East Caribbean Financial Holding Company Limited

Consolidated Financial Statements

For the year ended 31 December 2016
(Expressed in Eastern Caribbean Dollars)

East Caribbean Financial Holding Company Limited

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For the year ended 31 December 2016

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Ernst & Young
P.O. Box BW 368,
Rodney Bay, Gros Islet,
St. Lucia, W.I.

Street Address
Mardini Building, Rodney Bay,
Gros Islet,
St. Lucia, W.I.

Tel: +758 458 4720
+758 458 4730
Fax: +758 458 4710

www.ey.com

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of East Caribbean Financial Holding Company Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016 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 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 financial statements.

INDEPENDENT AUDITOR'S REPORT…CONTINUED

TO THE SHAREHOLDERS OF EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

Report on the Audit of the Consolidated Financial Statements (continued)

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(h), 11 and 12 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 impairment 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. During the current year, management reassessed and amended the loan loss provisioning policy based on their historical experience in foreclosing and realizing the underlying collateral security and based on the current economic environment.	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 amended allowance for loan impairment policy and assessed the reasonableness of the change in 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 financial statements.

INDEPENDENT AUDITOR'S REPORT….CONTINUED

TO THE SHAREHOLDERS OF EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

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(d), 3, 14 and 18 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 and Level 3 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 and Level 3 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. Included in the Level 3 category are financial assets that are not quoted as there are no active markets to determine a price.	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 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.

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INDEPENDENT AUDITOR'S REPORT….CONTINUED

TO THE SHAREHOLDERS OF EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

Report on the Audit of the Consolidated Financial Statements

Other information included in the Group's 2016 Annual Report

Other information consists of the information included in the Group's 2016 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2016 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 are responsible for overseeing the Group's financial reporting process.

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.

INDEPENDENT AUDITOR'S REPORT ….CONTINUED

TO THE SHAREHOLDERS OF EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

Report on the Audit of the Consolidated Financial Statements

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)
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.

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INDEPENDENT AUDITOR'S REPORT ….CONTINUED

TO THE SHAREHOLDERS OF EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

Report on the Audit of the Consolidated Financial Statements

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)
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 executive in charge of the audit resulting in this independent auditor's report is Baldwin Alcindor.

Ernst + Young

CHARTERED ACCOUNTANTS
Castries
St. Lucia
23 March 2017

East Caribbean Financial Holding Company Limited
Consolidated Statement of Financial Position
For the year ended 31 December 2016

(in thousands of Eastern Caribbean dollars)

	2016 $'000	2015 $'000
Assets		
Cash and balances with Central Bank (Note 6)	**366,874**	344,212
Treasury bills (Note 7)	**33,828**	25,965
Deposits with other banks (Note 8)	**227,992**	702,728
Financial assets held for trading (Note 9)	**18,600**	15,030
Deposits with non-bank financial institutions (Note 10)	**8,730**	7,896
Investment securities (Note 14)	**503,055**	748,935
Financial instruments - pledged assets (Note 15)	**21,367**	17,459
Loans and receivables - loans and advances to customers (Note 11)	**1,474,613**	1,667,579
- bonds (Note 13)	**10,033**	10,033
Investment in associates (Note 16)	**17,704**	14,292
Property and equipment (Note 17)	**133,386**	138,981
Investment properties (Note 18)	**9,328**	10,643
Intangible assets (Note 19)	**4,893**	7,905
Other assets (Note 20)	**63,258**	46,271
Retirement benefit asset (Note 22)	**10,627**	7,897
Deferred tax asset (Note 27)	**-**	4,330
Income tax recoverable	**4,179**	3,768
Assets of disposal group held for sale (Note 40)	**740,644**	-
Total assets	**3,649,111**	3,773,924
Liabilities		
Deposits from banks (Note 23)	**85,901**	83,765
Due to customers (Note 24)	**2,441,886**	3,228,649
Repurchase agreements (Note 15)	**13,839**	19,936
Dividends payable	**566**	276
Borrowings (Note 25)	**139,710**	116,646
Preference shares (Note 46)	**4,150**	4,150
Other liabilities (Note 26)	**93,112**	68,394
Deferred tax liability (Note 27**)**	**298**	434
Liabilities of disposal group held for sale (Note 40)	**724,067**	-
Total liabilities	**3,503,529**	3,522,250

East Caribbean Financial Holding Company Limited

Consolidated Statement of Financial Position (continued)

For the year ended 31 December 2016

(in thousands of Eastern Caribbean dollars)

	2016 $'000	2015 $'000
Equity		
Share capital (Note 28)	**170,081**	170,081
Contributed capital (Note 29)	**1,118**	1,118
Reserves (Note 31)	**163,567**	158,710
Revaluation surplus	**13,855**	13,855
Unrealized loss on available-for-sale investments	**(793)**	(7,596)
Accumulated deficit	**(254,104)**	(135,404)
Attributable to the Company's equity holders	**93,724**	200,764
Non – controlling interests (Note 30)	**51,858**	50,910
Total equity	**145,582**	251,674
Total liabilities and equity	**3,649,111**	3,773,924

The accompanying notes form part of these financial statements.

Approved by the Board of Directors on 23rd March 2017.

Director

Director

East Caribbean Financial Holding Company Limited

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

(in thousands of Eastern Caribbean dollars)

	Share Capital $'000	Con-tributed capital $'000	Reserves $'000	Revalua-tion surplus $'000	Unrealised loss on Available for sale investments $'000	Retained earnings $'000	Total $'000	Non-con-trolling interests $'000	Total equity $'000
Balance at 1 January 2015	**170,081**	**1,118**	**160,419**	**13,855**	**(5,305)**	**(119,226)**	**220,942**	**48,739**	**269,681**
Total comprehensive loss for the year	–	–	–	–	(2,291)	(14,467)	(16,758)	2,906	(13,852)
Transfers to reserves	–	–	1,711	–	–	(1,711)	–	–	–
Dividends paid by subsidiaries	–	–	–	–	–	–	–	(735)	(735)
Contributions withdrawn	–	–	(3,420)	–	–	–	(3,420)	–	(3,420)
Balance at 31 December 2015	**170,081**	**1,118**	**158,710**	**13,855**	**(7,596)**	**(135,404)**	**200,764**	**50,910**	**251,674**
Balance at 1 January 2016	**170,081**	**1,118**	**158,710**	**13,855**	**(7,596)**	**(135,404)**	**200,764**	**50,910**	**251,674**
Total comprehensive loss for the year	–	–	–	–	6,803	(113,467)	(106,664)	2,369	(104,295)
Transfers to reserves	–	–	5,233	–	–	(5,233)	–	–	–
Dividends paid by subsidiaries	–	–	–	–	–	–	–	(1,421)	(1,421)
Contributions withdrawn	–	–	(376)	–	–	–	(376)	–	(376)
Balance at 31 December 2016	**170,081**	**1,118**	**163,567**	**13,855**	**(793)**	**(254,104)**	**93,724**	**51,858**	**145,582**

The accompanying notes form part of these financial statements.

East Caribbean Financial Holding Company Limited

Consolidated Statement of Income

For the year ended 31 December 2016

(in thousands of Eastern Caribbean dollars)

	2016 $'000	2015 $'000
Continuing operations		
Interest income (Note 33)	**126,869**	144,440
Interest expense (Note 33)	**(53,133)**	(64,105)
Net interest income	**73,736**	80,335
Other operating income (Notes 34,35,36,37)	**62,285**	50,187
Impairment losses - loans (Note 12)	**(135,700)**	(41,392)
Impairment losses - investments	**–**	(2,296)
Operating expenses (Note 38)	**(99,045)**	(98,720)
Operating loss	**(98,724)**	(11,886)
Share of profit in associates (Note 16)	**3,915**	2,231
Loss for the year before income tax and dividends	**(94,809)**	(9,655)
Dividends on preference shares	**(291)**	(291)
Loss for the year before income tax	**(95,100)**	(9,946)
Income tax expense (Note 41)	**(8,425)**	(4,045)
Net loss for the year from continuing operations	**(103,525)**	(13,991)
Discontinued operations		
Profit for the year from discontinued operations (Note 40)	**7,184**	5,334
Provision for loss on disposal of subsidiary (Note 40)	**(15,453)**	–
Net loss for the year	**(111,794)**	(8,657)
Attributable to:		
-Equity holders of the Company	**(114,213)**	(11,528)
-Non-controlling interests (Note 30)	**2,419**	2,871
Loss for the year	**(111,794)**	(8,657)
Loss per share from continuing operations for earnings attributable to the equity holders of the Company during the year (Note 42)		
- basic	**(4.33)**	(0.69)
- diluted	**(4.19)**	(0.67)

East Caribbean Financial Holding Company Limited

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

(in thousands of Eastern Caribbean dollars)

	2016 $'000	2015 $'000
Net loss for the year	**(111,794)**	(8,657)
Other comprehensive income/(loss)		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Unrealised gain/(loss) on available-for-sale investments	**6,931**	(4,519)
Realised (gain)/loss transferred from statement of income	**(178)**	2,263
	6,753	(2,256)
Share of fair value gains on available for sale assets of associated companies	**152**	–
Other comprehensive gain/(loss) not to be reclassified to profit or loss in subsequent period:		
Re-measurement gains/(losses) on defined benefit pension scheme	**849**	(4,199)
Income tax effect	**(255)**	1,260
	594	(2,939)
Net other comprehensive income/(loss)	**7,499**	(5,195)
Total comprehensive loss for the year	**(104,295)**	(13,852)
Total comprehensive loss attributable to:		
Equity holders of the Company	**(106,664)**	(16,758)
Non-controlling interests (Note 30)	**2,369**	2,906
	(104,295)	(13,852)

The accompanying notes form part of these financial statements.

