Bank of St. Vincent and the Grenadines Ltd

Consolidated Financial Statements

For the year ended 31 December 2017
(Expressed in Eastern Caribbean Dollars)

Bank of St. Vincent and the Grenadines Ltd

Index to the Consolidated Financial Statements

For the Year ended 31 December 2017

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BANK OF ST. VINCENT AND THE GRENADINES LTD

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bank of St. Vincent and the Grenadines Ltd and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Report on the Audit of the Consolidated Financial Statements

Key Audit Matters	**How our audit addressed the key audit matter**
Estimates used in the allowance for impairment on loans to customers	
Areas of focus Refer to Notes 2 and 11 to the consolidated financial statements. The allowance for impairment losses on loans and advances to customers is considered to be a significant matter as it requires the application of judgement and use of subjective assumptions by management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty and the timing and amount of expected future cash flows. The Group records both collective and specific allowances of loans and advances to customers. In accordance with IAS 39 Financial Instruments: Recognition and Measurement, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. The recoverable amount of impaired loans are assessed on an individual basis and is primarily based on the realization of the underlying collateral security. An assessment is made on the market value of the collateral and the time and cost to collect in determining the expected cash flows. Management is continuously assessing the assumptions used in the allowance for loan losses process, and estimates are changed to account for current market and economic conditions, including the state of the real estate market and their historical experience in foreclosing and realizing the underlying collateral security.	We assessed and tested the design and operating effectiveness of controls over: - Management's process for making lending decisions inclusive of the approval, disbursement and monitoring of the loan portfolio. - Data used to determine the provisions for loan impairment, including transactional data captured at loan origination, internal credit quality assessments, storage of data and computations. In addition, we assessed the adequacy of the provision for loan losses by testing the key assumptions used in the Bank's specific and collective loan loss allowance calculations, including the identification of impairment and forecast of future cash flows, valuation of underlying collateral and estimates of recovery on default. We involved our internal valuation specialists in the review of third party valuations of the underlying collateral security. -We reviewed the accounting for the allowance for loan impairment policy and assessed the reasonableness of the estimates based on the Group's historical experience of the realization of security, actual collection of cash flows and the current market conditions. We assessed the model and inputs and assumptions for the inherent risk provisions. In addition, we assessed the adequacy of the disclosures in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT …*CONTINUED*

TO THE SHAREHOLDERS OF BANK OF ST. VINCENT AND THE GRENADINES LTD

Report on the Audit of the Consolidated Financial Statements

Key Audit Matters	How our audit addressed the key audit matter
Fair Value of Investments	
Refer to Notes 2, 11, and 14 to the consolidated financial statements. The Group invests in various investment securities for which no published prices in active markets are available and have been classified as Level 2 assets within the IFRS fair value hierarchy. Valuation techniques for these investments can be subjective in nature and involve various assumptions regarding pricing factors. Associated risk management disclosure is complex and dependent on high quality data. A specific area of audit focus includes the valuation of fair value Level 2 assets where valuation techniques are applied in which unobservable inputs are used. For Level 2 assets, these techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analyses making maximum use of market inputs, such as the market risk free yield curve.	We reviewed the reasonableness of the methods and assumptions used in determining the fair value of investment securities. We considered whether the methodology remains appropriate given current market conditions. We independently assessed the fair value of investments by performing independent valuations on the investment portfolio as well as recalculating the unrealized gain (loss) recognized. We verified that the required IFRS disclosures have been included in the consolidated financial statements at year end. We also reviewed management's assessments of whether there are any indicators of impairment including those securities that are not actively traded.

Report on the Audit of the Consolidated Financial Statements

Other information included in the Group's 2017 Annual Report

Other information consists of the information included in the Group's 2017 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2017 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT…*CONTINUED*

TO THE SHAREHOLDERS OF BANK OF ST. VINCENT AND THE GRENADINES LTD

Report on the Audit of the Consolidated Financial Statements

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.
- We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT …*CONTINUED*

TO THE SHAREHOLDERS OF BANK OF ST. VINCENT AND THE GRENADINES LTD

Report on the Audit of the Consolidated Financial Statements

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (cont'd)
We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement executives in charge of the audit resulting in this independent auditor's report are John-Paul Kowlessar and Indira Regobert.

Ernst & Young

Castries
St. Lucia
19 March 2018

Bank of St. Vincent and the Grenadines Ltd
Consolidated Statement of Financial Position
As at 31 December 2017

(expressed in Eastern Caribbean dollars)

	2017 $	2016 $
Assets		
Cash and balances with Central Bank (Note 5)	118,625,250	124,258,997
Treasury bills (Note 6)	10,401,918	10,173,836
Deposits with other banks (Note 7)	115,572,633	140,704,027
Investment securities (Note 11)	55,025,191	42,715,267
Loans and receivables - loans and advances to customers (Note 8)	605,030,164	578,813,735
-bonds (Note 10)	10,032,877	10,033,904
Property and equipment (Note 13)	53,190,104	55,558,417
Investment properties (Note 14)	2,412,000	2,780,000
Other assets (Note 15)	4,292,506	5,653,131
Income tax recoverable	-	589,788
Total assets	974,582,643	971,281,102
Liabilities		
Deferred tax liability (Note 16)	47,105	297,527
Deposits from banks (Note 17)	35,248,997	40,040,805
Due to customers (Note 18)	745,782,313	715,812,152
Borrowings (Note 19)	42,095,265	46,350,975
Other liabilities (Note 20)	47,136,292	62,947,985
Total liabilities	870,309,972	865,449,444
Equity		
Share capital (Note 21)	20,753,306	14,753,306
Reserves (Note 22)	14,912,580	14,753,306
Unrealised gain on investments	1,725,685	1,529,887
Retained earnings	66,881,100	74,795,159
Total equity	104,272,671	105,831,658
Total liabilities and equity	974,582,643	971,281,102

Approved by the Board of Directors on 19 March 2018

M. Edwards ....Director ....Director

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

Bank of St. Vincent and the Grenadines Ltd

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

	Share Capital (Note 21) $	Other Reserves (Note 22) $	Unrealised gain on investments $	Retained Earnings $	Total $
Balance at January 1, 2016	14,753,306	14,753,306	1,633,479	72,758,788	103,898,879
Total comprehensive income	-	-	(103,592)	4,936,371	4,832,779
Dividend paid ($0.29 per share)	-	-	-	(2,900,000)	(2,900,000)
At December 31, 2016	14,753,306	14,753,306	1,529,887	74,795,159	105,831,658
Balance at January 1, 2017	14,753,306	14,753,306	1,529,887	74,795,159	105,831,658
Transfers (Note 21 & 22)	6,000,000	159,274	-	(6,159,274)	-
Total comprehensive income	-	-	195,798	796,372	992,170
Dividend paid ($0.17 per share)	-	-	-	(2,551,157)	(2,551,157)
At December 31, 2017	20,753,306	14,912,580	1,725,685	66,881,100	104,272,671

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

Bank of St. Vincent and the Grenadines Ltd

Consolidated Statement of Income

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

	2017 $	2016 $
Interest income (Note 24)	49,659,001	49,887,423
Interest expense (Note 24)	(17,382,035)	(17,642,436)
Net interest income	32,276,966	32,244,987
Fee, commission and other income (Note 25,27,28)	12,656,501	12,422,596
Dividend income (Note 26)	179,850	117,954
Impairment losses on property and equipment (Note 13)	(1,824,911)	-
Impairment losses on loans and advances, net (Note 31)	(8,503,034)	(6,159,722)
Operating expenses (Note 29)	(31,995,497)	(30,990,513)
Profit before income tax	2,789,875	7,635,302
Income tax expense (Note 32)	(1,993,503)	(2,698,931)
Profit for the year	796,372	4,936,371
Basic and diluted earnings per share (Note 33)	0.05	0.49

The accompanying notes form an integral part of these financial statements

Bank of St. Vincent and the Grenadines Ltd

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

	2017 $	2016 $
Profit for the year	796,372	4,936,371
Other comprehensive income /(loss) that will be reclassified to the income statement:		
Unrealised gain/(loss) on available for sale investments	195,798	(103,592)
Other comprehensive income/ (loss) for the year, net of tax	195,798	(103,592)
Total comprehensive income for the year, net of tax	992,170	4,832,779

