 21,000 sq. ft. Twenty-four (24) tenants currently rent thirty (33) of the thirty-six units at the Industrial Estate with some tenants occupying more than one unit. Twelve (12) tenants rent land on Hertford Estate in Jimmit and at Canefield.

The Canefield Industrial Estate is the most developed of the four (4) Industrial Estates accounting for eighteen (18) out of the twenty (20) buildings. At present three (3) units of 1,200 sq. ft each are vacant and available at the building in Geneva, Grand Bay.

Plans are at an advanced stage to have all vacant space occupied by the end of the second quarter of this financial year.

Renovation works have been undertaken in some units, with the major retrofitting of 6000sq.ft nearing completion to house major printing operations. The relocation of some tenants continues, thus ensuring that space can be utilized effectively for the generation of income.

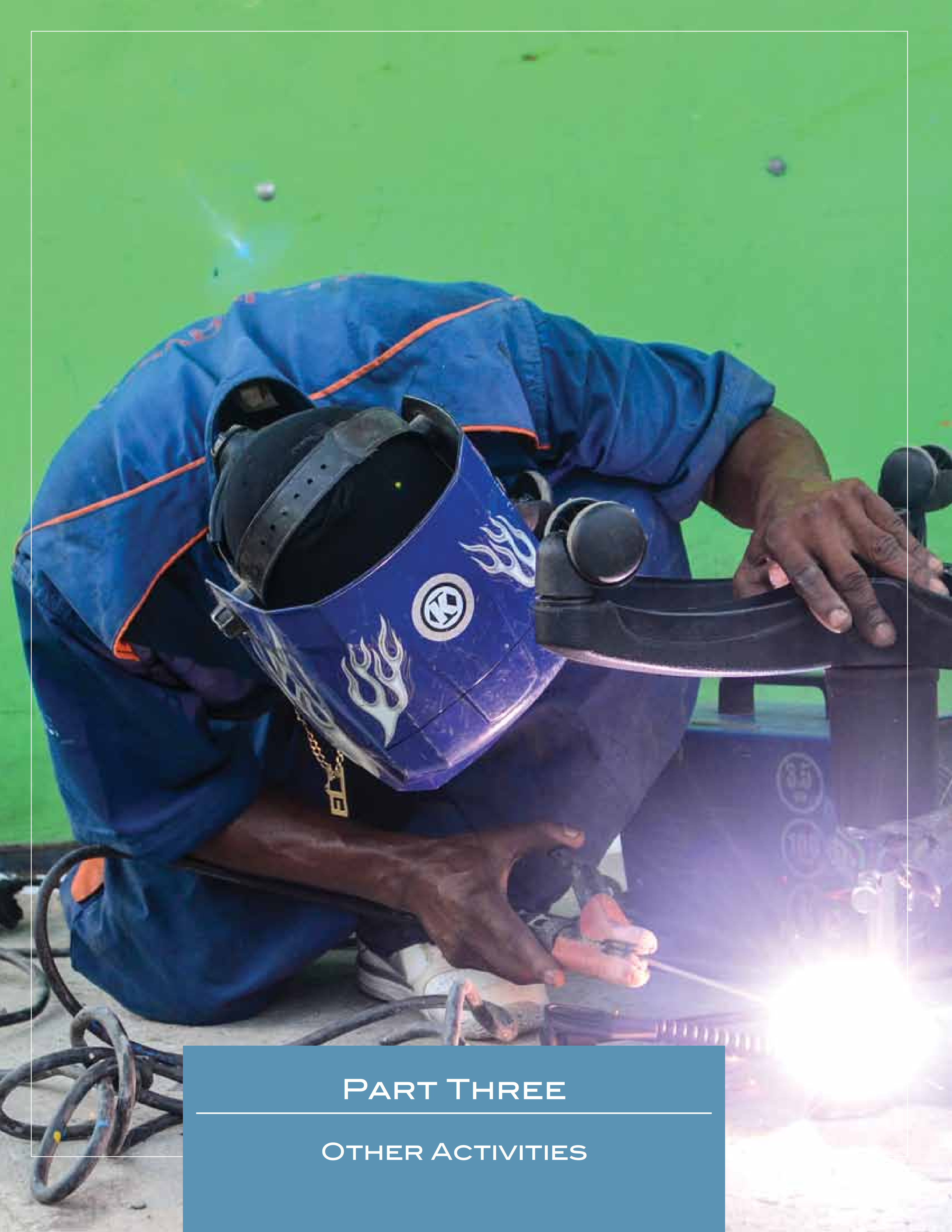
The IEU's office is housed on the Canefield Estate with a complement of eight staff members who manage the daily functions of the Industrial Estate and high priority is being placed on property maintenance and customer satisfaction.

Rental collection continues to be of major concern to the department considering that this is its primary source of income which is utilized for the general maintenance of the buildings and other programs. A review of the collection strategy was undertaken which has resulted in an improvement in that area.

During this fiscal year 2014/2015 the new strategy being considered promotes a new perspective on the IEU as a platform for generating economic activity for the country and the IEU must therefore become a highly attractive option for the location of new business. The vision for the Canefield Industrial Estate is the creation of a modern commercial centre in Dominica.

Some specific strategies have been devised with the following major objectives:

- Upgrading of existing Buildings and landscape
- Improving the financial performance
- Introducing a new proactive, customer centered orientation
- Greening of the Industrial Estates.



Part Three

Other Activities

Financial Data Systems Limited (FDSL)

This financial year saw a formalization of the internal structure and systems within FDSL as the company prepared to launch the newly redeveloped DPAC Loans Administration System, a software described as being “fit for purpose” and best suited for development finance institutions (DFI).

Three interns were identified to assist the company in the fulfillment of its objectives in the new financial year. These are the same promising young, innovative programmers who were employed for the development and programming of the system.

The staff will be fully responsible for the provision of technical support to the software clients. It is expected that these staff members will provide the user support and continual system upgrade that will promote a high level of customer satisfaction.

The system has been fully tested on several desktop and server operating systems and on the back-end, is continuously being updated with the latest security to keep the platform secure and up-to-date.

Interest in the DPAC Loans Administration System continues to grow as software demonstrations were conducted with various stakeholders. It is instructive that at least one institution has decided on DPAC after reviewing several other “state-of-the -art” systems. This shows that the system provides the functionality that is needed by development finance institutions without the burden of functionalities that are not applicable to DFIs.

Parallel testing projects were initiated in two different institutions as we seek to customize the software to fit the special needs of development finance institutions. By the end of the next financial year, it is expected that all existing users will have either transitioned to the upgraded system or be in the process of transitioning.

Part Four

Corporate Social Responsibility

Corporate Social Responsibility

The AID Bank's Corporate Social Responsibility over the course of the last Financial Year 2013/14 reflects the Bank's growing diversity in building corporate relationships.