East Caribbean Financial Holding Company Limited
Consolidated Statement of Cashflows
For the year ended 31 December 2016

(in thousands of Eastern Caribbean dollars)

	2016 $'000	2015 $'000
Cash flows from operating activities		
Loss before tax including discontinuing operations	**(103,078)**	(4,321)
Adjustments to reconcile loss before tax to net cash flows:		
Interest income on investments	**(29,490)**	(24,440)
Depreciation	**7,774**	7,870
Impairment losses on loans, advances and investment securities	**135,400**	45,009
Amortisation of intangible assets	**2,018**	1,277
Unrealised gain/(loss) on investments held for trading	**(17)**	74
Retirement benefit expense	**530**	790
(Loss)/gain on disposal of property and equipment	**6**	(34)
Loss on disposal of investment properties	**–**	–
Fair value loss on investment property	**1,315**	1,766
Share of profit of associate	**(3,915)**	(2,231)
Net (gains)/losses on disposal of investments	**(1,118)**	614
Unamortised premium on investments	**(368)**	(572)
Retirement benefit contributions paid	**(2,411)**	(3,264)
Cash flows before changes in operating assets and liabilities	**6,646**	22,538
Increase in mandatory deposits with Central Bank	**(5,155)**	(8,485)
Decrease in loans and advances to customers	**43,349**	61,739
Increase in other assets	**(21,467)**	(14,607)
Increase in due to customers	**(69,365)**	109,161
Decrease in repurchase agreements	**(6,097)**	(3,876)
Increase/(decrease) in deposits from banks	**8,322**	(8,115)
Increase in other liabilities	**40,653**	7,849
(Increase)/decrease in financial instruments - pledged assets	**(3,818)**	6,606
Increase in trading assets	**(3,608)**	(6,489)
Decrease/(increase) in treasury bills	**2,121**	(4,113)
Cash generated (used in) from operations	**(8,419)**	162,208
Income tax paid	**(2,063)**	(2,811)
Interest received	**29,708**	26,507
Net cash from operating activities	**19,226**	185,904

East Caribbean Financial Holding Company Limited
Consolidated Statement of Cashflows (continued)
For the year ended 31 December 2016

(in thousands of Eastern Caribbean dollars)

	2016 $'000	2015 $'000
Cash flows from investing activities		
Purchase of investment securities	**(383,411)**	(302,123)
Proceeds from disposal and redemption of investment securities	**248,423**	177,279
Purchase of property and equipment	**(3,386)**	(5,765)
Purchase of intangible assets	**(398)**	(3,239)
Proceeds from disposal of property and equipment	**126**	59
Proceeds from disposal of investment property	–	397
Proceeds from sale of controlling interest in subsidiary	–	–
Net cash used in investing activities	**(138,646)**	(133,392)
Cash flows from financing activities		
Dividends paid to minority shareholders	**(1,421)**	(735)
Dividends paid to preference shareholders	–	(582)
Contributions withdrawn	–	–
Reserve reduction	**(376)**	(3,420)
Proceeds from capital contributions	–	–
Proceeds from borrowings	**55,357**	5,606
Repayments of borrowings	**(32,293)**	(41,843)
Net cash from (used in) financing activities	**21,267**	(40,974)
(Decrease) increase in cash and cash equivalents	**(98,153)**	11,538
Net foreign exchange movement in investments	**4,454**	6,503
Cash and cash equivalents at beginning of year	**934,173**	916,132
Cash and cash equivalents at end of year (Note 43)	**840,474**	934,173

The accompanying notes form part of these financial statements.

(in thousands of Eastern Caribbean dollars)

1 General information

In October 2016 the East Caribbean Financial Holding Company limited (ECFH) was amalgamated with Bank of Saint Lucia Limited and ECFH Global Investment Solutions in accordance with the provisions of the Companies Act CAP 13.01, Revised Laws of Saint Lucia and continued as Bank of Saint Lucia Limited. Another company with the same name East Caribbean Financial Holding Company Limited was then reincorporated under the same act to hold the shares of Bank of Saint Lucia Limited, Bank of Saint Lucia International Limited and Bank of St. Vincent & the Grenadines.

Bank of Saint Lucia Limited, Bank of Saint Vincent and the Grenadines Limited and ECFH are in compliance with the Companies Acts and Banking Acts. Other entities within the Group are subject to the provisions of the Insurance Act, 1995 and International Business Companies Act, 1999.
The principal activity of the company and its subsidiaries (the “Group”) is the provision of financial services. The registered office and principal place of business of the Company is located at No.1 Bridge Street, Castries, Saint Lucia.

The principal shareholding of the Group is stated in Note 45.

The Company is listed on the Eastern Caribbean Securities Exchange.

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
East Caribbean Financial Holding Company Limited’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as at 31 December 2016 (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 trading financial assets and land and buildings classified as property and equipment and investment properties.

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.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Basis of preparation*…continued*

(a) Changes in accounting policies and disclosures:

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2015. There were no new interpretations or standards which were applicable to the Group in the current year.

(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 Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 *Financial Instruments*

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 2015 the Group set up a multidisciplinary implementation team ('the Team') with members from its various subsidiaries, Risk, Finance, Information Technology and Operations to prepare for IFRS 9 implementation ('the Project'). The Project is sponsored by the Chief Financial Officer, who regularly report to the Group's Supervisory Board. Training session on IFRS 9 and its implications have been held with team members and work has commenced on strategies to gather the relevant information. The Project timeless will become clearer by the end of the first quarter in 2017 where the analysis phase will be completed. Thereafter the design, build, testing and parallel run will be completed before the end of 2017 and go live in 2018.

Classification and measurement

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.

The Group does not expect a significant impact on the balance sheet and equity except for the effect of applying the impairment requirement of IFRS 9. The Group does not anticipate early adopting IFRS 9 and is currently assessing the impact.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Basis of preparation…*continued*

IFRS 15 *Revenue from Contracts with Customers*
In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Group does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases
The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

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

Amendments to IAS 12 Income Taxes
In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Group is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows
In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group is currently evaluating the impact.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies …*continued*

(c) 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 2016.

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies *…continued*

(c) Consolidation*…continued*

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 into 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
- 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.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

(c) Consolidation*…continued*

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.

(b) Transactions with non-controlling interests and associates

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 remeasured 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.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

(c) Consolidation*…continued*

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in associates is accounted for by the equity method of accounting and initially recognised at cost.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss as 'Share of profit of an associate' in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss. The Group's share of its associate's post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in reserves recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(d) 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:

Disclosures for valuation methods, significant estimates and assumptions	Notes 2,3,14 and 18
Quantitative disclosures of fair value measurement hierarchy	Note 3
Investment properties	Note 18
Financial instruments (including those carried at amortised cost)	Note 14,9
Land and buildings	Note 17

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.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

(d) 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 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.

(e) 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 a non-bank financial institutions and other short-term securities.

(f) 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.

<u>(a) Financial assets at fair value through profit or loss</u>

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 as fair value through profit or loss 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.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the consolidated statement of income. Gains and losses arising from changes in fair value are included directly in the consolidated statement of income and are reported as 'Fair value gains'. 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.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

(f) Financial asset *…continued*

(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, or 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 consolidated statement of financial position as loans and advances to customers or as investment securities. Interest on loans and receivables is included in the consolidated statement of income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and receivables and recognised in the consolidated 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: (a) those that the Group upon initial recognition designates as at fair value through profit or loss; (b) those that the Group designates as available-for-sale; and (c) 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.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

(f) Financial assets*…continued*

(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.

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 consolidated statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. Management makes judgements 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 consolidated statement of comprehensive income is recognised in the consolidated 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 consolidated statement of income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of income when the Group's right to receive payment is established. Where fair value cannot be determined cost was used to value investments.

(g) 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 derecognition are presented in the consolidated statement of financial position as 'Assets pledged as collateral.'

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(h) 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:

(i) significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the 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;
(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including;

- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 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, loan to collateral ratios, concentrations of risks and economic data country risk and the performance of different groups.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(h) Impairment of financial assets …*continued*

Assets carried at amortised cost

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 consolidated 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.

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 decrease the amount of the loan provision in the consolidated 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 judgments 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 amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

(h) Impairment of financial assets *…continued*

Assets classified as available-for-sale…continued

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

<u>Renegotiated loans</u>

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 statement of income.

(i) 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.

(j) Sale and repurchase agreements

Securities sold subject to linked repurchase agreements (repos) are retained in the financial statements as investments securities and the counterparty liability is included in other borrowed funds. The difference between sale and repurchase price is treated as interest and accrued over the life of the repurchase agreement using the effective interest method.

(k) Property and equipment

Land and buildings comprises mainly branches and offices occupied by the parent or its subsidiaries. Land and buildings are shown at fair value less subsequent depreciation for buildings. Valuations are reviewed annually by quantity surveyors.

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 period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged against other comprehensive income, all other decreases are charged to the consolidated statement of income.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(k) Property and equipment…*continued*

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:

Buildings	2%
Leasehold improvements	2 – 33 1/3%
Motor vehicles	20 – 25%
Office furniture & equipment	10 – 20%
Computer equipment	33 1/3%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. 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.

(l) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the consolidated group, are classified as investment properties. Investment property comprises freehold land and building which are leased out under operating leases. Some properties may be partially occupied by the Group, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Group can be sold separately, the Group accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and 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 was incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the consolidated statement of financial position. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated statement of income in the year in which they arise.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(l) Investment properties …*continued*

Subsequent expenditure is included in the asset's 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 period 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 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.

(m) Intangible assets

Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licences and other intangible assets. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 20 years.

Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Group have a definite useful life. At each reporting date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable.

An impairment loss is recognized if the carrying amount exceeds the recoverable amount. The Group chooses to use the cost model for the measurement after recognition.

(a) Computer software licences

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 4 years.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

(m) Intangible assets*…continued*

(b) Other intangible assets

Other intangible assets consist of customer relationships (core deposit intangibles). Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. The value of intangible assets which are acquired in a business combination is generally determined using income approach methodologies such as the discounted cash flow method. Other intangible assets are stated at cost less amortisation and provisions for impairment, if any, plus reversals of impairment, if any. They are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally over 12 years.

(n) 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 may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(o) Income tax

(a) Current tax

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

Where tax losses can be relieved only by carry-forward against taxable profits of future periods, 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.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(o) 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 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, amortisation of intangible assets and their tax base, unutilised tax losses and pension gains. 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.

(p) Financial liabilities

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

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

(q) 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 period of the borrowings using the effective interest method.

(r) 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.

(s) Redeemable preference shares

Preference shares which are mandatorily redeemable on a specific date are classified as liabilities. The dividend on these preference shares are recognised in the statement of income.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(t) Employee benefits

Pension obligations

The Group operates a defined benefit plan. The scheme is funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The plan is registered in St. Lucia and is regulated by the Insurance Act, 1994 which was enacted in 1995. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The pension obligation valuations are undertaken annually.

The Group's policy is to fully fund the pension and to meet any funding shortfalls over a period of ten years following regular periodical actuarial reviews.

The asset recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets, are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to the consolidated statement of income in subsequent periods.

Past service costs are recognised in the consolidated statement of income on the earlier of:
- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'operating expenses' in the consolidated statement of income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

The pension plan is exposed to inflation risk, interest rate risk and changes in the life expectancy for pensioners.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

(t) Employee benefits*….continued*

Termination benefits

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

(u) Guarantees and letters of credit

Guarantees and letters of credit comprise undertakings by the Group's banking entities to pay bills of exchange drawn on customers. The Bank 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 statement of income within other operating expenses.

(v) Fiduciary activities

The Group commonly acts a trustees and in other fiduciary capacities that result in the holding and placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group.

(w) 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 in which they are declared.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

(x) 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 assets or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. 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.

(y) Fee and commission income

Fees and commissions are generally recognised on an accrual 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. Commission 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.

(z) Dividend income

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

(zi) Foreign currency translation

<u>Functional and presentation currency</u>

Items included 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 thousands of Eastern Caribbean dollars, which is the Company's functional and the Group's presentation currency.

<u>Transactions and balances</u>

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.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(zi) Foreign currency translation…*continued*

Monetary items denominated in foreign currency are translated with 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 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 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 or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income. 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.