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

Bank of St. Vincent and the Grenadines Ltd

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

	2017	2016
	$	$
Cash flows from operating activities		
Profit before income tax	2,789,875	7,635,302
Adjustments to reconcile net profit before tax to net cash flows:		
Interest income – investment securities & deposits	(3,549,911)	(3,090,255)
Interest expense - borrowings	1,984,684	1,906,703
Impairment on loans and advances	8,943,101	6,918,280
Impairment on property and equipment	1,824,911	-
Depreciation	2,741,407	2,851,220
Recovery of impairment on investment securities	(415,974)	-
Dividend income	(179,850)	(117,954)
Fair value gain on investment property	-	(215,000)
Loss on disposal of investment property	183,484	-
Gain on disposal of property and equipment	-	(43,261)
Net cash flows from operating income before changes in operating assets and liabilities	14,321,727	15,845,035
Changes in operating Assets and Liabilities		
Increase in mandatory deposits with Central Bank	(1,798,210)	(3,592,613)
Increase in loans and advances to customers	(35,159,530)	(307,515)
Decrease in other assets	1,360,625	2,163,815
Increase in due to customers	29,970,161	59,876,875
(Decrease)/increase in deposits from banks	(4,791,808)	1,199,342
(Decrease)/increase in other liabilities	(16,757,083)	13,796,370
Net cash (used in)/ generated from operations	(12,854,118)	88,981,309
Dividends received	179,850	117,954
Interest received	3,549,911	3,090,255
Interest paid	(1,935,802)	(1,939,605)
Income tax paid	(708,747)	(2,108,855)
Net cash (used in)/from operating activities	(11,768,906)	88,141,058
Cash flows from investing activities		
Movement in short term investments and fixed deposits	(48,017)	(59,759)
Proceeds from sale of investment property	184,516	-
Proceeds from disposal and redemption of investment securities	9,556,663	9,113,403
Purchase of investment securities	(21,253,788)	(12,682,995)
Purchase of property and equipment	(2,198,005)	(1,688,869)
Proceeds from disposal of property and equipment	-	64,000
Net cash used in investing activities	(13,758,631)	(5,254,220)

Bank of St. Vincent and the Grenadines Ltd

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

	2017 $	2016 $
Cash flows from financing activities		
Dividends paid	(2,551,157)	(2,900,000)
Repayment of borrowings	(4,304,591)	(8,355,808)
Proceeds from borrowings	-	4,257,105
Net cash used in financing activities	(6,855,748)	(6,998,703)
Net (decrease)/increase in cash and cash equivalents	(32,383,285)	75,888,135
Cash and cash equivalents at beginning of year	229,738,216	153,850,081
Cash and cash equivalents at end of year (Note 34)	197,354,931	229,738,216

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

(expressed in Eastern Caribbean dollars)

1 General information

Bank of St. Vincent and the Grenadines Ltd. (the Bank), (formerly the National Commercial Bank (SVG) Ltd.) was incorporated in St. Vincent and the Grenadines on 1 June 1977. On 19 June 2009, the Bank and the St. Vincent and the Grenadines Development Bank Inc. were amalgamated and continued under the name of the National Commercial Bank (SVG) Ltd. The Bank's name was changed to Bank of St. Vincent and the Grenadines Ltd on 26 November 2012. In addition to the Company's Act of 1994, the Bank is subject to the provisions of the Banking Act 2015.

Property Holdings SVG Ltd. (the "Subsidiary") is wholly owned by the Bank. The Subsidiary was incorporated in St. Vincent and the Grenadines on 13 December 2010. The Subsidiary's principal activity is to own, develop and manage real estate properties acquired by the Bank.

Following the issuance of a stock dividend to the Bank's shareholders on record as at 3 February 2017, the issued and outstanding common shares of the Bank increased from 10,000,000 to 14,999,844. The shareholding in the Bank as at that date was: East Caribbean Financial Holding Company Ltd (ECFH) 51% (7,650,000), National Insurance Services (NIS) 20% (2,999,999), The Public & Staff 16.87% (2,530,623) & the Government of St. Vincent and the Grenadines 12.13% (1,819,222).

On 30th June 2017, the ECFH, the Bank's former Parent company sold 31% (4,650,000) of its shares in the Bank to the Government of St. Vincent and the Grenadines giving up controlling interest in the Bank. The shareholding as at 30 June 2017 was: East Caribbean Financial Holding Company Ltd (ECFH) 20% (3,000,000), National Insurance Services (NIS) 20% (2,999,999), The Public & Staff 16.87% (2,530,623) & the Government of St. Vincent and the Grenadines 43.13% (6,469,222). The shareholding as at 31 December 2017 remained the same.

The principal activity of the Bank and its subsidiary (the Group) is the provision of retail, corporate, banking and investment services in St. Vincent and the Grenadines.

The Group's principal place of business and registered office is located at Reigate Building, Granby Street Kingstown St. Vincent.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

Bank of St. Vincent and the Grenadines Ltd consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) as at 31 December 2017 (the reporting date).

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets held at fair value through profit or loss, classified in the consolidated statement of financial position as investment securities and investment properties.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies …*continued*

Basis of preparation…*continued*

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below:

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses (effective January 1, 2017)
The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Amendments to IAS 7 Statement of Cash Flows (effective January 1, 2017)
The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Amendments to IFRS 12 Disclosure of Interest in Other Entities (effective January 1, 2017)
The amendments clarify that the disclosure requirements in IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments are effective from 1 January 2017 and must be applied retrospectively.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies …*continued*

Basis of preparation…*continued*

(b) Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments (effective January 1, 2018)
In July 2014, the IASB issued IFRS 9 *Financial Instruments*, the standard that will replace IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted. In 2017 the Bank set up a multidisciplinary implementation team ('the Team') with members from its Global Risk, Finance and Operations teams to prepare for IFRS 9 implementation ('the Project'). The Project is sponsored by the Chief Financial Officer, who regularly report to the Bank's Supervisory Board and is managed within the Bank's transformation framework. The Bank is at an advanced stage in the development of a model to guide the implementation of IFRS 9. This model is expected to be operationalised during the second quarter of the 2018 financial year and will be continuously refined as full implementation takes place.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

Impairment
The impairment requirements are based on expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 Revenue from Contracts with customers and lease receivables under IAS 17 Leases. Entities are generally required to recognize 12 month ECL on initial recognition (or when the commitment or guarantee was entered into) and thereafter as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognize lifetime ECL. For trade receivables, a simplified approach may be applied whereby the lifetime ECL are recognized.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies …*continued*

Basis of preparation…*continued*

(b) Standards issued but not yet effective…*continued*

IFRS 15 Revenue from Contracts with Customers (effective January1, 2018)
IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of disposal of certain non-financial assets including property, equipment, and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The standard will affect entities across all industries. Adoption will be a significant undertaking for most entities with potential changes to an entity's current accounting, systems, and processes. The Group is currently evaluating its impact.

IFRS 16 Leases (effective January 1, 2019)
IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of use asset.

Lessees will be required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies …*continued*

Basis of preparation…*continued*

(b) Standards issued but not yet effective…*continued*

Amendments to IAS 40 Investment Property (effective January 1 2018)
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date.

Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed.

The amendments will eliminate diversity in practice.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective January 1, 2018)
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses, and income in its scope that are initially recognised on or after: (i) The beginning of the reporting period in which the entity first applies the interpretation or (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies *…continued*

Consolidation

The financial statements of the subsidiaries used to prepare the consolidated financial statements were prepared as of the parent company's reporting date. The consolidation principles are unchanged as against the previous year.

The consolidated financial statements of the Group comprise the financial statements of the parent entity and all subsidiaries as of 31 December 2017.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns
- When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Consolidation…*continued*

- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective acquisition date or up to the effective date on which control ceases, as appropriate.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting methods.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Consolidation*…continued*

(a) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. Any losses applicable to the non-controlling interest are allocated against the interests of the non-controlling interest even if this results in a deficit balance. Non-controlling interests are presented separately within equity in the consolidated statement of financial position.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Fair value measurement

The Group measures financial instruments such as investment securities and non-financial asset such as investment properties, at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised in the following notes:

Ø Disclosures for valuation methods, significant estimates and assumptions	Notes 2 and 4
Ø Quantitative disclosures of fair value measurement hierarchy	Note 3
Ø Investment properties	Note 14
Ø Financial instruments (including those carried at amortised cost)	Notes 3 and 11

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

(expressed in Eastern Caribbean dollars)

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

Fair value measurement...*continued*

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value of a non-financial asset takes into account a market participants ability to generate economic benefits by using the assets in its highest and the best use or by selling to another participant that would use the asset in its highest and best use.

The Group determines the policies and procedures for both recurring and non-recurring fair value measurement.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including: cash and non-restricted balances with the Central Bank, treasury bills, deposits with other banks, deposits with non-bank financial institutions and other short-term securities.

Financial assets

The Group allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories; financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Financial assets…*continued*

(a) Financial assets at fair value through profit or loss…*continued*

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the statement of income. Gains and losses arising from changes in fair value are included directly in the statement of income. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income'. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

(b) 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: (a) 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; (b) those that the entity upon initial recognition designates as available for sale.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the statement of financial position as loans and advances to customers or as investment securities. Interest on loans and advances to customers and investment securities are included in the statement of income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of income.