As a development finance institution, strengthening the bond with affiliates, stakeholders, as well as existing and potential customers within the sectors that we serve continues to be as rewarding as the Bank's commitment to social, intellectual or humanitarian causes.

Specifically, in the financial year 2013/14, the Bank expended over XCD $92,600.00 to support the innovative spirit of young entrepreneurs and strengthen some of the critical sectors which are fundamental to the viability and social balance of our economy. These sectors include Agriculture, Tourism and Energy, Education and Sports.

The Bank is pleased to be associated with the Dominica Youth Business Trust, and notes that some of Trust's beneficiaries are credible clients within the Bank's diverse loan Portfolio.

The Bank's recognition of Dominica State College Student Denssy J. James of Delices, as the recipient of the first ever Robert Elford Henry Scholarship for Agriculture was a proud moment in the Bank's history as a Responsible Corporate Entity.

As an indigenous finance institution, the Bank's positive response towards the participation of 2013 national Queen Leslassa Armour Shillingford at the Miss World Pageant, in Indonesia was a worthwhile investment towards the international visibility that our nature isle received.

Time spent with senior citizens, the incarcerated, and those with special needs, during the course of the financial period in question, enhanced our perception of the untapped potential within these groups and reinforced our commitment to give back to our community.

In summary, the year reminds us that building relationships is more important than the pure business of buying, marketing and selling. It reinforces our objective to facilitate social and economic advancement in sustainable ways for a great percentage of those whose paths we cross.

Part Five

Financial Performance

Financial Performance

Net Profit

The AID Bank recorded net profit of $ 1.13 million in the financial year ended June 30, 2014. This figure was 9.85 per cent higher than the $ 1.03 million net profit recorded in 2013 as indicated in the Table below.

Total comprehensive income was $ 1.12 million for the year under review, after utilization from the foreign exchange loss account of $11,635.

Income

Total income recorded for the financial year was $13.95 million which was 4.59 per cent lower than the $14.62 million achieved in 2013.

Interest income decreased by 4.94 per cent and other operating income also decreased by 2.25 per cent from the previous financial year.

Expenses

Financial Expenses of $ 4.83 million were 0.28 per cent lower than the previous year's $ 4.85 million due mainly to a reduction in bank charges and interest paid on fixed deposits.

Total staff expenses of $ 4.10 million increased by 4.08 per cent.

Administrative Expenses of $ 1.72 million decreased by 12.68 per cent over the previous year.

Total operating expenses of $ 12.11 million were more than the $ 11.77 million recorded in the previous financial year by 2.89 per cent.

	2014 EC$	2013 EC$
Interest Income	12,054,137	12,681,098
Other Operating Income	1,894,315	1,937,856
Total Income	**13,948,452**	**14,618,954**
Interest Expense	(4,834,472)	(4,848,000)
Staff Costs	(4,100,015)	(3,594,122)
Administrative Expenses	(1,715,521)	(1,964,659)
Factory Sheds Expenses	(408,443)	(383,264)
Other Operating Expenses	(625,784)	(580,063)
Depreciation	(428,428)	(402,429)
Total Expenses	**(12,112,663)**	**(11,772,537)**
Net income from Operations before the following income/(charges):	**1,835,789**	**2,846,417**
Gain/(Loss) on Foreign Exchange	–	–
Impairment Losses on Loans and Receivables	(721,288)	(1,818,210)
Impairment (losses)/gains on available for sale investments	15,000	-
Net Profit	1,129,501	1,028,207
Foreign Exchange Loss Utilization	(11,635)	(8,920)
Total Comprehensive Income	**1,117,866**	**1,019287**

Assets

At June 30, 2014, assets totalled $ 199.25 million representing a 0.59 percentage increase from last year's $ 198.07 million.

The major component of assets, net loans and advances valued at $ 148.50 million registered a 2.56 per cent decrease from last year's XDC 152.40 million and adequately offset total long-term liabilities of $ 118.86 million. Net loans and advances comprised of gross loan balance of XDC 159.99 million - (2013: XDC 162.32m) and interest receivable of XDC 4.80 million – (2013: XDC 5.45m) less loan provision of XDC 16.29 million – (2013: 15.36m). The long-term debt to equity ratio of 1.88:1 was within the suggested range for the industry of 4:1.

Cash in current and operating account, and short-term investments totalled $ 8.42 million, which was 138.55 per cent more than last year's $ 3.53 million.

Other receivables of $ 1.05 million were 4.95 per cent less than last year's $1.11 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 $ 32.75 million, of which $ 31.27 million represents Investment Properties of the Industrial Estate Unit (IEU). Net Investments were 0.48 per cent less than last year's $ 32.96 million

Net total fixed assets of $ 8.28 million were 4.81 per cent higher than last year's $ 7.90 million.

Liabilities

Total liabilities were $ 135.90 million, which was 0.05 per cent less than last year's $ 135.96 million.

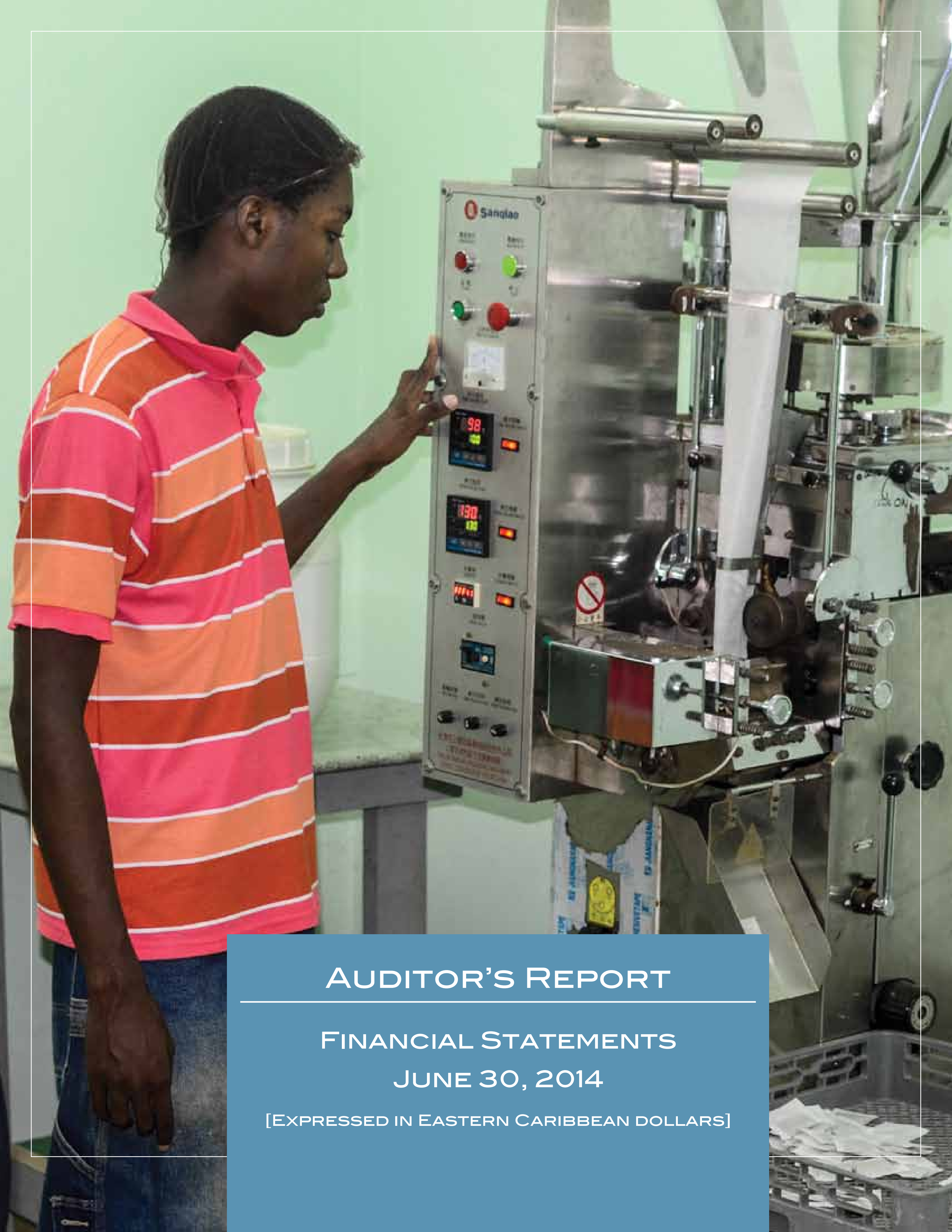
Due to customers was $ 9.39 million which was 13.88 per cent lesser than the $ 10.91 million in the previous financial year.