<u>Group companies</u>

The functional currency of the wholly owned offshore banking subsidiary is United States dollars. For consolidation purposes the results and financial position are translated to the presentation currency of the Group using the pegged rate of EC$2.70 = US$1.00.

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;

- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- All resulting exchange differences are recognised in other comprehensive income.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(zii) Leases

A Group company is the lessee

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

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

A Group company is the lessor

Assets leased out under operating leases are included in investment properties in the statement of financial position. They are depreciated over the expected useful life. Rental income is recognised in the consolidated statement of income on a straight-line basis over the period of the lease.

(ziii) 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, deposits from banks, due to customers and borrowings. The particular recognition methods adopted are disclosed in the individual policy statement associated with each item.

(ziv) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Company’s Board of Directors as its chief operating decision maker.

All transactions between business segments are conducted on an arm’s length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with IFRS 8, the Group has the following reportable segments: Bank of St. Lucia Limited, Bank of St. Vincent and the Grenadines Limited, Bank of St. Lucia International Limited, and other.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Non-current assets held for sale and disposal groups

Non-current assets and disposal group's classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and: (i) Represents a separate major line of business or geographical area of operations (ii) Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations Or (iii) Is a subsidiary acquired exclusively with a view to resale.

In the consolidated statement of comprehensive income for the reporting period, and the comparable period in the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Bank retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.
Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised. See Note 40 (Disposal Group Classified as held for sale) for further discussion.

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(in thousands of Eastern Caribbean dollars)

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. 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, 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 and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets.

<u>Loans and advances</u>
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 provided for losses that have been incurred at the reporting date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the 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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

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 the 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 requirements 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.

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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Credit risk*…continued*

Collateral…continued
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 entities are secured; individual credit facilities are generally secured. In addition, in order to minimize the credit loss, the Group will seek additional credit 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.

Commitments to extend credit represent unused portions of authorizations 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.

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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Credit risk*…continued*

Impairment and provisioning policies*…continued*
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 (eg 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 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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Maximum exposure to credit risk

	Maximum exposure	
	2016	**2015**
	$'000	**$'000**
Credit risk exposures relating to the financial assets in the statement of financial position :		
Balances with central bank	**319,475**	307,472
Treasury bills	**33,828**	25,965
Deposits with other banks	**227,992**	702,728
Deposits with non-bank financial institutions	**8,730**	7,896
Loans and advances to customers:		
Large corporate loans	**415,434**	542,742
Term loans	**292,765**	336,220
Mortgages	**650,399**	651,264
Overdrafts	**116,015**	137,353
Bonds	**10,033**	10,033
Financial assets held for trading	**18,600**	15,030
Investment securities	**485,265**	733,448
Financial instruments - pledged assets	**21,367**	17,459
Other assets	**59,630**	41,297
	2,659,533	3,528,907
Credit risk exposures relating to the financial assets off the statement of financial position:		
Loan commitments	**84,356**	129,901
Guarantees, letters of credit and other credit obligations	**27,182**	25,808
	111,538	155,709
	2,771,071	3,684,616

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2016 and 2015 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as at the reporting date.

As shown above 53% (2015 – 47%) of the total maximum exposure is derived from loans and advances to customers and 18% (2015 – 21%) represents investments in debt securities.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management *…continued*

Credit risk*…continued*

Loans and advances are summarised as follows:

	2016 $'000	2015 $'000
Loans and advances to customers		
Neither past due nor impaired	**990,385**	1,041,185
Past due but not impaired	**187,695**	202,931
Impaired	**409,205**	556,252
Gross	**1,587,285**	1,800,368
Less allowance for impairment losses on loans and advances	**(112,672)**	(132,789)
Net	**1,474,613**	1,667,579

The total allowance for impairment losses on loans and advances is $112,672 (2015 – $132,789) of which $74,443 (2015 – $103,516) represents the individually impaired loans and the remaining amount of $38,229 (2015 – $29,273) represents the collective provision. Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 11 and 12.

Loans and advances neither past due nor impaired

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

Loans and advances to customers

	Overdrafts $'000	Term Loans $'000	Mortgages $'000	Large Corporate loans $'000	Total $'000
31 December 2016	**104,633**	**186,403**	**502,019**	**197,330**	**990,385**
31 December 2015	111,941	206,419	499,902	222,923	1,041,185

(in thousands of Eastern Caribbean dollars)

3 Financial risk management *…continued*

Credit risk*…continued*

Loans and advances*…continued*

Loans and advances 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 $'000	Mortgages $'000	Large Corporate loans $'000	Overdrafts $'000	Total $'000
At 31 December 2016					
Past due up to 30 days	**30,570**	**74,388**	**38,231**	**153**	**143,342**
Past due 30 – 60 days	**7,442**	**12,541**	**6,732**	**3**	**26,718**
Past due 60 – 90 days	**4,944**	**7,858**	**4,833**	**–**	**17,635**
	42,956	**94,787**	**49,796**	**156**	**187,695**

	Term loans $'000	Mortgages $'000	Large Corporate Loans $'000	Overdrafts $'000	Total $'000
At 31 December 2015					
Past due up to 30 days	52,171	61,633	26,835	572	141,211
Past due 30 – 60 days	6,857	15,304	15,137	119	37,417
Past due 60 – 90 days	5,111	9,193	9,960	39	24,303
	64,139	86,130	51,932	730	202,931

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Credit risk*…continued*

Loans and advances*…continued*
The breakdown of the gross amount of individually impaired loans and advances by class are as follows:

	Overdrafts $'000	Term Loans $'000	Mortgages $'000	Large Corporate Loans $'000	Total $'000
31 December 2016	**13,940**	**83,131**	**71,511**	**240,623**	**409,205**
31 December 2015	41,772	97,382	82,139	334,959	556,252

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Credit risk*…continued*

Debt securities, treasury bills and other eligible bills
The table below presents an analysis of debt securities and treasury bills by rating agency designation at 31 December 2016 and 2015, based on Standard & Poor's and Moody's ratings:

	Financial assets held for trading $'000	Investment Securities $'000	Pledged Assets $'000	Loans and Receivables -bonds $'000	Treasury Bills $'000	Total $'000
At 31 December 2016						
A- to A+	–	**100,981**	–	**10,033**	**23,006**	**134,020**
Lower than A-	**586**	**247,721**	–	–	**10,822**	**259,129**
Unrated	**18,014**	**136,563**	**21,367**	–	–	–
	18,600	**485,265**	**21,367**	**10,033**	**33,828**	**569,093**
At 31 December 2015						
AA- to AA+	–	52,638	–	–	–	52,638
A- to A+	–	209,723	–	–	–	209,723
Lower than A-	36	363,498	–	10,033	25,965	399,532
Unrated	14,994	107,589	17,459	–	–	140,042
	15,030	733,448	17,459	10,033	25,965	801,935

The Group's balances held with other banks, non-bank financial institutions are held with reputable financial institutions, and as such, credit risk is deemed minimal.

Concentrations of risks of financial assets with credit exposure

(a) Geographical sectors
The Group operates primarily in Saint Lucia and St. Vincent. Based on the country of domicile of its counterparties, exposure to credit risk is concentrated in these locations, except for investments which have other exposures, primarily in the United States of America.

(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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Credit risk*…continued*

Concentration of risks of financial assets with credit exposure

	Financial institutions $'000	Manufacturing $'000	Tourism $'000	Government $'000	Professional and other services $'000	Personal $'000	*Other industries $'000	Total $'000
At 31 December 2016								
Balances with central bank	**319,475**	**–**	**–**	**–**	**–**	**–**	**–**	**319,475**
Treasury bills	**–**	**–**	**–**	**33,828**	**–**	**–**	**–**	**33,828**
Deposits with other banks	**227,992**	**–**	**–**	**–**	**–**	**–**	**–**	**227,992**
Deposits with non-bank financial institutions	**8,730**	**–**	**–**	**–**	**–**	**–**	**–**	**8,730**
Loans and receivables to customers								
Overdrafts	**6,715**	**3,684**	**6,147**	**55,630**	**6,649**	**6,545**	**30,645**	**116,015**
Term loans	**333**	**2,359**	**9,866**	**3**	**23,210**	**237,681**	**19,313**	**292,765**
Large corporate loans	**45,106**	**8,072**	**74,929**	**40,577**	**73,886**	**22,984**	**149,880**	**415,434**
Mortgages		**55**	**–**		**2,469**	**640,624**	**7,251**	**650,399**
Loans and receivables:-Bonds	**–**	**–**	**–**	**10,033**	**–**	**–**	**–**	**10,033**
Financial assets held for trading	**–**	**–**	**–**	**18,014**	**–**	**–**	**586**	**18,600**
Investment securities	**182,111**	**417**	**–**	**115,426**	**–**	**–**	**187,311**	**485,265**
Financial instruments - pledged assets	**–**	**–**	**–**	**21,367**	**–**	**–**	**–**	**21,367**
Other assets	**–**	**–**	**-**	**–**	**–**	**–**	**59,630**	**59,630**
	790,462	**14,587**	**90,942**	**294,878**	**106,214**	**907,834**	**454,616**	**2,659,533**
Loan commitments, letters of credit guarantees and other credit obligations	**1,050**	**5,273**	**3,818**	**32,531**	**771**	**31,101**	**36,994**	**111,538**

*Other industries include construction and land development.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Credit risk*…continued*

Concentration of risks of financial assets with credit exposure*…continued*

	Financial institutions $'000	Manufacturing $'000	Tourism $'000	Government $'000	Professional and other services $'000	Personal $'000	*Other industries $'000	Total $'000
At 31 December 2015								
Balances with central bank	**307,472**	**–**	**–**	**–**	**–**	**–**	**–**	**307,472**
Treasury bills	**403**	**–**	**–**	**25,562**	**–**	**–**	**–**	**25,965**
Deposits with other banks	**702,728**	**–**	**–**	**–**	**–**	**–**	**–**	**702,728**
Deposits with non-bank financial institutions	**7,896**	**–**	**–**	**–**	**–**	**–**	**–**	**7,896**
Loans and receivables to customers								
Overdrafts	**32**	**4,684**	**6,803**	**60,271**	**10,373**	**6,978**	**48,212**	**137,353**
Term loans	**17,351**	**2,829**	**10,919**	**42**	**23,593**	**258,157**	**23,329**	**336,220**
Large corporate loans	**379**	**14,742**	**94,016**	**34,052**	**106,462**	**20,527**	**272,564**	**542,742**
Mortgages	**–**	**83**	**420**	**–**	**2,547**	**646,949**	**1,265**	**651,264**
Loans and receivables:-Bonds	**–**	**–**	**–**	**10,033**	**–**	**–**	**–**	**10,033**
Financial assets held for trading	**87**	**–**	**–**	**14,370**	**–**	**–**	**573**	**15,030**
Investment securities	**357,505**	**550**	**–**	**65,359**	**–**	**–**	**310,034**	**733,448**
Financial instruments - pledged assets	**–**	**–**	**–**	**17,459**	**–**	**–**	**–**	**17,459**
Other assets	**2,643**	**–**	**–**	**–**	**–**	**–**	**38,654**	**41,297**
	1,396,496	**22,888**	**112,158**	**227,148**	**142,975**	**932,611**	**694,631**	**3,528,907**
Loan commitments, letters of credit, guarantees and other credit obligations	**375**	**4,829**	**4,449**	**31,531**	**1,025**	**29,246**	**84,254**	**155,709**

*Other industries include construction and land development

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

Non-trading portfolios primarily arise 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 (Note 14).