(c) Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than:
(i) those that the Group upon initial recognition designates as at fair value through profit or loss.
(ii) those that the Group designates as available for sale; and
(iii) those that meet the definition of loans and receivables. These are initially recognised at fair value including direct and incremental transaction costs are measured subsequently at amortised cost, using the effective interest method less impairment. Interest on held-to-maturity investments is included in the consolidated statement of income. The losses arising from impairment are recognised in the consolidated statement of income as impairment losses on investments.

If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. The difference between the carrying value and fair value is recognised in equity.

(d) Available-for-sale financial assets
Available-for-sale investments are financial assets that are 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 or that are not classified as loans and receivables, held to- maturity investments or financial assets at fair value through profit or loss.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

(d) Available for sale financial assets*….continued*

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. Management makes judgement at each reporting date to determine whether available for sale investments are impaired. These investments are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the statement of income. Interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the statement of income. Dividends on available-for-sale equity instruments are recognised in the statement of income when the Group's right to receive payment is established. Where fair value cannot be determined, cost was used.

Recognition/Derecognition
The Group uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for de-recognition are presented in the consolidated statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or re-pledge them.

Financial assets are derecognised when the rights to the cash flow from the asset has expired or when it has transferred substantially all the risks and rewards of the ownership.

Impairment of financial assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a 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 after the initial recognition of the asset (a 'loss event') and that 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.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Impairment of Financial Assets*…continued*

- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group 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;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties or;
- 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 estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

The Group 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 Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the assets 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 a collective assessment of impairment.

Loans and advances that have been assessed individually and found not to be impaired and all individually performing loans and advances are assessed collectively in groups of assets with similar risk characteristics to determine whether provisions should be made due to incurred loss events which are not yet evident. The collective assessment takes account of data from the loan portfolio such as credit quality, levels of arrears, credit utilisation, and loan to collateral ratios, concentrations of risks and economic data country risk and the performance of different groups.

<u>Assets carried at amortised cost</u>
If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost 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 credit 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 income. If a loan or held-to-maturity investment has variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Impairment of Financial Assets*….continued*

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

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 is recognised in the statement of 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 consolidated statement of income.

Assets classified as available-for-sale
The Group makes judgement at each reporting date to determine whether available-for-sale investments are impaired. These investments are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment.

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 objective evidence of impairment resulting in the recognition of an impairment loss. 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 that financial asset previously recognised is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income.

If in subsequent periods, 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 profit or loss, the impairment loss is reversed through the consolidated statement of income.

Renegotiated loans
During the normal course of business financial assets carried at amortised cost may be restructured with the mutual agreement of the "Group" and the counterparty. When this occurs for reasons other than those which could be considered indicators of impairment, the Group assesses whether the restructured or renegotiated financial asset is significantly different from the original one by comparing the present value of the restructured cash flows discounted at the original instruments interest rate. If the restructured terms are significantly different the Group derecognises the original financial asset and recognises a new one at fair value with any difference recognized in the consolidated statement of income.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the statement of financial position when 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.

Impairment of other non-financial assets
Assets that have an 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 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).

Property and equipment
Property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Work in progress is stated at historical cost, less accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of income during the financial year in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Leasehold improvements	20%
Motor vehicles	25%
Equipment	15%
Furniture	10%
Building	2%
Computer Equipment & Software	20%

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 carry amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use.

Gains and losses on disposal are determined by comparing proceeds with carrying amount and are included in the consolidated statement of income.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Investment properties

Properties that are held for long term rental or for capital appreciation or both, and that are not occupied by the Group, are classified as investment properties. Investment property comprises of land for capital appreciation.

Recognition of investment property takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the cost can be measured reliably. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property.

Subsequent expenditure is included in the assets carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of income during the financial year in which they are incurred.

Investment property is carried at fair value, representing open market value determined annually by external professionally qualified valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Investment property is reviewed annually by independent external evaluators.

Investment property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.

Income tax

(a) Current tax

Income tax payable/recoverable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the year except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to the consolidated statement of income.

Where the Group has tax losses that can be relieved against a tax liability for a previous year, it recognises those losses as an asset, because the tax relief is recoverable by refund of tax previously paid. This asset is offset against an existing current tax balance. Where tax losses can be relieved only by carry-forward against taxable profits of future years, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the consolidated statement of financial position.

The Group does not offset income tax liabilities and current income tax assets.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Income tax ………. *Continued*

(b) Deferred tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property and equipment. The rates enacted or substantively enacted at the reporting date are used to determine deferred income tax. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting, nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Financial liabilities
The Group's holding in financial liabilities is at amortised cost. Financial liabilities are derecognised when extinguished.

Financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue for which the fair value option is not applied, and subordinated debts.

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

Provisions
Provisions are recognised when the Bank has a present legal or constructive obligation as a result of a past event, it is more likely that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee benefits
The Group operates a defined contribution pension scheme. The scheme is generally funded through payments to trustee-administered funds, determined by the provisions of the plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Employee benefits…*continued*

The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Guarantees and letters of credit
Guarantees and letters of credit comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most guarantees and letters of credit to be settled simultaneously with the reimbursement from the customers. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers.

The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Any increase in the liability relating to guarantees is reported in the consolidated statement of income within other operating expenses.

Share capital

(i) Share issue costs
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.

(ii) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period which they are declared.

Dividends for the year that are declared after the reporting date are disclosed in the subsequent events note.

Interest income and expense
Interest income and expense are recognised in the consolidated statement of income for all financial instruments measured at amortised cost 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 throughout the expected life of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Fees and commission income
Fees and commissions are recognised on an accruals basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of a business, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time apportioned basis.

Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for financial planning and custody services that are continuously provided over an extended period of time.

Dividend income
Dividend income is recognised when the right to receive payment is established.

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

Transactions and balances
Foreign currency transactions that are transactions denominated, or that require settlement in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated at the closing rates as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition.

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 consolidated statement of comprehensive income.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit and loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Foreign currency translation*…continued*

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in the other comprehensive income.

Leases

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to operating expenses in the statement of income on a straight-line basis over the life of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Financial instruments

Financial instruments carried on the consolidated statement of financial position include cash resources, investment securities, loans and advances to customers, deposits with other banks, and deposits from banks, due to customers and borrowings. The particular recognition methods adopted are disclosed in the individual policy statement associated with each item.

Comparatives

Except when a standard or an interpretation permits or requires otherwise, all comparatives are amended to meet current year presentation.

3 Financial risk management

Strategy in using financial instruments

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by the Management Committee under policies approved by the Board of Directors. The Group's Management Committee identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…..*continued*

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and non-derivative financial instruments. In addition, the Internal Audit Department is responsible for the independent review of risk management and the control environment.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk and interest rate risk.

Credit risk
Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfill their contractual obligations to the Group. Credit risk arises mainly from commercial and consumer loans and advances to customers, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit financial guarantees, letters of credit, endorsements and acceptances.

The Group is also exposed to other credit risks arising from balances with central bank, deposits with other banks and non-bank financial institutions, investments in debt securities, treasury bills and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets.

Loans and advances to customers
The Group 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 made for losses that have been incurred at the reporting date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group'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.

Debt securities and other bills
For debt securities and treasury bills, external rating such as Standard & Poor's or Caricris or their equivalents are used by Asset Liability Committee for managing of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

Cash and balances with Central Bank
Credit risk from balances with banks and financial institutions is managed by the Group in accordance with the Group's policy. Counterparty credit limits are reviewed by the Group's Risk Department on an annual basis, and may be updated throughout the year subject to approval of the Group's Investment Committee and where necessary the Board of Directors. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments.

Risk limit control and mitigation policies
The Group manages, limits and controls concentrations of credit risk wherever they are identified − in particular, to individual counterparties and groups, and to industries and countries.

The Group 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 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)

3 Financial risk management*…..continued*

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.

Collateral

The Group 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 Group 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, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

The Group’s credit risk management policies include requirements relating to collateral valuation and management, including verification requirements and legal certainty. Valuations are updated periodically depending upon the nature of the collateral. Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its periodic review of loan accounts in arrears. Policies are in place to monitor the existence of undesirable concentration in the collateral supporting the Group’s credit exposure.

Longer-term finance and lending to corporate customers and individuals are generally secured. In addition, in order to minimise the credit loss the Group 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.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are authorisations by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group 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 Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…..*continued*

Credit risk…….*continued*

Impairment and provisioning policies

The internal rating systems 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.