Borrowed funds of $ 118.86 million and registered a net increase of 3.74 per cent from last year's $ 114.58 million.

Shareholders' Equity

Shareholders' Equity of $ 63.35 million increased by 1.99 per cent from last year's $ 62.11 million.

Retained Earnings of $ 7.02 million increased by 29.58 per cent from last year's $ 5.42 million.



Auditor's Report

Financial Statements

June 30, 2014

[Expressed in Eastern Caribbean dollars]

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, 2014, and the statements of comprehensive income, changes in equity and cash flows for the year ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at June 30, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The notes on pages 30 to 76 are an integral part of these financial statements.

KPMG

INDEPENDENT AUDITORS' REPORT

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

Emphasis of Matter

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

KPMG

Chartered Accountants
October 29, 2014

Antigua and Barbuda

The notes on pages 30 to 76 are an integral part of these financial statements.

Statement of Financial Position

Year ended June 30, 2014

(Expressed in Eastern Caribbean Dollars)

	Notes		2014	As restated 2013
Assets				
Cash and balances with Central Bank	7	$	22,782	2,345
Treasury bills	8		410,000	410,000
Deposits with banks and other financial institutions	9		8,837,285	3,946,189
Loans and advances to customers	10		148,498,972	152,403,959
Available-for-sale investments	12		864,502	1,408,299
Investment properties	13		31,274,049	30,888,365
Property, plant and equipment	14		8,284,453	7,904,074
Other assets	15		1,054,233	1,109,092
Total Assets		$	199,246,276	198,072,323
Liabilities				
Bank overdraft	16	$	186,899	1,832,124
Due to customers	17		9,393,385	10,907,838
Borrowed funds	18		118,859,488	114,577,735
Other liabilities	19		7,459,511	8,643,235
Total Liabilities		$	135,899,283	135,960,932
Shareholders' Equity				
Share capital	21	$	47,970,205	47,970,205
Reserves	22		8,356,566	8,723,496
Retained earnings			7,020,222	5,417,690
Total Equity		$	63,346,993	62,111,391
Total Liabilities and Shareholders' Equity		$	199,246,276	198,072,323

Approved by the Board of Directors on October 29, 2014

Director... **Director**...

MARTIN CHARLES
CHAIRMAN

DENISE CHARLES

The notes on pages 30 to 76 are an integral part of these financial statements.

Statement of Comprehensive Income

Year ended June 30, 2014

(Expressed in Eastern Caribbean Dollars)

	Notes		2014	As restated 2013
Interest income	23	$	12,054,137	12,681,098
Interest expense	23		(4,834,472)	(4,848,000)
Net interest income			7,219,665	7,833,098
Other operating income	24		1,894,315	1,937,856
Other operating expenses	25		(7,278,191)	(6,924,537)
Impairment losses on loans and receivables			(721,288)	(1,818,210)
Net profit for the year			1,114,501	1,028,207
Other Comprehensive Income:				-
Unrealized gain on investments			15,000	-
Foreign exchange loss utilization			(11,635)	(8,920)
Total comprehensive income		$	1,117,866	1,019,287

The notes on pages 30 to 76 are an integral part of these financial statements.

Statement of Changes in Equity
Year ended June 30, 2014

(Expressed in Eastern Caribbean Dollars)

	Notes	Share Capital	Reserves	Retained Earnings	Total
Balance as at June 30, 2012 as previously stated		$ 47,970,205	8,460,783	5,467,275	61,898,263
Prior period adjustment		-	-	(529,570)	(529,570)
Balance as at June 30, 2012 as restated		$ 47,970,205	8,460,783	4,937,705	61,368,693
Profit for the year		-	-	1,297,082	1,297,082
Prior period adjustment	33	-	-	(268,875)	(268,875)
Net Income for the year as restated		-	-	1,028,207	1,028,207
Foreign exchange loss utilization	22	-	(8,920)	-	(8,920)
Total comprehensive income		-	(8,920)	1,028,207	1,019,287
Transfer to statutory reserve		-	257,052	(257,052)	-
Transfer to foreign exchange equalization fund		-	14,581	(14,581)	-
Adjustment for prior year's receivable reported in income		-	-	(26,589)	(26,589)
Dividends on ordinary shares		-	-	(250,000)	(250,000)
Balance as at June 30, 2013		$ 47,970,205	8,723,496	5,417,690	62,111,391
Profit for the year		-	-	1,114,501	1,114,501
Unrealized gain on available for sale investments Comprehensive Income		-	15,000	-	15,000
Foreign exchange loss utilization	22	-	(11,635)	-	(11,635)
Total comprehensive income		-	3,365	1,114,501	1,117,866
Transfer to statutory reserve		-	278,625	(278,625)	-
Transfer from foreign exchange equalization fund		-	(648,920)	648,920	-
Transfer from deferred income reversed in 2009/10 as unearned		-	-	367,736	367,736
Dividends on ordinary shares		-	-	(250,000)	(250,000)
Balance as at June 30, 2014		$ 47,970,205	8,356,566	7,020,222	63,346,993

The notes on pages 30 to 76 are an integral part of these financial statements.