Currency risk

The Group takes on exposure to the 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. The following table summarises the Group's exposure to foreign currency exchange rate risk at 31 December.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*
Currency risk…*continued*

	AUD $'000	ECD $'000	USD $'000	BDS$ $'000	Euro $'000	GBP $'000	CAD $'000	Other $'000	Total $'000
At 31 December 2016									
Cash and balances with Central Bank	–	357,956	6,456	472	919	375	696	–	366,874
Treasury bills	–	33,828	–	–	–	–	–	–	33,828
Deposits with other banks	–	98,623	121,345	2,292	4,081	881	354	416	227,992
Financial assets held for trading	–	18,014	586	–	–	–	–	–	18,600
Deposits with non-bank financial institution	–	–	8,730	–	–	–	–	–	8,730
Loans and receivables:									
Loans and advances to customers	–	1,435,382	39,231	–	–	–	–	–	1,474,613
Bonds	–	10,033	–	–	–	–	–	–	10,033
Investment securities:									
Held to maturity	–	40,684	90,775	–	–	–	–	–	131,459
Available-for-sale	–	71,196	299,691	709	–	–	–	–	371,596
Financial instruments - pledged assets	–	21,367	–	–	–	–	–	–	21,367
Other assets	–	59,630	–	–	–	–	–	–	59,630
Total financial assets	–	2,146,713	566,814	3,473	5,000	1256	1050	416	2,724,722

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Currency risk*…continued*

	AUD $'000	ECD $'000	USD $'000	BDS$ $'000	Euro $'000	GBP $'000	CAD $'000	Other $'000	Total $'000
At 31 December 2016									
Liabilities									
Deposits from banks	–	82,361	3,229	–	–	–	311	–	85,901
Due to customers	–	2,255,138	181,774	–	4,683	288	3	–	2,441,886
Repurchase agreements	–	10,660	3,179	–	–	–	–	–	13,839
Borrowings	–	76,210	63,500	–	–	–	–	–	139,710
Preference shares	–	4,150	–	–	–	–	–	–	4,150
Other liabilities	–	93,112	–	–	–	–	–	–	93,112
Total financial liabilities	–	2,521,631	251,682	–	4,683	288	314	–	2,778,598
Net assets/(liabilities)	–	(374,918)	315,132	3,473	317	968	736	416	(53,876)
Loan commitments, letters of credit, guarantees and other credit obligations	–	111,538	–	–	–	–	–	–	111,538

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Currency risk…*continued*

	AUD $'000	ECD $'000	USD $'000	BDS$ $'000	Euro $'000	GBP $'000	CAD $'000	Other $'000	Total $'000
At 31 December 2015									
Cash and balances with Central Bank	–	337,826	4,545	308	867	338	328	–	344,212
Treasury bills	–	25,965	–	–	–	–	–	–	25,965
Deposits with other banks	23,983	49,803	423,321	1,673	110,774	62,378	10,623	20,173	702,728
Financial assets held for trading	–	13,988	1,006	–	36	–	–	–	15,030
Deposits with non-bank financial institution	–	–	7,870	–	–	26	–	–	7,896
Loans and receivables:									
Loans and advances to customers	–	1,606,815	60,691	–	–	73	–	–	1,667,579
Bonds	–	10,033	–	–	–	–	–	–	10,033
Investment securities:									
Held to maturity	–	32,135	63,143	–	3,129	–	–	400	98,807
Available-for-sale	3,402	31,353	551,663	641	45,167	17,902	–	–	650,128
Financial instruments - pledged assets	–	16,847	612	–	–	–	–	–	17,459
Other assets	–	38,998	1,881	–	397	21	–	–	41,297
Total financial assets	27,385	2,163,763	1,114,732	2,622	160,370	80,738	10,951	20,573	3,581,134

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Currency risk…*continued*

	AUD $'000	ECD $'000	USD $'000	BDS$ $'000	Euro $'000	GBP $'000	CAD $'000	Other $'000	Total $'000
At 31 December 2015									
Liabilities									
Deposits from banks	–	79,972	3,786	–	2	5	–	–	83,765
Due to customers	27,321	2,156,082	779,400	–	159,646	79,226	10,538	16,436	3,228,649
Repurchase agreements	–	16,811	3,125	–	–	–	–	–	19,936
Borrowings	–	36,745	79,901	–	–	–	–	–	116,646
Preference shares	–	4,150	–	–	–	–	–	–	4,150
Other liabilities	14	67,218	251	–	132	3	(1)	777	68,394
Total financial liabilities	27,335	2,360,978	866,463	–	159,780	79,234	10,537	17,213	3,521,540
Net assets/(liabilities)	50	(197,215)	248,269	2,622	590	1,504	414	3,360	59,594
Loan commitments, letters of credit, guarantees and other credit obligations	–	155,709	–	–	–	–	–	–	155,709

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Interest rate risk

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk…*continued*

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

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2016							
Financial assets							
Cash and balances with Central Bank	–	–	–	–	–	366,874	366,874
Treasury bills	11,009	10,136	12,683	–	–	–	33,828
Deposits with other banks	4,247	5,380	–	–	–	218,365	227,992
Financial assets held for trading	–	–	–	10,951	7,649	–	18,600
Deposits with non-bank financial institutions	8,730	–	–	–	–	–	8,730
Loans and receivables:							
– loans and advances to customers	136,827	15,918	47,049	242,246	1,032,573	–	1,474,613
– bonds	–	–	–	10,033	–	–	10,033
Investment securities:							
– held-to-maturity	6,685	3,167	22,824	51,835	46,948	–	131,459
– available-for-sale	6,027	16,296	68,805	168,141	94,537	–	353,806
Financial instruments - pledged assets	–	–	–	6,981	14,386	–	21,367
Other assets	–	–	–	–	–	59,630	59,630
Total financial assets	173,525	50,897	151,361	490,187	1,196,093	644,869	2,706,932

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Interest rate risk*…continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2016							
Financial liabilities							
Deposits from banks	**1,370**	**19,793**	**62,595**	**–**	**–**	**2,143**	**85,901**
Due to customers	**1,339,930**	**122,102**	**457,099**	**36,929**	**25,590**	**460,236**	**2,441,886**
Repurchase agreements	**–**	**–**	**13,839**	**–**	**–**	**–**	**13,839**
Borrowings	**5,394**	**1,601**	**19,804**	**53,391**	**59,520**	**–**	**139,710**
Preference shares	**–**	**–**	**–**	**–**	**4,150**	**–**	**4,150**
Other liabilities	**–**	**–**	**–**	**–**	**–**	**93,112**	**93,112**
Total financial liabilities	**1,346,694**	**143,496**	**553,337**	**90,320**	**89,260**	**555,491**	**2,778,598**
Total interest repricing gap	**(1,173,169)**	**(92,599)**	**(401,976)**	**399,867**	**1,106,833**	**89,378**	**(71,666)**

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk…*continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2015							
Financial assets							
Cash and balances with Central Bank	45	–	–	–	–	344,167	344,212
Treasury bills	11,168	10,168	4,629	–	–	–	25,965
Deposits with other banks	500,959	16,583	11,096	–	–	174,090	702,728
Financial assets held for trading	102	–	–	2,656	12,225	47	15,030
Deposits with non-bank financial institutions	7,896	–	–	–	–	–	7,896
Loans and receivables:							
– loans and advances to customers	143,993	13,916	78,320	282,380	1,148,970	–	1,667,579
– bonds	–	–	–	10,033	–	–	10,033
Investment securities:							
– held-to-maturity	3,023	344	20,305	48,132	27,003	–	98,807
– available-for-sale	49,376	8,749	55,443	355,424	146,098	19,551	634,641
Financial instruments - pledged assets	–	–	–	–	17,459	-	17,459
Other assets	–	–	–	–	–	41,297	41,297
Total financial assets	716,562	49,760	169,793	698,625	1,351,755	579,152	3,565,647

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk…*continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2015							
Financial liabilities							
Deposits from banks	3,953	11,133	61,041	–	–	7,638	83,765
Due to customers	1,284,272	134,542	597,673	38,255	22,972	1,150,935	3,228,649
Repurchase agreements	–	–	19,936	–	–	–	19,936
Borrowings	8,495	461	26,714	23,453	57,523	–	116,646
Preference shares	–	–	–	–	4,150	–	4,150
Other liabilities	3	6	120	–	–	68,265	68,394
Total financial liabilities	1,296,723	146,142	705,484	61,708	84,645	1,226,838	3,521,540
Total interest repricing gap	(580,161)	(96,382)	(535,691)	636,917	1,267,110	(647,686)	44,107

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk…*continued*
Cash flow interest rate risk arises from loans and advances to customers at variable rates. At 31 December 2016 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 3,776 (2015 – $8,094) higher/lower, mainly as a result of 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 outflows.

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 of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board 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 borrowing 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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Liquidity risk…*continued*

Non-derivative cashflows

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the liquidity risk based on expected discounted cash inflows.

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Financial liabilities At 31 December 2016						
Deposits from banks	**3,571**	**19,969**	**63,340**	–	–	**86,880**
Due to customers	**1,808,318**	**122,637**	**462,369**	**37,516**	**25,590**	**2,456,430**
Repurchase agreements	–	–	**13,988**	–	–	**13,988**
Borrowings	**4,839**	**3,949**	**22,811**	**96,024**	**80,807**	**208,430**
Preference shares	–	–	–	–	**4,150**	**4,150**
Other liabilities	**54,876**	**22,630**	**15,434**	**172**	**-**	**93,112**
Total financial liabilities	**1,871,604**	**169,185**	**577,942**	**133,712**	**110,547**	**2,862,990**

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Financial liabilities At 31 December 2015						
Deposits from banks	3,215	20,138	62,093	–	–	85,446
Due to customers	2,459,973	135,347	605,235	39,363	22,972	3,262,890
Repurchase agreements	–	–	20,195	–	–	20,195
Borrowings	14,778	1,849	26,210	30,443	64,826	138,106
Preference shares	–	–	–	–	4,150	4,150
Other liabilities	53,082	6,655	8,657	–	–	68,394
Total financial liabilities	2,531,048	163,989	722,390	69,806	91,948	3,579,181

(in thousands of 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, certificates 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 44), are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 44) are also included below based on the earliest contractual maturity date.