Management determines whether objective evidence of impairment exists based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income 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 Group'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 the reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Maximum exposure to credit risk
Credit risk exposures relating to the financial assets in the statement of financial position:

	Maximum exposure	
	2017	**2016**
	$	**$**
Deposit with Central Bank	98,038,872	104,686,523
Treasury bills	10,401,918	10,173,836
Deposits with other banks	115,572,633	140,704,027
Loans and advances to customers:		
− Overdrafts	44,419,097	72,561,345
− Term loans	83,947,790	87,983,004
− Large corporate loans	161,576,186	125,438,011
− Mortgage loans	312,483,286	290,074,558
− Credit cards	2,603,805	2,756,817
− Bonds	10,032,877	10,033,904
Investment Securities	44,505,092	37,804,601
Other assets	2,801,821	4,432,579
	886,383,377	886,649,205
Credit risk exposures relating to off-statement of financial position items		
Guarantees and letters of credit	40,000	40,000
Loan commitments	14,351,760	11,900,700
	14,391,760	11,940,700
	900,775,137	898,589,905

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2017 and December 2016, without taking account of any collateral held or other credit enhancements attached. For assets included "on" statement of financial position, the exposures set out above are based on net amounts.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

As shown above 67% (2016 – 64%) of the total maximum exposure is derived from loans and advances to customers; 5% (2016 – 4%) represents investments in debt securities.

Loans and advances to customers are summarised as follows:

	2017 $	2016 $
Neither past due nor impaired	498,166,875	453,995,302
Past due but not impaired	79,242,295	91,331,631
Impaired	48,291,574	45,995,529
Gross	625,700,744	591,322,462
Less allowance for impairment losses on loans and advances to customers	(20,670,580)	(12,508,727)
Net	605,030,164	578,813,735

The total impairment provision for loans and advances to customers is $20,670,580 (2016 - $12,508,727) of which $11,507,519 (2016 - $6,980,274) represents the individually impaired loans and the remaining amount of $9,163,061 (2016 - $5,528,453) represents the collective provision. Further information on the allowance for impairment losses on loans and advances to customers is provided in Notes 8 and 9.

Loans and advances to customers 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 Group.

	Overdrafts $	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Credit Cards $	Total $
31 December 2017	43,713,728	65,287,659	255,869,636	130,933,007	2,362,845	498,166,875
31 December 2016	72,105,974	65,123,461	232,694,047	81,444,066	2,627,754	453,995,302

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Loans and advances to customers past due but not impaired

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

	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Credit Cards $	Total $
At 31 December 2017					
Past due up to 30 days	10,527,096	39,924,787	12,695,979	180,535	63,328,397
Past due 30 - 60 days	1,125,817	6,768,817	2,533,163	90,888	10,518,685
Past due 60 - 90 days	1,074,268	2,335,587	1,972,268	13,090	5,395,213
	12,727,181	49,029,191	17,201,410	284,513	79,242,295
At 31 December 2016					
Past due up to 30 days	11,660,172	38,433,083	20,576,902	153,660	70,823,817
Past due 30 - 60 days	2,607,119	5,453,636	3,661,959	2,608	11,725,322
Past due 60 - 90 days	1,118,224	3,135,770	4,528,498	-	8,782,492
	15,385,515	47,022,489	28,767,359	156,268	91,331,631

Loans and advances to customers individually impaired:

	Over -drafts $	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Credit Cards $	Total $
31 December 2017	1,991,971	8,960,378	15,002,440	22,010,158	326,627	48,291,574
31 December 2016	1,529,246	10,180,466	15,031,373	19,128,680	125,764	45,995,529

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Debt securities and other eligible bills

The table below presents an analysis of debt securities, treasury bills and deposits with banks by rating agency designation at 31 December 2017 and 2016, based on Standard & Poor's and Caricris ratings:

	Treasury Bills $	Financial Assets held-to-maturity $	Financial Assets Available-for- sale $	Deposits with other banks $	Loans and Receivables – Bonds $	Total $
At 31 December 2017						
Lower than A-	10,401,918	20,664,908	-	-	10,032,877	41,099,703
Unrated	-	23,840,184	10,520,099	115,572,633	-	149,932,916
	10,401,918	44,505,092	10,520,099	115,572,633	10,032,877	191,032,619
At 31 December 2016						
Lower than A-	10,173,836	12,873,455	-	-	10,033,904	33,081,195
Unrated	-	24,931,146	4,910,666	140,704,027	-	170,545,839
	10,173,836	37,804,601	4,910,666	140,704,027	10,033,904	203,627,034

Concentrations of risks of financial assets with credit exposure

(a) Geographical sectors

The Group operates primarily in Saint Vincent and the Grenadines. Based on the country of domicile of its counterparties, exposure to credit risk is concentrated in this location, except for investments which have other exposures, primarily in the other Caribbean Countries.

(b) Industry sectors

The following table breaks down the Group's credit exposure at gross amounts without taking into account any collateral held or other credit support by the industry sectors of the Group's counterparties.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk……… *continued*

Industry and economic concentrations of assets

	Financial Institutions $	Manu-facturing $	Tourism $	Government $	Professional and Other Services $	Personal $	Other Industries $	Total $
Cash and balances with Central Bank	118,625,250	-	-	-	-	-	-	118,625,250
Treasury Bills	-	-	-	10,401,918	-	-	-	10,401,918
Deposits with other banks	115,572,633	-	-	-	-	-	-	115,572,633
Investment securities:								
- Held to maturity	26,375,987	-	-	18,128,927	-	-	178	44,505,092
- Available for sale	3,952,735	-	-	-	-	-	6,567,364	10,520,099
Loans and receivables:								
- Loans and advances to customers								
- Large corporate loans	-	3,248,478	11,522,048	75,731,829	10,248,881	8,619,611	52,205,339	161,576,186
- Term loans	-	-	515,306	-	137,246	82,782,937	512,301	83,947,790
- Mortgages loans	-	-	-	-	1,432,467	310,609,565	441,254	312,483,286
- Overdrafts	508	2,441,071	376,514	28,647,787	2,873,780	2,766,137	7,313,300	44,419,097
- Credit cards	43,704	-	10,176	5,217	4,957	2,507,433	32,318	2,603,805
- Bonds	-	-	-	10,032,877	-	-	-	10,032,877
Other assets	-	-	-	-	-	-	2,801,821	2,801,821
At 31 December 2017	264,570,817	5,689,549	12,424,044	142,948,555	14,697,331	407,285,683	69,873,875	917,489,854
Guarantees, letters of credit, loan commitments and other credit related obligations	-	-	1,600,000	-	40,000	12,211,760	540,000	14,391,760

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk……… *continued*

Industry and economic concentrations of assets...*continued*

	Financial Institutions $	Manu-facturing $	Tourism $	Government $	Professional and Other Services $	Personal $	Other Industries $	Total $
Cash and balances with Central Bank	124,258,997	-	-	-	-	-	-	124,258,997
Treasury Bills	-	-	-	10,173,836	-	-	-	10,173,836
Deposits with other banks	140,704,027	-	-	-	-	-	-	140,704,027
Investment securities:								
- Held to maturity	26,529,955	-	-	9,600,662	-	-	1,673,984	37,804,601
- Available for sale	-	-	-	-	-	-	4,910,666	4,910,666
Loans and receivables:								
- Loans and advances to customers								
- Large corporate loans	-	2,354,748	14,008,217	27,493,341	11,788,551	7,873,408	61,919,746	125,438,011
- Term loans	117,027	363,300	724,674	-	229,903	85,639,008	909,092	87,983,004
- Mortgages loans	-	-	-	-	651,274	288,830,519	592,764	290,074,557
- Overdrafts	148,098	2,345,906	387,301	55,623,952	2,391,717	3,201,637	8,462,734	72,561,345
- Credit cards	62,294	-	8,389	1,012	1,702	2,644,472	38,949	2,756,818
- Bonds	-	-	-	10,033,904	-	-	-	10,033,904
Other assets	-	-	-	-	-	-	4,432,579	4,432,579
At 31 December 2016	291,820,398	5,063,954	15,128,581	112,926,707	15,063,147	388,189,044	82,940,514	911,132,345
Guarantees, letters of credit, loan commitments and other credit related obligations	-	850,000	2,432,000	-	40,000	8,528,700	90,000	11,940,700

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Market risk

The Group takes on exposure to market risks, 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 Group exposure to market risks arises from its non-trading portfolios. Senior management of the Group monitors and manages market through the Asset Liability Committee which advises on financial risks and assigns risk limits for the Group.