Statement of Cash Flows

Year ended June 30, 2014

(Expressed in Eastern Caribbean Dollars)

	Notes	2014	As restated 2013
Cash flows from operating activities			
Net profit for the year		1,114,501	1,028,207
Adjustments for:			
Impairment losses on loans and receivables		721,288	1,818,210
Depreciation	14	428,428	402,429
Unrealized foreign exchange (gain)/loss		79,780	(156,504)
Unrealized (gain) on available-for-sale investments		26,400	-
Loss/(gain) on disposal of assets		(17,222)	3,582
Interest and similar income		(12,054,137)	(12,681,098)
Interest expense and similar charges		4,834,472	4,848,000
Cash flows before changes in operating assets and liabilities		(4,866,490)	(4,737,174)
Change in loans and advances to customers		2,534,137	(9,213,376)
Change in deposits with banks and other financial institutions		(1,479,607)	767,519
Change in other assets		54,860	(222,893)
Change in due to customers		(1,514,453)	(313,907)
Change in other liabilities		(933,725)	476,684
Cash used in operations		(6,205,278)	(13,243,147)
Interest received		12,703,699	13,051,316
Interest paid		(4,745,493)	(5,212,930)
Net cash from/(used in) operating activities		1,752,928	(5,404,761)
Cash flows from investing activities			
Purchase of investment property	13	(385,684)	(541,019)
Purchase of property, plant and equipment	14	(809,585)	(275,402)
Net cash used in investing activities		(1,195,269)	(816,421)
Cash flows from financing activities			
Borrowed funds		17,666,091	7,850,955
Repayment of borrowed funds		(12,634,964)	(10,147,130)
Dividends paid		(500,000)	-
Foreign exchange utilization		(11,635)	
Net cash from/ (used in) financing activities		4,519,492	(2,296,175
Net decrease in cash and cash equivalents		5,077,151	(8,517,357)
Cash and cash equivalents, beginning of year		(1,419,779)	7,097,578
Cash and cash equivalents, end of year	7 (b)	3,657,372	(1,419,779)

The notes on pages 30 to 76 are an integral part of these financial statements.

(Expressed in Eastern Caribbean Dollars)

1. **Reporting Entity:**

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

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

2. **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 October 29, 2014.

(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.

(Expressed in Eastern Caribbean Dollars)

3. Acquisition of Business Unit:

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

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

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

4. Summary of Significant Accounting Policies:

(a) *Adoption of New standards:*

The following standards, amendments and interpretations became effective in 2013 and are relevant to the Bank:

- Amendment to IAS 1 'Financial statements presentation' regarding other comprehensive income or loss became effective July 1, 2012. The main change resulting from this amendment is a requirement for the Bank to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). As a result of the amendments to IAS 1, the Bank has modified the presentation of items in OCI. Comparative information has been represented accordingly.

- Amendment to IFRS 7 Disclosure: Offsetting Financial Assets and Financial Liabilities became effective January 1, 2013 includes disclosure requirements for financial instruments which were off set and the net amount reported on the statement of financial position.

- IFRS 13, 'Fair value measurement' effective January 1, 2013, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

(Expressed in Eastern Caribbean Dollars)

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

(b) *Standards, Amendments and Interpretations Issued but not yet Effective:*
The following standard, amendments and interpretations have been issued and are mandatory for the accounting periods beginning after January 1, 2014 or later periods and are expected to be relevant to the Bank.

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and amended in October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The standard is not applicable until at least January 1, 2015. The Bank will assess IFRS 9's impact prior to implementation.

- Amendments to IAS 32, Financial Instruments: Presentation on asset and liability offsetting aims to address inconsistencies in current practice when applying the offsetting criteria for Financial Instruments. Clarification is provided on the meaning of 'currently has a legally enforceable right of set-off and that some gross settlement systems may be considered equivalent to net settlement. The amendments are effective for periods beginning after January 1, 2014.

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

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

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

(Expressed in Eastern Caribbean Dollars)

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

(d) Financial Assets: (cont'd)

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

- those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. The Bank's loans and receivables comprise deposits with banks and other financial institutions and loans and advances to customers.

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

(ii) Available for Sale:

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

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

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

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

(Expressed in Eastern Caribbean Dollars)

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.

(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.

(Expressed in Eastern Caribbean Dollars)

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

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

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

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

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

(h) *Property, Plant and Equipment*:

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

(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.

(Expressed in Eastern Caribbean Dollars)

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

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

iv. Depreciation:

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

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

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

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

(i) Investment Properties:

Properties held for long-term rental yields or for capital appreciation or both, and that are occupied by the Bank and/or IEU, are classified as investment properties. Investment properties comprise freehold land and buildings.

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

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

(Expressed in Eastern Caribbean Dollars)

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.

(Expressed in Eastern Caribbean Dollars)

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.

The notes on pages 30 to 76 are an integral part of these financial statements.

(Expressed in Eastern Caribbean Dollars)

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.

The notes on pages 30 to 76 are an integral part of these financial statements.

(Expressed in Eastern Caribbean Dollars)

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

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

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

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

(b) *Credit Risk*:

(i) The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the reporting date. Significant changes in the economy, or in the health of a particular industry segment that represent 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 are 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 the 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.

The notes on pages 30 to 76 are an integral part of these financial statements.

(Expressed in Eastern Caribbean Dollars)

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

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

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

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

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

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

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

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

(Expressed in Eastern Caribbean Dollars)

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

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

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

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

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

Some other specific control and mitigation measures are outlined below.

(i) Collateral

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

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

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

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

(Expressed in Eastern Caribbean Dollars)

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:

	2014		2013	
Bank's rating	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1. Pass	68.88	36.32	70.46	66.71
2. Special mention	13.57	7.16	8.96	21.37
3. Sub-standard	1.06	3.99	6.61	0.89
4. Doubtful	5.76	31.64	3.18	2.72
5. Loss	10.73	20.89	10.79	8.31

The notes on pages 30 to 76 are an integral part of these financial statements.

(Expressed in Eastern Caribbean Dollars)

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		**2014**	**As restated 2013**
Treasury bills	$	410,000	410,000
Deposits with banks and other financial institutions		8,837,285	3,946,189
Loans and advances to customers:			
- Demand loans		114,317,171	119,414,834
- Mortgage loans		34,181,801	32,989,125
Other assets		1,054,233	1,109,092
		158,800,490	157,869,240
Credit risk exposures relating to off-balance sheet items			
Loan commitments		20,535,916	21,864,554
	$	179,336,406	179,733,794

The notes on pages 30 to 76 are an integral part of these financial statements.

(Expressed in Eastern Caribbean Dollars)

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, 2014 and 2013, 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, 82.80 % (2013 – 84.79 %) 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:

- 82.45% (2013 – 79.42%) of the loans and advances portfolio is categorised in the top two grades of the internal rating system;
- 43.52% (2013 – 42.48%) 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:

		2014	2013
Neither past due nor impaired	$	71,711,143	71,264,483
Past due but not impaired		75,920,081	74,945,764
Impaired		17,158,653	21,555,029
Gross		164,789,877	167,765,276
Less allowance for impairment losses on loans and advances		(16,290,905)	(15,361,317)
	$	148,498,972	152,403,959

The notes on pages 30 to 76 are an integral part of these financial statements.