	<1 Year $'000	Total $'000
As at 31 December 2016		
Loan commitments	**84,356**	**84,356**
Financial guarantees, letters of credit and other credit obligations	**27,182**	**27,182**
Total	**111,538**	**111,538**
At 31 December 2015		
Loan commitments	129,901	129,901
Financial guarantees, letters of credit and other credit obligations	25,808	25,808
Total	155,709	155,709

(in thousands of 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 were used to estimate the fair value of financial instruments.

The fair values of cash resources, other assets and liabilities, cheques and other items in transit and due to other banks are assumed to approximate their carrying values due to their short term nature. The fair value of off-statement of financial position commitments are also assumed to approximate the amounts disclosed in Note 44 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 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.

Pledged assets
The estimated fair value of pledged assets are derived from market prices or broker/dealer 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 values of loans and advances represent the discounted amount of estimated future cashflows expected to be received. Expected cashflows are discounted at current market rates to determine fair value.

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

	Carrying value		**Fair value**	
	2016	**2015**	**2016**	**2015**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
Loans and receivables				
− Large Corporate loans	**415,434**	542,742	**431,812**	667,294
− Term loans	**292,765**	336,220	**308,194**	339,247
− Mortgages	**650,399**	651,264	**581,041**	566,925
− Overdrafts	**116,015**	137,353	**114,764**	153,803
− Bonds	**10,033**	10,033	**9,795**	9,646
Held to maturity	**131,459**	98,807	**119,603**	100,930
Financial liabilities				
Borrowings	**139,710**	116,646	**147,660**	104,088

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Fair values of financial assets and liabilities

Management assessed that cash and short-term deposits with other banks and non-bank financial institutions, treasury bills and other assets 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 Discounted Cash Flow 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 receivables 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 exchanges such as Luxembourg, New York and Trinidad and Tobago.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

Fair value hierarchy…*continued*

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2016				
Assets measured at fair value:				
Investment properties	–	**9,328**	–	**9,328**
Land and buildings	–	–	**118,656**	**118,656**
Financial assets held for trading				
- debt securities	–	**18,600**	–	**18,600**
Financial assets available-for-sale				
- debt securities	**2,636**	**341,700**	**9,470**	**353,806**
- equity securities	**5,803**	**7,091**	–	**12,894**
Financial instruments –pledged assets	–	**21,637**	–	**21,637**
Total financial assets	**8,439**	**398,356**	**128,126**	**534,921**
31 December 2015				
Assets measured at fair value:				
Investment properties	–	10,643	–	10,643
Land and buildings	–	–	117,775	117,775
Financial assets held for trading				
- debt securities	–	14,947	36	14,983
- equity securities	47	–	–	47
Financial assets available-for-sale				
- debt securities	–	615,900	18,741	634,641
- equity securities	167	12,466	–	12,633
Financial instruments –pledged assets	–	17,459	–	17,459
Total financial assets	214	671,415	136,552	808,181

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

Fair value hierarchy…*continued*

Assets for which fair values are disclosed

	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2016			
Loans and advances to customers	**–**	**1,435,811**	**1,435,811**
Bonds	**9,795**	**–**	**9,795**
Held to maturity investments	**119,603**	**–**	**119,603**
Total financial assets	**129,398**	**1,435,811**	**1,565,209**
31 December 2015			
Loans and advances to customers	–	1,727,269	1,727,269
Bonds	9,646	–	9,646
Held to maturity investments	100,930	–	100,930
Total financial assets	110,576	1,727,269	1,837,845

Liabilities for which fair values are disclosed

	Level 3 $'000	Total $'000
31 December 2016		
Borrowings	**147,760**	**147,760**
31 December 2015		
Borrowings	104,088	104,088

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

Fair value hierarchy…*continued*

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, 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 maximise the use of observable market data where it is available and rely as little 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.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

The following table presents the changes in level 3 instruments for the year ended 31 December 2016 and 2015.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

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

Fair value hierarchy*…continued*

	Financial assets held for trading		
	Debt securities $'000	**Debt securities $'000**	**Total $'000**
31 December 2016			
At beginning of year	**36**	**18,741**	**18,777**
Transfer to disposal group held for sale	**–**	**(17,646)**	**(17,646)**
Purchases	**–**	**8,462**	**8,462**
Settlement	**(36)**	**(87)**	**(123)**
At end of year	–	**9,470**	**9,470**

There were no gains or losses for the period included in the statement of income or comprehensive income for assets held at 31 December.

	Financial assets held for trading	Available-for-Sale	
	Debt securities $'000	**Debt securities $'000**	**Total $'000**
31 December 2015			
At beginning of year	40	21,114	21,154
Purchases	–	65	65
Settlement	(4)	(2,438)	(2,442)
At end of year	36	18,741	18,777

(in thousands of 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 set by the regulators of the banking markets where the entities within the Group operate;
- 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%.

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 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, unrealised gains arising on the fair valuation of equity instruments held as available-for-sale and fixed asset revaluation reserves (limited to 20% on Tier 1 capital).

Investments in associates 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.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Capital management…*continued*
The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December. During those two years, the banking subsidiaries of the Group complied with all of the externally imposed capital requirements to which they are subject.

	2016 $'000	2015 $'000
Tier 1 capital		
Share capital	**170,081**	170,081
Reserves	**163,567**	158,710
Accumulated deficit	**(254,104)**	(132,459)
Non-controlling interest	**51,858**	50,910
Total qualifying Tier 1 capital	**131,402**	247,242
Tier 2 capital		
Revaluation reserve	**13,855**	13,855
Redeemable preference shares	**4,150**	4,150
Unrealised loss on available-for-sale investments	**(793)**	(10,541)
Subordinated debt	**50,000**	–
Collective impairment allowance	**38,229**	29,273
Total qualifying Tier 2 capital	**105,441**	36,737
Less investments in associates	**(17,704)**	(14,292)
Total regulatory capital	**219,139**	269,687
Risk-weighted assets:		
On-statement of financial position	**2,235,080**	2,322,726
Off-statement of financial position	**61,486**	68,637
Total risk-weighted assets	**2,296,566**	2,391,363
Basel capital adequacy ratio	**9.54%**	11%

Fiduciary activities
The Group provides investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. At the statement of financial position date, the Group had financial assets under administration amounting to $67,160 (2015 – $70,904).

(in thousands of 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
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 comprehensive 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 $4,445 (2015 – $6,257) $4,345 (2015 – $5,308) lower or higher.

Impairment of assets carried at fair value
The Group determines that available-for-sale and held for trading 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 fair 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.

(in thousands of Eastern Caribbean dollars)

4 Critical accounting estimates, and judgements in applying accounting policies*...continued*

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. 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 carrying value not amortised cost. If the entire held-to-maturity investments are tainted, the carrying value would increase by $11,856 (2015 – $1,772) with a corresponding entry in the fair value reserve in equity.

Fair value of financial instruments
For financial instruments, where 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.

Revaluation of land and buildings and investment property
The Group measures its land and buildings and investment property at revalued amounts with changes in fair value being recognized in other comprehensive income and in the statement of comprehensive income respectively. The Group engages independent valuation specialists to determine fair value of its land and buildings. 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.

Retirement benefits
The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The most sensitive assumptions used in determining the net cost (income) for pensions include the discount rate and future salary increases. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of Government that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. A sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is shown below:
2016:

Assumption	Sensitivity Level	Impact on defined benefit obligation	
		Increase	Decrease
Discount rate	1%	$8,841	$6,127
Future salary increases	1%	$4,197	$3,459
Increase in average life expectancy	1 year	$341	–

(in thousands of Eastern Caribbean dollars)

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

2015:

Assumption	Sensitivity Level	Impact on defined benefit obligation Increase	Decrease
Discount rate	1%	$8,822	$6,230
Future salary increases	1%	$4,289	$3,561
Increase in average life expectancy	1 year	$277	–

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. The deferred tax assets recognised at 31 December 2016 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.

5 Segment analysis

In the financial years 2016 and 2015, segment reporting by the Group was prepared in accordance with IFRS 8, 'Operating segments'.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Company's Board of Directors (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assessing their performance.

The Group has five operating segments which meet the definition of reportable segment under IFRS 8.

(in thousands of Eastern Caribbean dollars)

5 Segment analysis...*continued*

- Bank of St. Lucia Limited (BOSL) –operating in St. Lucia and provides domestic banking services.
- Bank of St. Vincent and the Grenadines Limited (BOSVG) –operating in St. Vincent and the Grenadines and provides domestic banking services.
- Bank of St. Lucia International Limited- incorporating International banking including International corporate and International personal banking, and a wide range of other services to International clients. During 2016 management publicly announced its decision to dispose of its offshore operations and as such the subsidiary is carried as an asset held for sale.
- ECFH Global Investment Solutions Limited (GIS)-incorporating Capital market activities and Merchant Banking.
- Other comprises of the holding company of the Group and incorporates shared services such as: finance, treasury, property administration, information technology, human resources and marketing.

The Group's segment operations are all financial with a majority of revenues being derived from interest. The Company's Board of Directors relies primarily on net interest income to assess the performance of the segment, therefore the total interest income and expense for all reportable segments is presented on a net basis.

The revenue from external parties reported to the Company's Board of Directors is measured in a manner consistent with that in the consolidated statement of income.

Revenue from external customers is recorded as such and can be directly traced to each business segment.

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event. As the Company's Board of Directors reviews operating profit, the results of discontinued operations are not included in the measure of operating profit.

The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the Company's Board of Directors.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position. Transactions between business segments are on an arms length basis and are eliminated on consolidation and reflected in the consolidations entries.

There were no revenues derived from transactions with a single external customer that amount to 10% or more of the Group's revenue.