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

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) has been formally pegged at EC$2.70 = US$1.00 since 1974.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Currency risk…*continued*

Concentrations of financial assets and financial liabilities	**ECD**	**USD**	**BDS**	**EURO**	**GBP**	**CAD**	**Other**	**Total**
As at 31 December 2017								
Financial assets								
Cash and balances with Central Bank	115,623,240	1,645,704	308,915	423,198	190,944	433,249	-	118,625,250
Treasury bills	10,401,918	-	-	-	-	-	-	10,401,918
Deposit with other banks	28,698,002	82,756,338	195,608	1,636,308	827,557	666,193	792,627	115,572,633
Investment securities:								
– held-to-maturity	43,058,780	1,446,312	-	-	-	-	-	44,505,092
– available-for-sale	3,047,833	6,567,364	904,500	402	-	-	-	10,520,099
Loans and receivables:								
– loans and advances to customers	605,030,164	-	-	-	-	-	-	605,030,164
– bonds	10,032,877	-	-	-	-	-	-	10,032,877
Other assets	2,801,821	-	-	-	-	-	-	2,801,821
Total financial assets	818,694,635	92,415,718	1,409,023	2,059,908	1,018,501	1,099,442	792,627	917,489,854

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

Currency risk*…continued*

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
Concentrations of financial assets and financial liabilities								
As at 31 December 2017								
Financial liabilities								
Deposits from banks	35,248,997	-	-	-	-	-	-	35,248,997
Due to customers	719,397,866	24,781,294	-	1,341,658	258,663	2,832	-	745,782,313
Borrowings	23,820,408	18,274,857	-	-	-	-	-	42,095,265
Other liabilities	47,136,292	-	-	-	-	-	-	47,136,292
Total financial liabilities	825,603,563	43,056,151	-	1,341,658	258,663	2,832	-	870,262,867
Net (liabilities) assets	(6,908,928)	49,359,567	1,409,023	718,250	759,838	1,096,610	792,627	47,226,987
Guarantees, letters of credit, loan commitments and other credit related obligations	14,391,760	-	-	-	-	-	-	14,391,760

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

Currency risk...*continued*

Concentrations of financial assets and financial liabilities	**ECD**	**USD**	**BDS**	**EURO**	**GBP**	**CAD**	**Other**	**Total**
As at 31 December 2016								
Financial assets								
Cash and balances with Central Bank	121,325,269	1,672,294	326,105	272,312	168,414	494,336	267	124,258,997
Treasury bills	10,173,836	-	-	-	-	-	-	10,173,836
Deposit with other banks	22,349,803	113,020,187	767,451	4,080,868	351,200	66,501	68,017	140,704,027
Investment securities:								
– held-to-maturity	33,213,373	4,591,228	-	-	-	-	-	37,804,601
– available-for-sale	3,047,833	1,153,729	708,750	354	-	-	-	4,910,666
Loans and receivables:								
– loans and advances to customers	578,813,735	-	-	-	-	-	-	578,813,735
– bonds	10,033,904	-	-	-	-	-	-	10,033,904
Other assets	4,432,579	-	-	-	-	-	-	4,432,579
Total financial assets	783,390,332	120,437,438	1,802,306	4,353,534	519,614	560,837	68,284	911,132,345

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Currency risk…*continued*

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
Concentrations of financial assets and financial liabilities								
As at 31 December 2016								
Financial liabilities								
Deposits from banks	39,729,242	-	-	-	-	311,563	-	40,040,805
Due to customers	692,973,583	20,295,951	-	2,252,230	287,759	2,629	-	715,812,152
Borrowings	19,492,708	26,858,267	-	-	-	-	-	46,350,975
Other liabilities	62,947,985	-	-	-	-	-	-	62,947,985
Total financial liabilities	815,143,518	47,154,218	-	2,252,230	287,759	314,192	-	865,151,917
Net (liabilities) assets	(31,753,186)	73,283,220	1,802,306	2,101,304	231,855	246,645	68,284	45,980,428
Guarantees, letters of credit, loan commitments and other credit related obligations	11,940,700	-	-	-	-	-	-	11,940,700

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk

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

	Up to 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Over 5 years $	Non-interest bearing $	Total $
As at 31 December 2017							
Financial assets							
Cash and balances with Central Bank	-	-	-	-	-	118,625,250	118,625,250
Treasury Bills	-	10,401,918	-	-	-	-	10,401,918
Deposits with other banks	39,894	-	2,497,932	-	-	113,034,807	115,572,633
Investment securities:							
– held-to-maturity	178	-	20,821,914	14,465,173	9,217,827	-	44,505,092
– available for sale	-	-	-	-	-	10,520,099	10,520,099
Loans and receivables:							
– loans and advances to customers	25,784,161	3,509,635	37,899,593	80,614,603	457,222,172	-	605,030,164
– bonds	-	-	-	10,032,877	-	-	10,032,877
Other assets	-	-	-	-	-	2,801,821	2,801,821
Total financial assets	25,824,233	13,911,553	61,219,439	105,112,653	466,439,999	244,981,977	917,489,854
Financial liabilities							
Deposits from banks	-	10,011,096	22,878,260	-	-	2,359,641	35,248,997
Due to customers	523,481,948	19,493,165	88,207,455	-	-	114,599,745	745,782,313
Borrowings	1,025,096	316,670	3,184,203	14,214,016	23,355,280	-	42,095,265
Other liabilities	39,469,324	-	-	-	-	7,666,968	47,136,292
Total financial liabilities	563,976,368	29,820,931	114,269,918	14,214,016	23,355,280	124,626,354	870,262,867
Net interest re-pricing gap	(538,152,135)	(15,909,378)	(53,050,479)	90,898,637	443,084,719	120,355,623	47,226,987

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk …*continued*

	Up to 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Over 5 years $	Non-interest bearing $	Total $
As at 31 December 2016							
Financial assets							
Cash and balances with Central Bank	-	-	-	-	-	124,258,997	124,258,997
Treasury Bills	-	10,173,836	-	-	-	-	10,173,836
Deposits with other banks	35,158	-	2,449,915	-	-	138,218,954	140,704,027
Investment securities:							
– held-to-maturity	1,048,523	-	18,305,063	7,198,737	11,252,278	-	37,804,601
– available for sale	-	-	-	-	-	4,910,666	4,910,666
Loans and receivables:							
– loans and advances to customers	82,506,156	7,023,444	12,174,666	83,514,720	393,594,749	-	578,813,735
– bonds	-	-	-	10,033,904	-	-	10,033,904
Other assets	-	-	-	-	-	4,432,579	4,432,579
Total financial assets	83,589,837	17,197,280	32,929,644	100,747,361	404,847,027	271,821,196	911,132,345
Financial liabilities							
Deposits from banks	3,346,678	16,717,263	17,833,632	-	-	2,143,232	40,040,805
Due to customers	475,732,832	22,943,642	93,991,577	-	-	123,144,101	715,812,152
Borrowings	571,355	702,155	3,235,611	14,904,559	26,937,295	-	46,350,975
Other liabilities	49,362,619	-	-	-	-	13,585,366	62,947,985
Total financial liabilities	529,013,484	40,363,060	115,060,820	14,904,559	26,937,295	138,872,699	865,151,917
Net interest re-pricing gap	(445,423,647)	(23,165,780)	(82,131,176)	85,842,802	377,909,732	132,948,497	45,980,428

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk ……… *continued*
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 Group 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 re-pricing that may be undertaken.

Cash flow interest rate risk arises from loans and advances to customers and borrowings at variable rates. At 31 December 2017, if variable interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year would have been $3,025,151 (2016 -$2,894,069) higher/lower interest income on variable rate loans.

Liquidity risk
Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, payment of cash requirements from contractual commitments, or other cash out flows.

The Group is exposed to daily cash calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Group does not maintain cash resources to meet all these needs, as experience shows that a minimum level of reinvestments of maturing funds can be predicted with a high level of certainty. The Board of Directors sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowings facilities that should be in place to cover withdrawals at unexpected levels of demand.

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

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

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Funding approach: Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term.

Non derivative cash flows: The table below presents the cash flows payable by the Group 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 Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

Liquidity risk*…continued*

	Up to 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Total $
As at 31 December 2017						
Financial liabilities						
Deposits from banks	2,359,640	10,036,575	23,107,708	-	-	35,503,923
Due to customers	637,057,922	19,577,711	89,519,612	-	-	746,155,245
Borrowings	1,025,096	595,051	4,464,365	19,555,785	25,590,915	51,231,212
Other liabilities	47,136,292	-	-	-	-	47,136,292
Total financial liabilities	687,578,950	30,209,337	117,091,685	19,555,785	25,590,915	880,026,672

	Up to 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Total $
As at 31 December 2016						
Financial liabilities						
Deposits from banks	5,545,683	16,877,487	18,112,043	-	-	40,535,213
Due to customers	597,830,022	23,086,431	95,495,205	-	-	716,411,658
Borrowings	571,356	1,049,552	4,641,138	20,869,635	30,277,516	57,409,197
Other liabilities	62,947,985	-	-	-	-	62,947,985
Total financial liabilities	666,895,046	41,013,470	118,248,386	20,869,635	30,277,516	877,304,053

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Liquidity risk…*continued*

Assets held for managing liquidity risk
The Group holds a diversified portfolio of cash and investment securities to support payment obligations.

