

managing director's report



Daniel A. Roberts

Financial review

For 2006, the Bank has returned a very strong performance when compared with the last two years. In 2004 and 2005, profitability was adversely affected by general provisions following hurricane Ivan in 2004 and the restructuring of Government debt in 2005. This year, the Bank achieved a profit after tax of \$25.6 million. This record profit includes the write back to profit of \$12.16 million, representing the balance of the general provisions made in 2004 which is no longer required.

We continue to operate in a fiercely competitive market. Most of the excess liquidity which the commercial banking sector in Grenada experienced during the previous two years was absorbed during the year, due to strong growth in loans, while the level of customer deposits in the sector has remained virtually stagnant.

Total assets of \$655.9 million reflect a modest increase of 3 percent over the previous year. The loans portfolio, before provisions, grew by 14 percent to \$344.8 million,

boosted by a strong performance in the mortgages and tourism sectors. Total customer deposits contracted by 0.5 percent to \$558.8 million as depositors utilized their own funds to restore properties damaged during the recent hurricanes.

Interest margins remained narrow but net interest income of \$30.9 million was 9.9 percent higher than in the previous year, as low yielding assets were converted into higher yielding instruments. Non-interest income remained flat and its contribution to the Bank's total revenue slipped to 22.1 percent from 23.7 percent in 2005. Operating expenses (excluding one-off impairment adjustments) were 8.5 percent higher than in 2005, largely due to increases in general administrative expenses.

The quality of the Bank's loans portfolio remains good and the ratio of non-performing loans to total loans is within the 5 percent prudential ceiling established by the Eastern Caribbean Central Bank (ECCB). The Bank's capital base is strong with Tier I capital adequacy ratio of 16 percent and a total qualifying capital ratio of 20 percent.

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Customer service

We are pleased to report that the results of the last annual survey conducted by an independent firm in May 2006, showed the Bank as the leader in customer service in the Banking industry in Grenada. We are committed to enhancing our service quality as we strive to benchmark ourselves against service leaders in other sectors.

Delivering superior customer service requires a well trained staff and training continued during the year for our employees at all levels. New products were launched including Visa TravelMoney Card. Several products including telephone banking and a suite of deposit products were enhanced and re-branded under the Republic Brand. The Bank's Automated Teller Machine (ATM) network was expanded with the installation of an ATM at the Sauteurs branch in September 2006, thus increasing the number of ATM sites to nine and the number of ATMs in the network to ten.

Investment in technology to support products and services delivery continued and during the year a new core banking system was successfully installed.

Outlook

We enter 2007 with excellent momentum and important strengths and advantages:

- Return to our normal level of strong profitability
- Excellent credit quality and risk management
- Industry leading customer service
- A disciplined expense culture
- The strength of the Republic Bank brand

We shall commence work on our newest branch in St. George's during the first quarter of 2007 and exciting product launches are being planned for mid 2007.

Acknowledgement

I wish to acknowledge the dedication and hard work of the management and staff of the Bank and extend to them my sincere thanks and appreciation, for without their contribution this good result would not have been possible. I thank the Chairman and Directors for their guidance and good counsel and also our customers for their continued loyal support.