(in thousands of Eastern Caribbean dollars)

5 Segment analysis*…continued*

	BOSL $	BOSVG $	BOSLIL $	GIS $	Other $	Total $
At 31 December 2016						
Net interest income	**41,193**	**32,245**	**9,770**	**–**	**298**	**83,506**
Net fee and commission income	**30,018**	**7,487**	**5,333**	**5,278**	**-**	**48,116**
Other income	**16,089**	**5,812**	**2,438**	**529**	**(69)**	**24,799**
Impairment charge loans	**(128,782)**	**(6,918)**	**–**	**–**	**–**	**(135,700)**
Depreciation and amortization	**(5,154)**	**(2,852)**	**(1,146)**	**(17)**	**–**	**(9,169)**
Operating expenses	**(62,901)**	**(28,139)**	**(9,795)**	**(1,210)**	**(38)**	**(102,083)**
Loss before taxation	**(109,537)**	**7,635**	**6,600**	**4,580**	**191**	**(90,531)**
Dividends on preference shares	**(291)**	**–**	**–**	**–**	**–**	**(291)**
Income tax	**(5,726)**	**(2,699)**	**–**	**–**	**–**	**(8,425)**
Loss for the year	**(115,554)**	**4,936**	**6,600**	**–**	**191**	**(99,247)**
Total assets	**2,014,421**	**971,281**	**773,522**	**7,557**	**264,497**	**4,031,278**
Total liabilities	**1,939,826**	**865,449**	**724,067**	**5,714**	**92,203**	**3,627,259**
At 31 December 2015						
Net interest income	54,897	30,655	8,088	–	(5,500)	88,140
Net fee and commission income	23,656	6,934	6,588	3,564	–	40,742
Other income	5,825	5,794	3,212	243	11,948	27,022
Impairment charge loans, investments	(39,232)	(4,456)	(1,321)	–	–	(45,009)
Depreciation and amortization	(2,253)	(2,941)	(293)	(18)	(1,707)	(7,212)
Operating expenses	(63,744)	(27,921)	(11,242)	(1,218)	(2,666)	(106,791)
Loss before taxation	(20,851)	8,065	5,032	2,571	2,075	(3,108)
Dividends on preference shares	–	–	–	–	(291)	(291)
Income tax	–	(2,206)	–	(764)	(1,075)	(4,045)
Loss for the year	(19,648)	5,859	6,774	1,807	709	(4,499)
Total assets	2,009,148	898,755	907,164	6,485	367,429	4,188,981
Total liabilities	1,885,137	794,856	868,931	667	127,726	3,677,317

(in thousands of Eastern Caribbean dollars)

5 Segment analysis*…continued*

Reconciliation of segment results of operations to consolidated results of operations:

	Total Management Reporting $'000	Consolidation entries $'000	Total $'000
At 31 December 2016			
Net interest income	**83,506**	**–**	**83,506**
Net fee and commission income	**48,116**	**(34)**	**48,082**
Other income	**24,799**	**(2,825)**	**21,974**
Impairment charge loans, investments and property	**(135,700)**	**-**	**(135,700)**
Depreciation and amortisation	**(9,169)**	**(623)**	**(9,792)**
Operating expenses	**(102,083)**	**(12,980)**	**(115,063)**
Loss before tax	**(90,531)**	**(16,462)**	**(106,993)**
Dividends on preference shares	**(291)**	**–**	**(291)**
Share profit of associates	**3,915**	**–**	**3,915**
Income tax expense	**(8,425)**	**–**	**(8,425)**
Net loss for the year	**(95,332)**	**(16,462)**	**(111,794)**
Assets	**4,031,278**	**(382,167)**	**3,649,111**
Liabilities	**3,627,259**	**(123,729)**	**3,503,530**
At 31 December 2015			
Net interest income	88,140	1	88,141
Net fee and commission income	40,742	(209)	40,533
Other income	27,022	(7,568)	19,454
Impairment charge loans, investments and property	(45,009)	–	(45,009)
Depreciation and amortisation	(7,212)	(1,935)	(9,147)
Operating expenses	(106,791)	6,267	(100,524)
Loss before tax	(3,108)	(3,444)	(6,552)
Dividends on preference shares	(291)	–	(291)
Share profit of associates	2,231	–	2,231
Income tax expense	(4,045)	–	(4,045)
Loss for the year	(5,213)	(3,444)	(8,657)
Assets	4,188,981	(415,057)	3,773,924
Liabilities	3,671,310	(149,060)	3,522,250

(in thousands of Eastern Caribbean dollars)

6 Cash and balances with Central Bank

	2016 $'000	2015 $'000
Cash in hand	**47,399**	36,740
Balances with Central Bank other than mandatory deposits	**172,321**	165,473
Included in cash and cash equivalents (Note 43)	**219,720**	202,213
Mandatory deposits with Central Bank	**147,154**	141,999
	366,874	344,212

Pursuant to the Banking Act 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.

7 Treasury bills

	2016 $'000	2015 $'000
Cash and cash equivalents (Note 43)	**31,319**	21,336
More than 90 days to maturity	**2,509**	4,629
	33,828	25,965

Treasury bills are debt securities issued by the Governments of Saint Lucia and Saint Vincent. The weighted average effective interest rate at 31 December 2016 was 4.1% (2015 – 4.8%).

8 Deposits with other banks

	2016 $'000	2015 $'000
Items in the course of collection	**16,310**	11,654
Placements with other banks	**202,055**	141,933
Interest bearing deposits	**9,627**	549,141
Included in cash and cash equivalents (Note 43)	**227,992**	702,728

The weighted average effective interest rate of interest-bearing deposits at 31 December 2016 is 1.14% (2015 – 0.37%).

(in thousands of Eastern Caribbean dollars)

9 Financial assets held for trading

	2016 $'000	2015 $'000
Debt securities – listed	**18,600**	14,983
Equity securities-listed	–	47
	18,600	15,030

Trading financial assets were acquired for selling in the near term and would otherwise have been classified as held-to-maturity investments. The weighted average interest rate earned on held-for-trading investments debt securities was 7.1% (2015 – 7.62%).

10 Deposits with non-bank financial institutions

	2016 $'000	2015 $'000
Interest bearing deposits		
Included in cash and cash equivalents (Note 43)	**8,730**	7,896

Interest rate on deposits depends on the value of deposits held. There was no interest earned on deposits with non-bank financial institutions in the years 2016 and 2015.

11 Loans and advances to customers

	2016 $'000	2015 $'000
Large corporate loans	**487,749**	609,814
Term loans	**312,490**	367,940
Mortgage loans	**668,317**	668,171
Overdrafts	**118,729**	154,443
Gross	**1,587,285**	1,800,368
Less allowance for impairment losses on loans and advances (Note 12)	**(112,672)**	(132,789)
Net	**1,474,613**	1,667,579

The weighted average effective interest rate on productive loans stated at amortised cost at 31 December 2016 was 7.61% (2015 – 8%) and productive overdrafts stated at amortised cost was 11.65% (2015 – 12.17%).

(in thousands of Eastern Caribbean dollars)

12 Allowance for impairment losses on loans and advances

	Corporate loans $'000	Term loans $'000	Mortgage loans $'000	Overdrafts $'000	Total $'000
At 31 December 2016					
At beginning of year	**67,072**	**31,720**	**16,907**	**17,090**	**132,789**
Written off during the year	**(78,903)**	**(32,224)**	**(18,936)**	**(25,754)**	**(155,817)**
Individual impairment provisions made during the year	**78,338**	**19,490**	**15,956**	**12,960**	**126,744**
Collective impairment provisions made during the year	**5,808**	**739**	**3,991**	**(1,582)**	**8,956**
At end of year	**72,315**	**19,725**	**17,918**	**2,714**	**112,672**
At 31 December 2015					
At beginning of year	41,088	28,936	12,499	13,050	95,573
Written off during the year	(546)	(2,576)	(585)	(469)	(4,176)
Individual impairment provisions made during the year	25,363	5,596	4,502	4,315	39,776
Collective impairment provisions made during the year	1,167	(236)	491	194	1,616
At end of year	67,072	31,720	16,907	17,090	132,789

13 Loans and receivables – bonds

	2016 $'000	2015 $'000
Non- current		
Government bonds	**10,033**	10,033

Government bonds are purchased from and issued directly by the Government of St. Vincent and the Grenadines. The weighted average effective interest rate at 31 December 2016 in respect of Government bonds at amortised cost was 7.5% (2015 – 7.5%).

(in thousands of Eastern Caribbean dollars)

14 Investment securities

	2016 $'000	2015 $'000
Securities held-to-maturity		
Debt securities at amortised cost		
- Listed	**96,498**	61,239
- Unlisted	**41,575**	44,182
	138,073	105,421
Less provision for impairment	**(6,614)**	(6,614)
Total securities – held to maturity	**131,459**	98,807
Securities available-for-sale		
Debt securities at fair value		
- Listed	**315,263**	602,532
- Unlisted	**38,944**	34,937
	354,207	637,469
Less provision for impairment on debt securities	**(401)**	(2,828)
	353,806	634,641
Equity securities		
- Listed	**12,894**	12,633
- Unlisted	**4,896**	2,854
Total securities – available-for-sale	**371,596**	650,128
Total investment securities	**503,055**	748,935

Included in available for sale debt securities are mutual funds secured by debt securities of Nil (2015 - $44,174). The weighted average effective interest rate on held-to-maturity securities at amortised cost at 31 December 2016 was 4.72% (2015 – 3.62%).

The weighted average effective interest rate on available-for-sale securities at fair value at 31 December 2016 was 3.15% (2015 – 2.65%).

(in thousands of Eastern Caribbean dollars)

14 Investment securities…*continued*

	Held to maturity $'000	Available-for-sale $'000	Held for trading $'000	Loans and receivables – bonds $'000	Total $'000
At 1 January 2016	**98,807**	**650,128**	**15,030**	**10,033**	**773,998**
Exchange differences on monetary assets	–	**(4,454)**	–	–	**(4,454)**
Additions	**136,064**	**247,347**	**6,490**	–	**389,901**
Movement in accrued interest	**290**	**(598)**	**177**	–	**(131)**
Disposals (sale and redemption)	**(17,576)**	**(229,037)**	**(3,058)**	–	**(249,671)**
Amortisation of discounts/premiums	**368**	–	–	–	**368**
Gains from changes in fair value	–	**6,753**	**17**	–	**6,770**
Transfer to disposal group held for sale	**(86,494)**	**(298,543)**	**(56)**	–	**(385,093)**
At 31 December 2016	**131,459**	**371,596**	**18,600**	**10,033**	**531,688**
At 1 January 2015	42,783	595,992	8,615	10,033	657,423
Exchange differences on monetary assets	–	(6,503)	–	–	(6,503)
Additions	84,759	217,364	11,398	–	313,521
Movement in accrued interest	306	373	121	–	800
Disposals (sale and redemption)	(27,317)	(153,521)	(5,030)	–	(185,868)
Amortisation of discounts/premiums	572	–	–	–	572
Provision for loss on investment	(2,296)	(1,321)	–	–	(3,617)
Losses from changes in fair value	–	(2,256)	(74)	–	(2,330)
At 31 December 2015	98,807	650,128	15,030	10,033	773,998

15 Financial instruments - pledged assets and repurchase agreements

The following assets are pledged against certain other funding instruments:

	Financial instruments - pledged assets	
	2016 $'000	**2015 $'000**
Pledged against repurchase agreements	**10,823**	17,459
Pledged against automated clearing house	**10,544**	–
	21,367	17,459

The value of repurchase agreements on the statement of financial position which are secured by pledged assets is $13,839 (2015 - $19,936). The variance between investment pledged against repurchase agreements and the value of repurchase agreement represents accrued interest.

(in thousands of Eastern Caribbean dollars)

16 Investment in associates

	2016 $'000	2015 $'000
Investment in associates	**17,704**	14,292

The investments in associates are as follows:

	2016 $'000	2015 $'000
Associate		
At beginning of year	**14,292**	12,061
Transfer to available for sale investments	**(655)**	–
Share of other comprehensive income	**152**	–
Share of profit in associate	**3,915**	2,231
At end of year	**17,704**	14,292

The Group invested $6,800 and has a 28% shareholding in the East Caribbean Amalgamated Bank Limited of Antigua. The company is an unlisted company incorporated in St. Kitts. This undertaking represented the Group's contribution to a joint initiative of indigenous banks of the East Caribbean Currency Union to salvage and restructure the previous Bank of Antigua Limited.