The Group's assets held for managing liquidity risk comprise cash and balances with central banks, certificate of deposit, government bonds that are readily acceptable in repurchase agreements, treasury and other eligible bills, loans and advances to financial institutions, loans and advances to customers and other items in the course of collection.

The Group would also be able to meet unexpected net cash outflows by selling investment securities and accessing additional funding sources.

Off-statement of financial position items

(a) Loan commitments
The dates of the contractual amounts of the Group's off-statement of financial position financial instruments that commit it to extend credit to customers and other facilities (Note 23), are summarised in the table below.

(b) Financial guarantees and other financial facilities
Financial guarantees (Note 23) are also included below based on the earliest contractual maturity date.

	1 Year	**Total**
	$	**$**
At 31 December 2017		
Loan commitments	14,351,760	14,351,760
Guarantees and letters of credit	40,000	40,000
Total	14,391,760	14,391,760
At 31 December 2016		
Loan commitments	11,900,700	11,900,700
Guarantees and letters of credit	40,000	40,000
Total	11,940,700	11,940,700

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

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 used to estimate the fair value of financial instruments are described below:

The fair values of cash resources, other assets and liabilities, deposits with other banks and due from other banks are assumed to approximate their carrying values due to their short term nature. The fair value of off-statement of financial position commitments is also assumed to approximate the amounts disclosed in Note 23 due to their short term nature.

Due to customers
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, which reflect market conditions and are assumed to have fair values which approximate carrying value.

Investment securities
Investment securities include interest bearing debt and equity securities held to maturity and available-for-sale. Assets classified for sale are measured at fair value based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

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

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

	Carrying value		Fair value	
	2017 **$**	**2016** **$**	**2017** **$**	**2016** **$**
Financial assets				
Loans and advances to customers:				
− Term loans	83,947,790	87,983,004	76,808,081	79,033,146
− Large corporate loans	161,576,186	125,438,011	140,028,147	100,960,666
− Mortgage loans	312,483,286	290,074,557	233,134,506	212,039,478
− Overdrafts	44,419,097	72,561,345	44,419,097	72,561,345
Credit Cards	2,603,805	2,756,818	2,603,805	2,756,818
− Bonds	10,032,877	10,033,904	9,907,114	9,794,695
Investment securities:				
− Held-to-maturity	44,505,092	37,804,601	43,086,783	38,044,639
Financial liabilities				
Borrowings	42,095,265	46,350,975	43,077,998	46,199,923

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Fair values of financial assets and liabilities...*continued*

Management assessed that cash and short term deposits with other banks, treasury bills, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values of assets and liabilities:
The Group's interest-bearing borrowings and loans are determined by using DCF method using the discount rate that reflects the average rates at the end of the period.

The value of regional bonds classified as loans and receivable with evidence of open market trades at par plus accrued interest is deemed to approximate fair value.

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 Group'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 actively traded exchanges.

- 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.

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

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

	Level 2 $
31 December 2017	
Investment properties **-** Lands	**2,412,000**
Financial assets available for sale	
- Equity securities	**7,471,864**
Total financial assets	**9,883,864**

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

	Level 2 $
31 December 2016	
Investment properties	
- Lands	2,780,000
Financial assets available for sale	
- Equity securities	1,862,479
Total financial assets	4,642,479

Assets for which fair values are disclosed

	Level 2 $	Level 3 $
31 December 2017		
Loans and advances to customers	-	496,993,636
Bonds	9,907,114	-
Held to maturity investments	43,086,783	-
Total financial assets	52,993,897	496,993,636
31 December 2016		
Loans and advances to customers	-	467,351,453
Bonds	9,794,695	-
Held to maturity investments	38,044,639	-
Total financial assets	47,839,334	467,351,453

Liabilities for which fair values are disclosed

	Level 2 $
31 December 2017	
Borrowings	43,077,998
31 December 2016	
Borrowings	46,199,923

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Fair values of financial assets and liabilities...*continued*

The fair value of financial instruments that are not traded in an active market is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, deal, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily DAX, FTSE 100 and Dow Jones debt securities classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter fixed income securities) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Note that all of the resulting fair value estimates are included in Level 2.

There were no transfers between levels in the fair value hierarchy during the year.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Capital management

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

- To comply with the capital requirements of the Banking Act 2015.
- To comply with the capital requirements set by the regulators of the banking markets where the Group operates;
- To safeguard the Group'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 daily by the Group's management, employing techniques based on the guidelines developed by the East Caribbean Central Bank the "Authority" for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Authority requires each bank or banking group to hold the minimum level of the regulatory capital to the risk-weighted asset (the 'Basel capital adequacy ratio') at or above the internationally agreed minimum of 8% of tier one capital.

The Group's regulatory capital as managed by its Treasury is divided into two tiers:

§ Tier 1 capital: share capital (net of any book values of the treasury shares), minority interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and

§ Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale and fixed asset revaluation reserves (limited to 50% of Tier 1 capital).

Investments in "associated companies" are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of − and reflecting an estimate of credit, market and other risks associated with − each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Group for the year ended 31 December 2017 and 2016. During those two years, the Group complied with all of the externally imposed capital requirements to which they are subject.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Capital management…*continued*

	2017 $	2016 $
Tier 1 capital		
Share capital	20,753,306	14,753,306
Statutory reserve	14,912,580	14,753,306
Retained earnings	66,881,100	74,795,159
Total qualifying Tier 1 capital	102,546,986	104,301,771
Tier 2 capital		
Revaluation reserve – available-for-sale investments	1,725,685	1,529,887
Collective impairment allowance	9,163,061	5,528,453
Total qualifying Tier 2 capital	10,888,746	7,058,340
Total regulatory capital	113,435,732	111,360,111
Risk-weighted assets:		
On-statement of financial position	484,745,837	491,868,285
Off-statement of financial position	43,849,782	41,566,840
Total risk-weighted assets	528,595,619	533,435,125
Basel capital adequacy ratio	21.46%	20.88%

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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.

Going Concern
The Group's management is satisfied that it has the resources to continue in business for the foreseeable future. The Group's management is not aware of any material uncertainties that may cast significant doubt upon its ability to continue as a going concern.

Impairment losses on loans and advances to customers
The Group reviews its loan portfolio to assess impairment at least annually. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgements 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. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated at $604,901/$964,157 (2016 - $801,084/$969,885) lower/higher respectively.

Impairment of available-for-sale equity investments
The Group 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 judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

The Group individually assesses available-for-sale debt securities for objective evidence of impairment. If an impaired instrument has been renegotiated, interest continues to be accrued on the reduced carrying amount of the asset and is recorded as part of "interest income". If the carrying value of the instrument increases in a subsequent year, the impairment loss is reversed through the consolidated statement of income.

Impairment of non-financial assets
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less cost of disposal is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental cost of disposing of the asset. The value in use calculation is based on a DCF model. The recoverable amount is sensitive to the discount rate used for DCF model as well as the future cash inflows.

Held-to-maturity investments
The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements in applying accounting policies…*continued*

If the Group fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value not amortised cost. If the entire held-to-maturity investments are tainted, the carrying value would decrease by $1,418,309 (2016 - $240,038) with a corresponding entry in the fair value reserve in equity.

Fair value of financial instruments

Financial instruments for which recorded current market transactions or observable market data are not available at fair value using valuation techniques. Fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group's best estimates of the most appropriate model assumptions.

Deferred taxes

In calculating the provision for deferred taxation, management uses judgment to determine the possibility that future taxable profits will be available to facilitate utilization of temporary tax differences which may arise. The deferred tax assets recognised at 31 December 2017 have been based on future profitability assumptions over a five-year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

Revaluation of investment property

The Group measures its investment properties at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect.

The Group engages independent valuation specialists to determine fair value of its investment properties. The valuer uses judgment in the application of valuation techniques such as replacement cost, capitalization of potential rentals and the market price of comparable properties, as applicable in each case.

Corporate income taxes

Significant estimates are required in determining the provision for income taxes. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions.

(expressed in Eastern Caribbean dollars)

5 Cash and balances with Central Bank

	2017 $	2016 $
Cash in hand	20,586,378	19,572,474
Balances with Central Bank other than mandatory reserve deposits	53,291,933	61,737,794
Included in cash and cash equivalents (Note 34)	73,878,311	81,310,268
Mandatory reserve deposits with Central Bank	44,746,939	42,948,729
	118,625,250	124,258,997

Pursuant to the Banking Act of 2015, the Banking institutions are required to maintain in cash and deposits with the Central Bank reserve balances in relation to the deposit liabilities of the institution.

Mandatory reserve deposits are not available for use in the Banking institutions' day-to-day operations. The balances with the Central Bank are non-interest bearing.

6 Treasury bills

	2017 $	2016 $
Treasury bills less than 90 days to maturity (Note 34)	10,401,918	10,173,836

Treasury bills are debt securities issued by the Governments of Saint Lucia. The weighted average effective interest rate on treasury bills at 31 December 2017 was 4.5% (2016 - 4.5%).