(Expressed in Eastern Caribbean Dollars)

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 $16,290,905 (2013 - $15,361,317) of which $12,698,030 (2013 - $11,437,347) represents the individually impaired loans and the remaining amount of $3,592,875 (2013 - $3,923,970) represents the portfolio provision. Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 10 and 11.

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

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

		Demand loans	Mortgage loans	Total
June 30, 2014				
Grades				
1. Pass	$	53,146,410	18,564,733	71,711,143
June 30, 2013				
Grades				
1. Pass	$	56,784,181	14,480,302	71,264,483

(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:

(Expressed in Eastern Caribbean Dollars)

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, 2014				
Past due up to 30 days	$	56,260,625	13,352,266	69,612,891
Past due 30-60 days		515,789	49,134	564,923
Past due 60-90 days		746,925	40,559	787,484
Past due over 90 days		4,580,040	374,743	4,954,783
	$	62,103,379	13,816,702	75,920,081
At June 30, 2013				
Past due up to 30 days	$	53,370,032	15,414,449	68,784,481
Past due 30-60 days		487,625	60,902	548,527
Past due 60-90 days		672,560	60,463	733,023
Past due over 90 days		4,413,457	466,276	4,879,733
	$	58,943,674	16,002,090	74,945,764

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, 2014				
Individually impaired loans	$	14,853,547	2,305,106	17,158,653
At June 30, 2013				
Individually impaired loans	$	18,925,538	2,629,491	21,555,029

(Expressed in Eastern Caribbean Dollars)

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

(b) Credit Risk (cont'd)

(iv.) Loans and Advances Renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of Bank's management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totaled $20,945,136 as of June 30, 2014 (2013: $20,915,758).

(v.) Repossessed Collateral

At the end of 2014, the Bank had repossessed collateral valued at $115,000 (2013 – $191,500).

(vi) Geographical and Economic Concentrations of Assets and Liabilities

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

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

		2014		2013
	%	000'	%	000'
Education	18.04	29,731	17.95	30,116
Mortgage	21.05	34,686	19.74	33,112
Tourism	28.35	46,723	26.41	44,306
Industrial	26.23	43,220	29.42	49,355
Agricultural	2.71	4,462	2.76	4,636
Other consumers	3.60	5,939	3.70	6,210
Distribution and commerce	0.02	29	0.02	30
Total before deduction for allowance for losses on loans and advances	100.00	164,790	100.00	167,765

The notes on pages 30 to 76 are an integral part of these financial statements.

(Expressed in Eastern Caribbean Dollars)

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

(c) Market Risk:

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

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

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

At June 30, 2014, if equity securities prices had been 10% higher/lower with all other variables held constant, equity for the year would have been $16,333 higher/lower as a result of the increase/decrease in fair value of available-for-sale equity securities.

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

At June 30, 2014 there were no borrowings held in Euro currency.

The following table summarises the Bank's exposure to foreign currency exchange rate risk at June 30, 2014. Included in the table are the Bank's assets and liabilities at carrying amounts, 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, 2014				
Assets				
Cash and balances with the Central Bank	22,782	-	-	22,782
Treasury bills	410,000	-	-	410,000
Deposits with banks and other financial institutions	8,650,386	-	-	8,650,386
Loans and advances to customers	148,498,972	-	-	148,498,972,
Available-for-sale investments	864,502	-	-	864,502
Other assets	1,054,233	-	-	1,054,233
Total financial assets	159,500,875	-	-	159,500,875
Liabilities				
Due to customers	9,393,385	-	-	9,393,385
Borrowed funds	33,582,209	85,277,279	-	118,859,488
Other liabilities	7,459,511	-	-	7,459,511
Total financial liabilities	50,435,105	85,277,279	-	135,712,384
Net on-balance sheet financial	109,065,770	(85,277,279)	-	23,788,491
Credit commitments	**20,535,916**	-	-	**20,535,916**
As at June 30, 2013				
Total financial assets	157,447,760	-	-	157,447,760
Total financial liabilities	59,798,884	72,890,913	1,439,011	134,128,808
Net on-statement of financial position	97,648,876	(72,890,913)	(1,439,011)	23,318,952
Credit commitments	21,864,554	-	-	21,864,554

The notes on pages 30 to 76 are an integral part of these financial statements.

(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.

(Expressed in Eastern Caribbean Dollars)

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

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

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

		1 Year	2-5 Years	Over 5 Years	Non-interest bearing	Total
As at June 30, 2014						
Cash and balances with the Central Bank	$	-	-	-	22,782	22,782
Treasury bills		410,000	-	-	-	410,000
Deposits with banks and other financial institutions		6,565,731	1,884,655	200,000	-	8,650,386
Loans and advances to customers		17,747,150	46,304,128	84,447,694	-	148,498,972
Available-for-sale investments		-	-	-	864,502	864,502
Other assets		-	-	-	1,054,233	1,054,233
Total financial assets		24,722,881	48,188,783	84,647,694	1,941,517	159,500,875
Due to customers		3,089,615	6,303,770	-	-	9,393,385
Borrowed funds		10,623,349	55,879,124	52,357,015	-	118,859,488
Other Liabilities		-	-	-	7,459,511	7,459,511
Total financial liabilities		13,712,964	62,182,894	52,357,015	7,459,511	135,712,384
Net interest repricing gap		11,009,917	(13,994,111)	32,290,679	(5,517,994)	23,788,491
As at June 30, 2013						
Total financial assets		21,108,628	49,441,482	84,377,914	2,519,736	157,447,760
Total financial liabilities		21,241,006	48,547,260	55,697,307	8,643,235	134,128,808
Net interest repricing gap	$	(132,378)	894,222	28,680,607	(6,123,499)	23,318,952

The notes on pages 30 to 76 are an integral part of these financial statements.

(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
In thousands of EC dollars	(000's)	(000's)	(000's)
As at June 30, 2014			
Assets			
Treasury bills	5.68	-	-
Deposits with banks and other financial institutions	2.25	-	-
Loans and advances to customers	6.94	-	-
Liabilities			
Due to customers	5.17	-	-
Borrowed funds	4.88	3.50	-
As at June 30, 2013			
Assets			
Treasury bills	3.97	-	-
Deposits with banks and other financial institutions	2.37	-	-
Loans and advances to customers	7.62	-	-
Liabilities			
Due to customers	5.57	-	-
Borrowed funds	5.45	3.05	2.00

(iv.) Sensitivity Analysis

Cash flow interest rate risks arise from borrowings at variable rates. At June 30, 2014 if variable interest rates had been 1% higher/lower with all other variables held constant, profit for the year would have been $112,670 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 disbursements. 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, 2014					
Financial liabilities					
Due to customers	$	3,089,615	6,303,770	-	9,393,385
Borrowed funds		10,623,349	55,879,124	52,357,015	118,859,488
Other liabilities		1,327,558	5,476,648	655,305	7,459,511
Total financial liabilities	$	15,040,522	67,659,542	53,012,320	135,712,384
Assets at June 30, 2013					
Financial liabilities					
Due to customers	$	2,695,856	8,211,982	-	10,907,838
Borrowed funds		22,126,501	51,185,478	64,849,021	138,161,000
Other liabilities		2,143,625	6,499,610	-	8,643,235
Total financial liabilities	$	26,965,982	65,897,070	64,849,021	157,712,073

The notes on pages 30 to 76 are an integral part of these financial statements.