East Caribbean Amalgamated Bank Limited of Antigua financial reporting period ends on 30 September. The Group's interest in its associate East Caribbean Amalgamated Bank Limited of Antigua, as at 31 December 2016 is as follows:

	2016 $'000	2015 $'000
Current assets	**96,537**	148,996
Non-current assets	**723,687**	461,899
Liabilities	**(709,870)**	(514,595)
Preference Shares	**(47,869)**	(47,869)
Equity	**62,485**	48,431
% ownership	**28%**	28%
Carrying amount of the investment	**17,704**	13,722

(in thousands of Eastern Caribbean dollars)

16 Investment in associates … *continued*

Summarised statement of profit and loss of East Caribbean Amalgamated Bank Limited:

	2016 $'000	**2015 $'000**
Revenue	**41,368**	26,278
Administrative cost	**(23,103)**	(16,115)
Depreciation	**(2,017)**	(2,233)
Profit for the year	**16,248**	7,930
Tax expense	**(2,733)**	–
Other comprehensive income	**537**	–
Total comprehensive income	**14,052**	7,930

(in thousands of Eastern Caribbean dollars)

16 Investment in associates…*continued*

During the year, the Group's interest in EC Global Insurance Company Limited was reduced from 20% to 11%. As a result of the loss of substantial interest in the company, the Group reclassified the investment to investment securities. EC Global insurance Company Limited underwrites short term insurance contracts to customers. The company is an unlisted company incorporated in St. Lucia with head office in Jamaica.

The Group's interest in its associate EC Global Insurance Company Limited, as at 31 December 2016 is as follows:

	2016 $'000	2015 $'000
Current assets	–	8,825
Non-current assets	–	7,992
Liabilities	–	(13,955)
Equity	–	2,862
% ownership	–	20%
Carrying amount of the investment	–	570

Summarised statement of profit and loss of EC Global Insurance Limited at December 2016:

	2016 $'000	2015 $'000
Revenue	–	1,847
Administrative cost	–	(1,105)
Adjustment of prior year's result	–	(819)
Profit for the year	–	(77)
Group's share of loss for the year	–	(16)

The associate had no contingent liabilities or capital commitments as at 31 December 2016 or 2015.

The Company has an investment in Caribbean Credit Card Corporation Limited through both of its subsidiaries, Bank of Saint Lucia Limited and Bank of St. Vincent and the Grenadines Limited. The combined ownership is 22.6%. The Company did not account for this investment as an associate as it does not have significant influence. The combined ownership results in one vote in favor of the Company against the other seven board member votes.

(in thousands of Eastern Caribbean dollars)

17 Property and equipment

	Land and buildings $'000	Leasehold improvements $'000	Motor vehicles $'000	Office furniture and equipment $'000	Computer equipment $'000	Work-in-progress buildings $'000	Total $'000
Year ended 31 December 2015							
Opening net book amount	121,030	2,355	984	13,369	3,043	727	141,508
Additions	–	1,117	160	2,110	1,563	815	5,765
Disposals at cost	(397)	(416)	(195)	(540)	(82)	–	(1,630)
Accumulated depreciation on disposal	–	416	195	515	82	–	1208
Depreciation charge	(2,068)	(897)	(335)	(3,224)	(1,346)	–	(7,870)
Closing net book amount	118,565	2,575	809	12,230	3,260	1,542	138,981
At 31 December 2015							
Cost or valuation	136,310	10,521	3,038	43,404	30,613	1,542	225,428
Accumulated depreciation	(17,745)	(7,946)	(2,229)	(31,174)	(27,353)	–	(86,447)
Net book amount	118,565	2,575	809	12,230	3,260	1,542	138,981
Year ended 31 December 2016							
Opening net book amount	**118,565**	**2,575**	**809**	**12,230**	**3,260**	**1,542**	**138,981**
Additions	**1,401**	**–**	**220**	**1,319**	**945**	**(499)**	**3,386**
Disposals at cost	**–**	**(1,115)**	**(701)**	**(653)**	**(12)**		**(2,481)**
Accumulated depreciation on disposal	**–**	**1,106**	**629**	**605**	**9**	**–**	**2,349**
Depreciation charge	**(2,191)**	**(728)**	**(367)**	**(2,995)**	**(1,493)**	**–**	**(7,774)**
Transfer to disposal group	**–**	**(62)**	**(77)**	**(439)**	**(497)**	**–**	**(1,075)**
Closing net book amount	**117,775**	**1,776**	**513**	**10,067**	**2,212**	**1,043**	**133,386**
At 31 December 2016							
Cost or valuation	**137,711**	**9,316**	**2,408**	**43,321**	**30,330**	**1,043**	**224,129**
Accumulated depreciation	**(19,936)**	**(7,540)**	**(1,895)**	**(33,254)**	**(28,118)**	**–**	**(90,743)**
Net book amount	**117,775**	**1,776**	**513**	**10,067**	**2,212**	**1,043**	**133,386**

(in thousands of Eastern Caribbean dollars)

17 Property and equipment…*continued*

The major component of land and buildings were revalued in 2017 by an independent valuer based on open market value and a management internal specialist performed a review of the remaining buildings. The valuation indicates that the market value does not differ materially from the carrying amount of the respective assets in the books of the Group.

The historical cost of land and buildings is:

	2016 $'000	2015 $'000
Cost	**68,143**	66,682
Accumulated depreciation based on historical cost	**(19,219)**	(17,028)
Depreciated historical cost	**48,924**	49,654

18 Investment properties

	2016 $'000	2015 $'000
Land and buildings		
At beginning of year	**10,643**	12,409
Disposal	–	(1,766)
Fair value adjustment	**(1,315)**	**–**
At end of year	**9,328**	10,643

The investment properties are valued annually based on open market value by an independent, professionally qualified valuer. Comparative analysis was used to determine the market value of the investment properties.

The Group has no restrictions on the realisability of its investment properties and no contractual obligation to either purchase, construct or develop investment properties or for repairs maintenance and enhancements.

The following amounts have been recognised in the statement of income:

	2016 $'000	2015 $'000
Rental income	**1,787**	1,865
Direct operating expenses arising from investment properties that generated rental income	**568**	301
Direct operating expenses that did not generate rental income	**100**	399

(in thousands of Eastern Caribbean dollars)

19 Intangible assets

	Computer software $'000	Other intangibles $'000	Total $'000
Year ended 31 December 2015			
Opening net book amount	3,283	2,660	5,943
Additions	3,239	–	3,239
Amortisation charge for the year	(654)	(623)	(1,277)
Closing net book amount	5,868	2,037	7,905
At 31 December 2015			
Cost	15,900	7,793	23,693
Accumulated amortisation	(10,032)	(5,756)	(15,788)
Net book amount	5,868	2,037	7,905
Year ended 31 December 2016			
Opening net book amount	**5,868**	**2,037**	**7,905**
Additions	**398**	**–**	**398**
Amortisation charge for the year	**(1,395)**	**(623)**	**(2,018)**
Transfer to disposal group held for sale	**(1,392)**	**–**	**(1,392)**
Closing net book amount	**3,479**	**1,414**	**4,893**
At 31 December 2016			
Cost	**13,481**	**7,793**	**21,274**
Accumulated amortisation	**(10,002)**	**(6,379)**	**(16,381)**
Net book amount	**3,479**	**1,414**	**4,893**

Other intangibles relate to the fair value adjustments attained on the acquisition of Bank of Saint Vincent and the Grenadines.

(in thousands of Eastern Caribbean dollars)

20 Other assets

	2016 $'000	2015 $'000
Receivable accounts	**29,313**	23,400
Receivable accounts- credit card	**33,821**	18,814
Prepaid expenses	**2,781**	4,281
Stationery and supplies	**847**	693
Accounts receivable	**851**	2,832
Accrued income	**152**	240
	67,765	50,260
Less provision for impairment on other assets (Note 21)	**(4,507)**	(3,989)
	63,258	46,271

21 Provision for impairment on other assets

The movement on the provision for impairment on other assets was as follows:

	2016 $'000	2015 $'000
At beginning of year	**3,989**	3,666
Provisions made during the year	**827**	808
Write offs during the year	**(309)**	(485)
At end of year	**4,507**	3,989

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset

The amounts recognised in the consolidated statement of financial position are determined as follows:

	2016 $'000	2015 $'000
Fair value of plan assets	**56,424**	52,209
Present value of funded obligation	**(45,797)**	(44,312)
Asset in the statement of financial position	**10,627**	7,897

Movement in the asset recognised in the consolidated statement of financial position:

The movement in the defined benefit obligation over the year is as follows:

	2016 $'000	2015 $'000
Beginning of year	**44,312**	38,226
Current service cost	**915**	1,298
Interest cost	**3,406**	3,003
Employee contribution	**960**	983
Actuarial loss/gains	**(2,242)**	1,729
Benefits paid	**(1,554)**	(927)
End of year	**45,797**	44,312

The movement in the fair value of plan assets of the year is as follows:

	2016 $'000	2015 $'000
Beginning of year	**52,209**	47,849
Actual return on plan assets	**2,584**	1,235
Employer contributions	**2,411**	3,264
Employee contributions	**960**	983
Benefits paid	**(1,554)**	(927)
Administrative expenses	**(186)**	(195)
End of year	**56,424**	52,209

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset*...continued*

	2016 $'000	**2015 $'000**
Net asset at beginning of year	**7,897**	9,622
Net periodic cost	**(530)**	(790)
Contributions paid	**2,411**	3,264
Effect on statement of comprehensive income	**849**	(4,199)
Net asset at end of year	**10,627**	7,897

Benefit Cost

	2016 $'000	**2015 $'000**
Current service cost	**915**	1,298
Net interest on net defined benefit asset	**3,406**	3,003
Expected return on plan assets	**(3,977)**	(3,706)
Administration expenses	**186**	195
Net periodic cost at end of year	**530**	790

The amounts recognised in the consolidated statement of comprehensive income are as follows:

	2016 $'000	**2015 $'000**
Gain from change in assumption	**–**	–
Gain from experience	**(2,242)**	1,729
Expected return on plan assets	**3,977**	3,706
Actual return on plan assets	**(2,584)**	(1,236)
	(849)	4,199

The principal actuarial assumptions used were as follows:

	2016 %	**2015 %**
Discount rate	**7.5**	7.5
Future promotional salary increases	**3.00-4.52**	3.0-4.5
Future inflationary salary increases	**2.00**	2.00

Assumptions are set to approximate the expected average rates over the long term and may not be appropriate in any specific year.

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset*...continued*

Plan assets allocation is as follows:

	2016 %	2015 %
Debt securities	**90**	86
Equity securities	**6**	8
Other	**4**	6
	100	100

The pension plan assets do not include assets or ordinary shares of the Group.

Mortality rate
Assumptions regarding future mortality experience are set based on advice, published statistics and experience in each territory.