7 Deposits with other banks

	2017 $	2016 $
Items in the course of collection with other banks (Note 34)	7,817,963	6,915,983
Placements with other banks (Note 34)	105,256,738	131,338,129
Interest bearing deposits (more than 3 months)	2,497,932	2,449,915
Total	115,572,633	140,704,027

The weighted average effective interest rate in respect of interest bearing deposits at 31 December 2017 was 1.75% (2016 -2.35%).

(expressed in Eastern Caribbean dollars)

8 Loans and advances to customers

	2017 $	2016 $
Large corporate loans	170,144,576	129,340,105
Mortgage loans	319,901,267	294,747,909
Term loans	86,975,218	90,689,443
Credit cards	2,973,985	2,909,786
Overdrafts	45,705,698	73,635,219
Gross	625,700,744	591,322,462
Less allowance for impairment losses on loans and advances to customers (Note 9)	(20,670,580)	(12,508,727)
Net	605,030,164	578,813,735

The weighted average effective interest rate on productive loans stated at amortised cost at 31 December 2017 was 8.40% (2016 - 8.46%) and productive overdrafts stated at amortised cost was 10.19% (2016 - 9.67%).

(expressed in Eastern Caribbean dollars)

9 Allowance for impairment losses on loans and advances to customers

The movement on the provision by class was as follows:

	2017 $	2016 $
Large corporate loans		
At beginning of year	3,902,094	1,768,587
Specific provision for loan impairment	3,383,857	1,903,267
Collective provision for loan impairment	1,282,439	752,083
Written off during the year as uncollectible	-	(521,843)
At end of year	8,568,390	3,902,094
Mortgages		
At beginning of year	4,673,351	1,879,792
Specific provision for loan impairment	838,905	1,081,074
Collective provision for loan impairment	1,929,099	1,844,832
Written off during the year as uncollectable	(23,374)	(132,347)
At end of year	7,417,981	4,673,351
Term loans		
At beginning of year	2,706,439	2,233,510
Specific provision for loan impairment	653,040	543,165
Collective provision for loan impairment	425,824	551,270
Written off during the year as uncollectible	(757,875)	(621,506)
At end of year	3,027,428	2,706,439
Overdrafts		
At beginning of year	1,073,874	661,656
Specific provision for loan impairment	231,829	139,541
Collective provision for loan impairment	(19,102)	425,538
Written off during the year as uncollectible	-	(152,861)
At end of year	1,286,601	1,073,874
Credit Cards		
At beginning of year	152,969	475,459
Specific provision for loan impairment	200,863	(339,072)
Collective provision for loan impairment	16,348	16,582
At end of year	370,180	152,969
Total	20,670,580	12,508,727

(expressed in Eastern Caribbean dollars)

10 Loans and receivables – bonds

	2017 $	2016 $
Government bonds	10,032,877	10,033,904

Government bonds are purchased from and issued directly by the Government of Saint Vincent and the Grenadines. The weighted average effective interest rate at 31 December 2017 on Government bonds at amortised cost was 7.50% (2016 – 7.50 %).

11 Investment securities

	2017 $	2016 $
Securities held-to-maturity		
Debt securities at amortised costs		
- Unlisted	40,157,215	35,627,024
- Listed	5,454,712	4,479,828
	45,611,927	40,106,852
Less allowance for impairment	(1,106,835)	(2,302,251)
	44,505,092	37,804,601
Securities available for sale		
Listed equity securities	7,471,864	1,862,479
Unlisted equity securities	3,048,235	3,048,187
	10,520,099	4,910,666
Total investment securities	55,025,191	42,715,267

The weighted average effective interest rate on securities held-to-maturity stated at amortised cost at 31 December 2017 was 5.17% (2016 -5.74%).

(expressed in Eastern Caribbean dollars)

11 Investment securities...*continued*

Movements of the Group's financial assets are summarised as follows:

	Held-to-maturity $	Available for sale $	Loans and receivables -bonds $	Total $
At 1 January 2017	37,804,601	4,910,666	10,033,904	52,749,171
Additions	15,807,276	5,413,635	32,877	21,253,788
Currency Revaluation	-	48	-	48
Disposals (sale and redemption)	(9,522,759)	-	(33,904)	(9,556,663)
Recovery of impairment	415,974	-	-	415,974
Gain from change in fair value	-	195,750	-	195,750
At 31 December 2017	44,505,092	10,520,099	10,032,877	65,058,068
At 1 January 2016	34,236,036	5,014,258	10,032,877	49,283,171
Additions	12,649,091	-	33,904	12,682,995
Disposals (sale and redemption)	(9,080,526)	-	(32,877)	(9,113,403)
Losses from change in fair value	-	(103,592)	-	(103,592)
At 31 December 2016	37,804,601	4,910,666	10,033,904	52,749,171

12 Related parties balances and transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

(expressed in Eastern Caribbean dollars)

12 Related parties balances and transactions…*continued*

The following accounts maintained by related parties are included under investment securities, due from banks and due to banks:

	2017 $	2016 $
Bank of Saint Lucia Limited		
Due from bank	1,983,040	1,965,575
Due to bank	6,834,815	6,751,223
	8,817,855	8,716,798
East Caribbean Financial Holding Company Limited		
Held to maturity investment	-	270,592
Government of St. Vincent and the Grenadines		
Held to maturity investment	24,759,375	16,903,125

Transactions carried out with related parties:

	2017 $	2016 $
Income		
Interest income	2,924,252	2,416,989
Expenses		
Interest expense	118,146	150,469
Management fees	479,670	909,340

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

(expressed in Eastern Caribbean dollars)

12 Related parties balances and transactions*…continued*

Other related parties balances with the Group:

	2017		2016	
	Loans $	**Deposits $**	**Loans $**	**Deposits $**
Government of St. Vincent and the Grenadines	104,007,929	32,525,290	84,550,790	38,463,630
Statutory bodies	3,082,689	86,081,687	3,630,089	86,050,607
	107,090,618	118,606,977	88,180,879	124,514,237
Directors and key management	3,034,776	1,434,472	3,376,145	1,216,657
	110,125,394	120,041,449	91,557,024	125,730,894

No provisions have been recognised in respect of loans given to related parties.

The loans issued to directors and other key management personnel are repayable monthly over an average of 9.6 years and have a weighted average effective interest rates of 4.33% (2016 - 4.59%).

Interest income and interest expense with other related parties:

	2017		2016	
	Income $	**Expenses $**	**Income $**	**Expenses $**
Government of St. Vincent and the Grenadines	8,298,158	1,527,541	8,564,124	1,244,736
Statutory bodies	246,061	2,191,412	343,319	2,004,684
Directors and key management	133,727	25,658	129,662	22,903
	8,677,946	3,744,611	9,037,105	3,272,323

Key management compensation
Key management includes the Executive Management team. The compensation paid or payable to key management for employee services is shown below:

	2017 $	**2016 $**
Salaries and other short-term benefits	1,644,709	1,262,766
Pension cost	59,818	43,436
	1,704,527	1,306,202

(expressed in Eastern Caribbean dollars)

13 Property and equipment

	Land and building $	Leasehold Improvements $	Office Furniture and Equipment $	Work in Progress	Computer Equipment and Software $	Motor Vehicles $	Total $
Year ended 31 December 2016							
Opening net book amount	47,222,639	32,722	5,811,161	1,534,623	1,949,440	190,922	56,741,507
Additions	933,274	-	591,778	(499,220)	443,109	219,928	1,688,869
Disposals	-	(7,904)	-	-	(1)	(12,834)	(20,739)
Depreciation charge (Note 29)	(602,910)	(24,818)	(1,256,007)	-	(831,896)	(135,589)	(2,851,220)
Closing net book amount	47,553,003	-	5,146,932	1,035,403	1,560,652	262,427	55,558,417
At 31 December 2016							
Cost	51,154,152	-	16,336,782	1,035,403	10,251,095	631,677	79,409,109
Accumulated depreciation	(3,601,149)	-	(11,189,850)	-	(8,690,443)	(369,250)	(23,850,692)
Net book amount	47,553,003	-	5,146,932	1,035,403	1,560,652	262,427	55,558,417
Year ended 31 December 2017							
Opening net book amount	47,553,003	-	5,146,932	1,035,403	1,560,652	262,427	55,558,417
Additions	677,704	48,900	646,143	517,744	307,514	-	2,198,005
Impairment losses	(1,824,911)						(1,824,911)
Disposals	-	-	-	-	-	-	-
Depreciation charge (Note 29)	(665,130)	(6,441)	(1,253,836)	-	(696,122)	(119,878)	(2,741,407)
Closing net book amount	45,740,666	42,459	4,539,239	1,553,147	1,172,044	142,549	53,190,104
At 31 December 2017							
Cost	50,006,945	48,900	16,982,925	1,553,147	10,558,609	631,677	79,782,203
Accumulated depreciation	(4,266,279)	(6,441)	(12,443,686)	-	(9,386,565)	(489,128)	(26,592,099)
Net book amount	45,740,666	42,459	4,539,239	1,553,147	1,172,044	142,549	53,190,104

(expressed in Eastern Caribbean dollars)

14 Investment properties

	2017 $	2016 $
Fair value at 1 January	2,780,000	2,565,000
Disposal	(368,000)	-
Fair value gain	-	215,000
Fair value at 31 December	2,412,000	2,780,000

The investment properties are valued annually based on open market value by an independent, professionally qualified valuator.