(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, 2014				
Loan commitments	$	2,685,000	17,850,916	20,535,916
As at June 30, 2013				
Loan commitments	$	12,672,202	9,192,352	21,864,554

(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 flows now expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(ii.) Investment Securities

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

The notes on pages 30 to 76 are an integral part of these financial statements.

(Expressed in Eastern Caribbean Dollars)

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	
		2014	**2013**	**2014**	**2013**
Financial assets					
Loans and advances to customers	$	148,498,972	152,403,959	138,856,670	152,403,959
Financial liabilities					
Due to customers	$	9,393,385	10,907,838	9,393,385	10,907,838
Borrowed funds		118,859,488	114,577,735	114,397,967	80,053,475

(Expressed in Eastern Caribbean Dollars)

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

(f) Fair Value Hierarchy

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

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

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

Financial Assets measured at fair value

	Level 1	Level 2	Level 3	Total
Available for sale investments				
- Equity securities	$ -	207,330	657,172	864,502

(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.

(Expressed in Eastern Caribbean Dollars)

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 $6,143,437 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, 2014.

(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 $331,514 (2013 - $183,272), as significant uncertainties regarding recovery exist. This relates to rental from tenants who are in difficult economic situations and have not paid their rents for several years now.

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

(a)

		2014	2013
Cash in hand	$	21,537	1,100
Balances with Central Bank		1,245	1,245
Included in cash and cash	$	22,782	2,345

(b)

		2014	2013
Cash and balances with the Central Bank	$	22,782	2,345
Treasury bills		410,000	410,000
Items in course of collection with other banks		3,411,489	-
Bank overdraft		(186,899)	(1,832,124)
	$	3,657,372	(1,419,779)

8. **Treasury Bills:**

	Note		2014	2013
Treasury bills	7 (b)	$	410,000	410,000

Treasury bills are debt securities issued by the Government of Dominica for a term of three (3) months. The weighted average effective interest rate in 2014 is 5.68% (2013 – 3.97%).

(Expressed in Eastern Caribbean Dollars)

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

	Note		2014	2013
Items in the course of collection with other banks	7 (b)	$	3,411,489	-
Placements with banks and other financial institutions			5,425,796	3,946,189
		$	8,837,285	3,946,189

The weighted average effective interest rate in respect of interest bearing deposits in 2014 is 2.25% (2013 – 2.53%).

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

	Note		2014	2013
Demand loans		$	130,103,337	134,653,394
Mortgage loans			34,686,540	33,111,882
			164,789,877	167,765,276
Less: allowance for impairment losses on loans and advances	11		(16,290,905)	(15,361,317)
			148,498,972	152,403,959
Current			17,747,150	18,784,563
Non-current			130,751,822	133,619,396
		$	148,498,972	152,403,959

The weighted average effective interest rate on productive loans stated at amortised cost at June 30, 2014 is 6.94% (2013 – 7.62%).

The notes on pages 30 to 76 are an integral part of these financial statements.

(Expressed in Eastern Caribbean Dollars)

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

		2014	2013
Demand loans			
At beginning of year	$	15,238,559	13,370,483
Provision for impairment losses		424,894	1,818,209
Amounts recovered during the year		190,625	170,633
Transfer from mortgage loans		-	284,193
Written-off during the year as uncollectible		(67,912)	(404,959)
At the end of year		15,786,166	15,238,559
Mortgage loans			
At beginning of year		122,758	397,076
Provision for impairment losses		296,394	-
Transfer to demand loans		-	(284,193)
Amounts recovered during the year		88,087	11,158
Written-off during the year as uncollectible		(2,500)	(1,283)
At the end of year		504,739	122,758
	$	16,290,905	15,361,317

The notes on pages 30 to 76 are an integral part of these financial statements.

(Expressed in Eastern Caribbean Dollars)

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

		2014	2013
Equity securities – at fair value:			
- Listed	$	163,330	143,330
- Unlisted		701,172	1,264,969
	$	864,502	1,408,299

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

		2014	2013
At beginning of year		1,408,299	1,408,299
Equity investment liquidated		(532,397)	-
Unrealised gain/(loss) from changes in fair value charge to profit and loss		15,000	-
Realised loss on equity investment		(26,400)	
	$	864,502	1,408,299

13. **Investment Properties:**

		Land	Factory Building	Total
Cost/Valuation:				
As at July 01, 2012	$	12,161,363	18,185,983	30,347,346
Acquisition		-	541,019	541,019
As at June 30, 2013	$	12,161,363	18,727,002	30,888,365
Acquisition		-	385,684	385,684
As at June 30, 2014	$	12,161,363	19,112,686	31,274,049

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

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

(Expressed in Eastern Caribbean Dollars)

14. Property, Plant and Equipment:

		Land	Buildings	Motor Vehicles	Furniture and Equipment	Computer Equipment	Work in Progress	Total
Cost:								
Balance – June 30, 2012	$	1,896,183	7,173,506	133,000	1,435,608	852,706	446,737	11,937,740
Additions and transfers		-	-	-	83,565	191,837	-	275,402
Disposals					(7,985)	-	-	(7,985)
Balance – June 30, 2013	$	1,896,183	7,173,506	133,000	1,511,188	1,044,543	446,737	12,205,157
Cost:								
Balance – June 30, 2013	$	1,896,183	7,173,506	133,000	1,511,188	1,044,543	446,737	12,205,157
Additions	$	-	309,187	165,863	110,472	224,063	-	809,585
Transfers	$	-	-	-	2,209	(2,209)	-	-
Disposals	$	-	-	(72,000)	(100,437)	(129,377)	-	(301,814)
Balance – June 30, 2014	$	1,896,183	7,482, 693	226,863	1,523,432	1,137,020	446,737	12,712,928
Accumulated Depreciation								
Balance – June 30, 2012	$	-	1,953,796	133,000	1,028,077	788,184	-	3,903,057
Depreciation		-	145,388	-	101,983	155,058	-	402,429
Disposals		-	-	-	(4,403)	-	-	(4,403)
Balance – June 30, 2013	$	-	2,099,184	133,000	1,125,657	943,242	-	4,301,083
Accumulated Depreciation								
Balance – June 30, 2013	$	-	2,099,184	133,000	1,125,657	943,242	-	4,301,083
Depreciation		-	151,572	33,172	148,569	95,115	-	428,428
Transfers	$	-	-	-	2,209	(2,209)	-	-
Disposals		-	-	(72,000)	(99,659)	(129,377)	-	(301,036)
Balance – June 30, 2014	$	-	2,250,756	94,172	1,176,776	906,771	-	4,428,475
Net Book Value:								
Balance – June 30, 2014	$	1,896,183	5,231,937	132,691	346,656	230,249	446,737	8,284,453
Balance – June 30, 2013	$	1,896,183	5,074,322	-	385,531	101,301	446,737	7,904,074

The notes on pages 30 to 76 are an integral part of these financial statements.

(Expressed in Eastern Caribbean Dollars)

15. **Other Assets:**

		2014	As restated 2013
Rent receivable	$	725,019	734,804
Other receivables		889,941	963,882
Less allowance for impairment losses		(593,895)	(593,895)
		1,021,065	1,104,791
Prepayments		33,168	4,301
	$	1,054,233	1,109,092

16. **Bank Overdraft:**

	Notes		2014	2013
National Bank of Dominica	7 (b)	$	186,899	1,832,124

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

17. **Due to Customers:**

		2014	2013
Fixed deposits	$	5,965,140	7,641,403
Refundable deposits		2,352,385	2,288,355
Loan prepayments		1,075,860	978,080
	$	9,393,385	10,907,838
Current		3,089,615	2,695,856
Non-current		6,303,770	8,211,982
	$	9,393,385	10,907,838

All fixed deposits carry fixed interest rates. The weighted average effective interest rate of fixed deposits at June 30, 2014 is 5.17% (2013 – 5.57%).

(Expressed in Eastern Caribbean Dollars)

18. **Borrowed Funds:**

		2014	2013
Caribbean Development Bank	$	44,683,973	48,819,264
Dominica Social Security		13,784,066	15,480,255
European Investment Bank		17,982,494	7,501,271
Government of Dominica		5,298,143	5,601,964
Republic of China		1,615,949	1,735,821
BANDES – Economic and Social Development Bank of Venezuela		15,594,863	16,272,900
Petrocaribe Fund		10,000,000	10,000,000
National Bank of Dominica		4,500,000	9,166,260
Caricom Development Fund		5,400,000	-
	$	118,859,488	114,577,735
Current		10,623,349	18,545,150
Non-current		108,236,139	96,032,585
	$	118,859,488	114,577,735

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

19. **Other Liabilities:**

		2014	2013
Agency liabilities	$	3,905,304	4,246,810
Deferred income		-	575,511
Dividends payable		250,000	500,000
Grants		230	230
Others		3,303,977	3,320,684
		7,459,511	8,643,235
Current		1,327,558	2,143,625
Non-current		6,131,953	6,499,610
	$	7,459,511	8,643,235

(Expressed in Eastern Caribbean Dollars)

19. **Other Liabilities:** *(cont'd)*

Agency liabilities are funds issued to the Bank by the Government of Dominica and other local agencies to be used for qualifying purposes. The Bank earns agency fees as prescribed by contractual agreement.

Others relates to accrued liabilities comprised as follows:

		2014	2013
Gratuity payable	$	2,372,839	2,428,894
Vacation leave and salaries payable		407,583	318,738
IEU tenants security deposits		204,352	205,688
Other payables		319,203	367,364
	$	3,303,977	3,320,684

20. **Fiduciary Activities:**

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

21. **Share Capital:**

		2014	2013
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.

(Expressed in Eastern Caribbean Dollars)

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

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

22. **Reserves**:

		2014	As restated 2013
General reserve	$	88,234	88,234
Statutory reserve		7,812,209	7,533,584
Special reserves		441,123	1,101,678
Unrealised gain from changes in fair value		15,000	-
	$	8,356,566	8,723,496

Movements in reserves were as follows:

		2014	2013
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.

		2014	As restated 2013
Statutory reserve			
At beginning of year	$	7,533,584	7,276,532
Transfer from retained earnings		278,625	257,052
At end of year	$	7,812,209	7,533,584

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

(Expressed in Eastern Caribbean Dollars)

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

		2014	2013
Special reserves			
Caribbean Development Consolidated Entity Provision			
At beginning and end of year	$	441,122	441,122
Foreign exchange equalization			
At beginning of year	$	660,556	654,895
Transfers from/(to) retained earnings		(648,920)	14,581
Foreign exchange loss utilization		(11,635)	(8,920)
At end of year		1	660,556
	$	441,123	1,101,678

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. The loan to EIB was closed as at June 30, 2014.

		2014	2013
Revaluation reserve – available-for-sale investments			
At beginning of year	$	5,000	5,000
Unrealized gain from changes in fair value		15,000	-
At end of year	$	20,000	5,000

(Expressed in Eastern Caribbean Dollars)

23. **Net Interest Income:**

		2014	2013
Interest Income			
Loans and advances	$	11,840,379	12,390,385
Deposits with banks		213,758	290,713
		12,054,137	12,681,098
Interest Expense			
Long-term debt		(4,607,477)	(4,543,371)
Interest on deposits		(226,995)	(304,629)
		(4,834,472)	(4,848,000)
	$	7,219,665	7,833,098

24. **Other Operating Income:**

		2014	2013
Rental income from IEU operations	$	1,109,479	1,103,534
Others		272,355	295,485
Commitment fees		392,503	263,035
Gain on foreign exchange		-	156,504
Agency fees		119,978	119,298
		-	-
	$	1,894,315	1,937,856

The notes on pages 30 to 76 are an integral part of these financial statements.

(Expressed in Eastern Caribbean Dollars)

25. Other Operating Expenses:

	Notes		2014	As restated 2013
Staff costs	26	$	4,100,015	3,594,122
Administrative expenses	27		1,715,521	1,964,659
Building occupancy expenses			546,004	555,063
Depreciation	14		428,428	402,429
Factory sheds expenses			408,443	383,264
Foreign exchange loss			79,780	-
Bad debt expense			-	25,000
		$	7,278,191	6,924,537

26. Staff Costs:

		2014	2013
Salaries and wages	$	3,007,645	2,664,193
Social Security Costs		146,476	149,462
Group insurance		62,468	60,901
Other staff costs		883,426	719,566
	$	4,100,015	3,594,122
Number of employees		38	43

(Expressed in Eastern Caribbean Dollars)

27. **Administrative Expenses:**

		2014	As restated 2013
Legal and professional fees	$	629,986	558,081
Directors' emoluments & expenses		208,748	173,087
Advertising		184,487	229,654
Subscriptions and donations		115,675	86,437
Telephone, postage and fax		98,685	109,990
Printing, stationery, and office supplies		94,691	88,013
Motor vehicle expenses		48,563	43,971
Repair and maintenance of furniture and equipment		41,582	47,187
Annual report		34,482	48,645
Insurance		29,300	30,938
Miscellaneous expenses		229,322	548,656
	$	1,715,521	1,964,659

28. **Dividends:**
The Bank declared a 5% dividend amounting to $250,000 (2013 - $250,000) with respect to the ordinary shares held by the Dominica Social Security.