15 Other assets

	2017 $	2016 $
Other receivables	2,801,821	4,432,579
Prepaid expenses	1,490,685	1,220,552
	4,292,506	5,653,131

16 Deferred tax liability

The movement on the deferred tax liability is as follows:

	2017 $	2016 $
At beginning of year	297,527	433,585
Prior year over provision	(19,352)	-
Current year release (Note 32)	(231,070)	(136,058)
At end of year	47,105	297,527

The deferred tax liability account is detailed below:

	2017 $	2016 $
Temporary differences on capital assets	47,105	297,527
	47,105	297,527

Deferred income taxes and liabilities are offset when there are legally enforceable rights to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

(expressed in Eastern Caribbean dollars)

17 Deposits from banks

	2017 $	2016 $
Deposits from other banks	35,248,997	40,040,805

Interest rates range from 1.5% to 2.75% (2016 - 1.75% to 2.50%).

18 Due to customers

	2017 $	2016 $
Term deposits	118,234,077	134,552,065
Saving deposits	391,511,533	334,216,294
Demand deposits	236,036,703	247,043,793
	745,782,313	715,812,152

The weighted average effective interest rate of customers' deposits at 31 December 2017 was 1.87% (2016 - 1.98%).

19 Borrowings

	Due	Interest Rate %	2017 $	Interest Rate %	2016 $
Caribbean Development Bank	**2017 – 2029**	3.24%	23,820,408	2.87	26,858,267
National Insurance Scheme	**2017 – 2025**	6.14%	18,274,857	6.12	19,492,708
			42,095,265		46,350,975

Security
The borrowings from the Caribbean Development Bank are guaranteed by the Government of St. Vincent and the Grenadines. Borrowings from the National Insurance Services are secured by property valued at $29,763,045 owned by the Bank of St. Vincent and the Grenadines.The Group has not had any defaults of principal, interest or other breaches with respect to borrowings during the year.

(expressed in Eastern Caribbean dollars)

19 Borrowings...*continued*

The Group had undrawn facilities at the end of the financial reporting period of $2,093,309 (2016 - $2,093,309) with the Caribbean Development Bank.

20 Other liabilities

	2017 $	2016 $
Managers' cheques outstanding	2,495,263	1,741,836
Trade and other payables	13,175,894	11,843,530
Customers security deposits	31,465,135	49,362,619
	47,136,292	62,947,985

21 Share capital

Authorised share capital – an unlimited number of shares of no par value
Issued and fully paid – 14,999,844 shares (2016 - 10,000,000 shares) at no par value.

	Number of Shares	Share Capital
Balance at January 1, 2016- issued and fully paid	10,000,000	14,753,306
Movement	-	-
Balance at December 31, 2016	10,000,000	14,753,306
Stock dividend	4,999,844	6,000,000
Balance at December 31, 2017 –issued and fully paid	14,999,844	20,753,306

22 Reserves

	2017 $	2016 $
Balance at beginning of the year	14,753,306	14,753,306
Transfer from profit after taxation	159,274	-
Balance at end of year	14,912,580	14,753,306

Pursuant to Section 45 (1) of the Banking Act of 2015, the Group shall, maintain a general reserve fund and shall, out of its net profits of each year transfer to that fund a sum equal to not less than twenty per cent of profits whenever the amount of the reserve fund is less than a hundred per cent of the issued Share Capital. The reserve is not available for distribution as dividends or any form of appropriation.

(expressed in Eastern Caribbean dollars)

23 Contingent liabilities and commitments

Commitments

The following table indicates the contractual amounts of the Group financial instruments that commit it to extend credit to customers.

	2017 $	2016 $
Loan commitments	14,351,760	11,900,700
Guarantees and letters of credit	40,000	40,000
	14,391,760	11,940,700

24 Net interest income

	2017 $	2016 $
Interest income		
Loans and advances	46,109,090	46,797,168
Treasury bills and investment securities	3,509,787	3,074,997
Deposits with banks	40,124	15,258
	49,659,001	49,887,423
Interest expense		
Savings deposits	11,797,004	10,817,029
Time deposits	3,548,002	4,815,160
Other borrowed funds	1,984,684	1,906,703
Correspondent banks	52,345	103,544
	17,382,035	17,642,436
Net interest income	32,276,966	32,244,987

25 Net fee and commission income

	2017 $	2016 $
Credit related fees and commissions	7,215,615	7,487,166

26 Dividend income

	2017 $	2016 $
Investments: Available-For-Sale	179,850	117,954

(expressed in Eastern Caribbean dollars)

27 Net foreign exchange trading income

	2017 $	2016 $
Foreign exchange		
Net realized gains	4,973,641	4,970,157
Net unrealized gains (losses)	234,755	(292,988)
	5,208,396	4,677,169

28 Other gains

	2017 $	2016 $
Gain from disposal of fixed asset	-	43,261
Fair value gain on investment properties	-	215,000
Loss on disposal of investment properties	(183,484)	-
Recovery of impairment on investment securities	415,974	-
	232,490	258,261

29 Operating expenses

	2017 $	2016 $
Depreciation (Note 13)	2,741,407	2,851,220
Employee benefit expense (Note 30)	9,641,719	9,661,973
Interest levy expense	4,575,432	4,282,163
Rent	287,126	263,308
Audit and accounting fees	274,374	263,000
Director fees	294,585	345,373
Computer expense	109,459	67,192
Insurance	641,078	569,777
Repairs and maintenance	422,056	472,366
Subscription and donations	157,165	222,823
Commission and fees	1,856,308	1,462,504
Utilities	2,324,176	2,142,765
Credit card expenses	1,749,494	1,504,282
Management fees	479,670	909,340
Advertisement and sponsorship	312,855	460,091
Legal and professional fees	783,370	744,729
Postage and stationary	815,596	700,573
Bank and other licences	1,548,483	1,166,628
Security	375,108	421,053
Other expenses	2,606,036	2,479,353
	31,995,497	30,990,513

(expressed in Eastern Caribbean dollars)

30 Employee benefit expense

	2017 $	2016 $
Wages and salaries	7,491,888	7,523,888
Other staff cost	1,802,436	1,803,118
Pensions	347,395	334,967
	9,641,719	9,661,973

31 Impairment losses on loans and advances to customers

	2017 $	2016 $
Provision against profit for the year	(8,943,101)	(6,918,280)
Amounts written off during the year as uncollectible	(13,687)	(166,424)
Recoveries of amounts previously written off	453,754	924,982
	(8,503,034)	(6,159,722)

32 Income tax expense

	2017 $	2016 $
Current tax	2,243,925	2,834,989
Over provision of prior year deferred tax	(19,352)	-
Deferred tax credit (Note 16)	(231,070)	(136,058)
	1,993,503	2,698,931

Tax on the Group's profit before taxation differs from the theoretical amount that would arise using the statutory tax rate of 32.5% as follows:

	2017 $	2016 $
Profit before income tax	2,789,875	7,635,302
Tax calculated at the applicable tax rate of 32.5%	906,710	2,481,473
Tax effect of exempt income	(3,625,545)	(3,672,863)
Tax effect of expenses not deductible for tax purposes	4,731,690	3,867,658
Other differences	(19,352)	22,663
	1,993,503	2,698,931

(expressed in Eastern Caribbean dollars)

33 Earnings per share

Earnings per share (EPS) are calculated by dividing the profit for the year attributable to shareholders by the weighted average number of ordinary shares in issue during the year. The EPS calculated for 2017 was $0.05 (2016 - $0.49).

34 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2017 $	2016 $
Cash and balances with Central Bank (Note 5)	73,878,311	81,310,268
Treasury Bills (Note 6)	10,401,918	10,173,836
Items in the course of collection with banks (Note 7)	7,817,963	6,915,983
Placements with other banks (Note 7)	105,256,739	131,338,129
	197,354,931	229,738,216

35 Dividends

A final dividend of $0.17 per share was approved for the year ended 31 December 2017 (2016 - $0.17) subsequent to year end. These dividends have not been paid nor recorded as at the date of approval of these statements.