(Expressed in Eastern Caribbean Dollars)

29. **Related Party Transactions:**

A party is related to the Bank, if:

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

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

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

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

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

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

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

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

Loans and Advances outstanding from related parties are as follows:

		2014	2013
Rain Forest Tram Ltd.	$	1,759,950	1,759,950
Financial Data Services Limited		709,360	620,968
	$	2,469,310	2,380,918

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 the amount outstanding from Rain Forest Tram Ltd. An impairment provision has not been made because the funds advanced were from a specific source, the European Investment Bank.

(Expressed in Eastern Caribbean Dollars)

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

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

The Bank also holds equity investments in the Rain Forest Tram Ltd. amounting to EC$467,603.

At year-end, directors of the Bank and companies in which they have an interest had fixed deposits with the Bank of $10,000 and had loans and guaranteed loans with outstanding balances of $374,699.

In 2014, the total remuneration paid to directors and key management personnel was $1,270,682 (2013 - $984,217).

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

		2014	2013
Dominica Social Security	$	13,784,066	15,480,254
Government of Dominica		5,298,143	5,601,964
	$	19,082,209	21,082,218

30. **Contingent Liabilities and Commitments:**

As at year-end, loans and advances approved by the Bank but not yet disbursed, amounted to approximately $20,535,916 (2013 - $21,864,554).

31. **Taxation:**

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

(Expressed in Eastern Caribbean Dollars)

32. **Subsequent Events:**

In July 2014, the Bank received correspondence from the Ministry of Finance of the Commonwealth of Dominica advising that they would offer to the Bank five (5) year treasury bills in the amount of $396,935.86 at a rate not to exceed 3.5% in order to fulfill their obligation as guarantor of the Rain Forest Aerial Tram loan receivable on the books. The transaction is expected to be settled before September 30, 2014.

33. **Prior Period Adjustment:**

The Bank recorded the following adjustment in the current financial year:

(ii) A write-off of $798,445 from Staff Advances to account for remuneration paid to the former General Manager/ Consultant for the period July 2011 to July 2013 which was not reimbursed by funding agencies as expected.

(iii) As a result, the comparative figures have been restated to reflect the correct balances at June 30, 2013. The effect of restatement is as follows:

- A decrease in other assets of $798,445
- A decrease in Retained Earnings of $798,445

MEMBERS OF STAFF AND INTERNS

Members as at June 30, 2014

AID Bank Departments and Staff Members

Office Of The General Manager

Mr. J. Corbett
General Manager

Mrs. L. Irish-Wade
Internal Auditor

Credit Operations Division

Mrs. M. John Rose
Executive Manager, Credit Operations

Mrs. M. Abel
Manager Credit

Mrs. P. Shillingford Chambers
Credit Officer

Mr. F. Fabien
Credit Officer

Mrs. N. Faustin
Credit Officer

Ms. E. Alfred
Credit Officer

Ms. H. Sylvester
Securities Officer

Mr. A. Thomas
Disbursement Officer

Ms. M. Robinson
Customer Service Rep.

Ms. S. Victor
Receptionist

Recoveries Unit

Ms. P. Etienne
Manager Recoveries

Mr. C. Lloyd
Senior Recoveries Officer (until December 31, 2013)

Mrs. R. Xavier
Special Operations Recoveries Officer

Ms. G. Shillingford
Recoveries Officer

Mr. K. Albert
Recoveries Officer

Corporate Services Division

Mrs. E. Harris Collymore
Executive Manager, Corporate Affairs

Mrs. J. Dechausay Titre
Special Projects/ Communications Coordinator

MIS Unit

Mrs. A. Coipel
Senior Manager, Information Systems

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

Mr. K. Sylvester
Technical Officer, MIS

Industrial Estate Unit

Mr. I. Williams
Manager, IEU (until February 7, 2014)

Mrs. R. Hyacinth
Administrative Officer/Act. Manager, IEU (from Dec. 2, 2013)

Mr. G. Eloi
Technical Officer

Mr. J. O'garro
Maintenance Officer

Legal Unit

Ms. N. Winston
Legal Secretary

Accounts And Finance Division

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

Ms. C. Joseph
Assistant Manager, Finance and Accounts

Mrs. I. Bruno
Assistant Manager, Finance and Accounts
(On study leave during the year)

Ms. A. Dupigny
Senior Officer, Finance and Accounts

Mr. K. Shillingford
Senior Officer, Finance and Accounts

Mr. M. Allan
Officer Finance and Accounts

Ms. N. Laurent
Accounts Officer

Human Resource Division

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

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

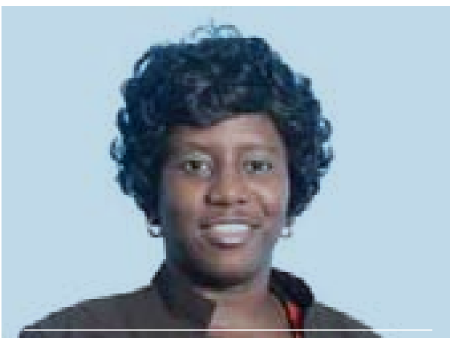
Ms. G. Edwards
Registry Officer

Mr. G. Nicholls
Office Attendant

Management Team

As at June 30, 2014

Mr. J. Corbett
General Manager



Mrs. Liane Irish-Wade
Internal Auditor

Mrs. E. Harris Collymore
Executive Manager, Corporate Affairs

Mrs. M. John Rose
Executive Manager, Credit Operations

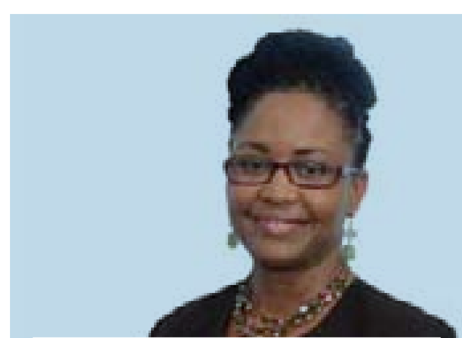
Ms. V. E Abraham
Senior Manager, Finance & Accounts

Mrs. A. Coipel
Senior Manager, Information Systems

Mrs. U. McDowell-Job
Snr. Manager, Human Resource & Admin.

Mrs. R. Hyacinth
Act. Manager, IEU (from Dec. 2, 2013)

Mrs. M. Abel
Manager Credit



Ms. P. Etienne
Manager Recoveries

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Auditors

KPMG
Cnr Factory Road & Carnival Gardens, P.O Box 3109, St John's, Antigua

Bankers

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Roseau, Commonwealth of Dominica

Dominica Agricultural Industrial & Development Bank.
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