The average life expectancy in years of a pensioner retiring at age 60 after the statement of financial position date is as follows:

	2016	2015
Male	**24.60**	24.52
Female	**26.81**	26.77

The assumption adopted for the expected return on assets considers the actual assets the Plan holds and the outlook for returns on various asset classes. This assumption is usually derived by looking at actual asset mix and making assumptions about returns relative to the “baseline” of the plan’s discount rate, which are taken to be the returns on government bonds.

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset*...continued*

The major categories of the fair value of the total plan assets are as follows:

	2016 $'000	2015 $'000
Investments quoted in active markets:		
Quoted equity investments:		
- Energy	**27**	11
- Consumer staples	**1,959**	1,914
- Other	**1,403**	2,112
Quoted Debt securities		
- Sovereign bonds	**17,925**	11,898
- Energy	**2,283**	5,078
- Industrial	**276**	278
- Consumer staples	–	281
- Other	**12,417**	10,908
Cash and cash equivalents	**2,419**	2,655
Unquoted investments		
Unquoted Debt securities		
- Sovereign bonds	**13,053**	11,126
- Other	**4,662**	5,948
Total	**56,424**	52,209

The following payments are expected contributions to the defined benefit plan in future years:

	2016 $'000	2015 $'000
Within the next 12 months	**619**	621
Between 2 and 5 years	**684**	2,961
Between 5 and 10 years	**11,654**	8,076
Total expected payments	**12,957**	11,658

The average duration of the defined benefit plan obligation at the end of the reporting period is years 16 (2015 – 17 years).

(in thousands of Eastern Caribbean dollars)

23 Deposits from banks

	2016 $'000	2015 $'000
Deposits from banks	**85,901**	83,765

The weighted average effective interest rate on deposits from banks was 2.44% (2015 – 2.38%).

24 Due to customers

	2016 $'000	2015 $'000
Term deposits	**623,566**	828,283
Savings deposits	**963,976**	905,054
Call deposits	**270,208**	185,974
Demand deposits	**584,136**	1,309,338
	2,441,886	3,228,649

The weighted average effective interest rate of customers' deposits at 31 December 2016 was 2.03% (2015 – 2.24%).

(in thousands of Eastern Caribbean dollars)

25 Borrowings

	Due	Interest rate %	2016 $'000	Interest rate %	2015 $'000
Other borrowed funds					
Caribbean Development Bank	2017-2020	**3.0%**	**63,489**	3.5%	69,682
National Insurance Corporation (Saint Lucia)	2017-2026	**7.5%**	**53,145**	6.9%	3,700
National Insurance Corporation (St. Vincent)	2017-2025	**6.12%**	**19,492**	6.1%	20,636
European Investment Bank	2027	**–**	**–**	3.3%	10,219
Prodev bond	2016-2017	**7.5%**	**3,584**	7.5%	7,374
ECHMB	2016-2041	**–**	**–**	–	5,035
			139,710		116,646

Security for loans issued by the Group includes a first hypothecary obligation over the building and property known as the Financial Center, which is located at #1 Bridge Street.

The final maturity date of the Prodev bond issue is December 2017.

The ECHMB borrowings represent the value of loans sold to ECHMB. The bank has the option of buying or selling loans to ECHMB as part of its liquidity management strategy. Under the terms of the agreement, Bank of St. Lucia Limited and Bank of St. Vincent Limited remain obligated to indemnify ECHMB with respect to any default, loss or title deficiency occurring during the life of the loans secured by the purchase of mortgages. During the year bank of St. Vincent repurchased the remaining loans from ECHMB.

In August 2016, the holding company issued a ten (10) year, EC$50 million bond via private placement with the purpose of capitalizing its wholly -owned subsidiary of Bank of Saint Lucia Limited. The bond which qualifies as tier II capital, pays interest semi-annually at the rate of 7.25%. Principal repayments are to be amortized by way of 10 semi-annual payments over the last 5-year term of the instrument. The National Insurance Corporation was the sole purchaser of the bond.

The Group had undrawn facilities at the end of the financial reporting period of $27,007 (2015 – $31,442) with the Caribbean Development Bank.

(in thousands of Eastern Caribbean dollars)

26 Other liabilities

	2016 $'000	2015 $'000
Trade and other payables	**84,370**	58,340
Interest payable	**–**	129
Managers' cheques outstanding	**8,605**	9,852
Agency loans	**137**	73
	93,112	68,394

The agency loans are funds issued to the Group by the Government of Saint Lucia for disbursement to the related projects. The Group earns an agency fee on the amounts disbursed. The funds belong to the Government of Saint Lucia and the Group bears no risk in relation to these funds.

27 Deferred tax

The movements on the deferred tax asset are as follows:

	2016 $'000	2015 $'000
Net deferred tax position at beginning of year	**(3,896)**	(3,490)
Deferred tax charge Income Statement (Note 41):		
Arising from retirement benefit plan	**563**	743
Arising from other timing differences	**(500)**	111
Arising from tax losses not utilised	**3,876**	–
Deferred tax charge for the year	**3,939**	854
Deferred tax charge to other comprehensive income		
Deferred tax arising from retirement benefit plan	**255**	(1,260)
Net deferred tax position at end of year	**298**	(3,896)

(in thousands of Eastern Caribbean dollars)

27 Deferred tax *...continued*

The deferred tax account is detailed as follows:

	2016 $'000	2015 $'000
Accelerated capital allowances	**2,220**	2,720
Fair value of pension assets	**3,187**	2,369
Unutilised tax losses	**(5,109)**	(8,985)
Net deferred tax asset	**298**	(3,896)
Reflected in the statement of financial position as follows:		
Deferred tax asset	**–**	4,330
Deferred tax liability	**(298)**	(434)
Deferred Tax asset, net	**(298)**	3,896

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.

28 Share capital

	No. of Shares	2016 $'000	No. of Shares	2015 $'000
Ordinary shares				
Authorised:				
50,000,000 ordinary shares of no par value				
Issued and fully paid				
At beginning and end of year	**24,465,589**	**170,081**	24,465,589	170,081

29 Contributed capital

Total capital contributions received at 31 December, were as follows:

	2016 $'000	2015 $'000
Productive Sector Equity Fund Incorporated	**1,118**	1,118

The figures above represent the contributions to the Group by Third Parties in support of the two funds listed.

(in thousands of Eastern Caribbean dollars)

30 Non-controlling interests

	2016 $'000	2015 $'000
At beginning of year	**50,910**	48,739
Share of profit of subsidiaries	**2,419**	2,871
Share of unrealised loss on investments	**(50)**	35
Dividends paid	**(1,421)**	(735)
At end of year	**51,858**	50,910

There is a 49% minority interest in Bank of St. Vincent and the Grenadines Limited. The summarised financial information of the subsidiary is included in the segment analysis within note 5.

31 Reserves

	2016 $'000	2015 $'000
(a) General reserve	**62,957**	60,647
(b) Statutory reserve	**87,971**	87,971
(c) Student loan guarantee fund reserve	**(22)**	161
(d) Special reserve	**2,034**	2,034
(e) Retirement benefit reserve	**10,627**	7,897
Total reserves at 31 December	**163,567**	158,710

Movements in reserves were as follows:

	2016 $'000	2015 $'000
(a) General		
At beginning of year	**60,647**	57,610
Transferred from retained earnings	**2,310**	3,037
At end of year	**62,957**	60,647

It is the policy of the Group to maintain a general reserve for reinvestment in operations. Transfers to the reserve are based on a maximum of 35% of the consolidated Group's profit for the year after transfers to statutory reserve.

(in thousands of Eastern Caribbean dollars)

31 Reserves...continued

	2016 **$'000**	**2015** **$'000**
(b) Statutory		
At beginning of year	**87,971**	87,971
At end of year	**87,971**	87,971

Pursuant to Section 45 (1) of the Banking Act 2015, the Bank institutions shall, out of its net profits of each year transfer to that reserve a sum equal to not less than twenty percent of such profits whenever the amount of the fund is less than one hundred percent of the paid-up capital of the Banking institutions.

	2016 **$'000**	**2015** **$'000**
(c) Student loan guarantee fund		
At beginning of year	**161**	3,182
Transferred from retained earnings	**193**	399
Capital Drawing	**(376)**	(3,420)
	(22)	161

This is a non-distributable reserve. Transfers are made to the reserve at an amount equal to the net profit of the subsidiary Student Loan Guarantee Fund Limited.

	2016 **$'000**	**2015** **$'000**
(d) Special		
At beginning of year	**2,034**	2,034
Transferred from retained earnings	**–**	–
At end of year	**2,034**	2,034

The finance contract between the European Investment Bank ("EIB") and the former St. Lucia Development Bank, now assumed by Bank of Saint Lucia Limited, requires the institution to establish and maintain a special reserve. Annually, an amount as specified under Section 6.05 of the Contract is credited to the reserve.

(in thousands of Eastern Caribbean dollars)

31 Reserves…*continued*

	2016 $'000	2015 $'000
(e) Retirement benefit		
At beginning of year	**7,897**	9,622
Transferred from retained earnings	**2,730**	(1,725)
At end of year	**10,627**	7,897

The retirement benefit reserve is a non-distributable reserve. It is the Group's policy to match the amount of fair value of retirement benefit plan assets with the retirement benefit reserve.

32 Related party transactions and balances

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 by making financial and operational decisions.

Interest income and interest expense with related parties were as follows:

	2016		2015	
	Income $'000	Expense $'000	Income $'000	Expense $'000
Government of Saint Lucia	**2**	**729**	5	764
Government of St. Vincent and the Grenadines	**8,564**	**1,245**	8,996	868
Statutory bodies – Saint Lucia	**1,306**	**7,619**	1,395	10,984
Statutory bodies – St. Vincent and the Grenadines	**343**	**2,005**	501	2,235
Directors and key management	**691**	**125**	716	229

(in thousands of Eastern Caribbean dollars)

32 Related party transactions and balances …*continued*

Related party balances with the Group were as follows:

	2016		2015	
	Loans $'000	**Deposits $'000**	**Loans $'000**	**Deposits $'000**
Government of Saint Lucia	**5**	**115,661**	8	73,101
Government of St. Vincent and the Grenadines	**84,551**	**38,464**	93,705	24,290
Statutory bodies – Saint Lucia	**17,242**	**406,010**	18,809	411,720
Statutory bodies – St. Vincent and the Grenadines	**3,630**	**86,051**	5,335	72,030
Directors and key management	**12,758**	**5,701**	13,081	10,427

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

The loans issued to directors and other key management personnel during the year are repayable monthly over an average of 10 years and have a weighted average effective interest rate of 6.1% (2015 – 5.3%). The secured loans advanced to the directors during the year are collateralised by mortgages over residential properties.

Transactions with related parties were carried out on commercial terms and conditions.

Key management compensation

Key management includes the Group's complete management team. The compensation paid or payable to key management for employee services is shown below:

	2016 $'000	**2015 $'000**
Salaries and other short-term benefits	**8,405**	11,035
Pension costs	**553**	620
	8,958	11,655
Directors remuneration	**571**	685

(in thousands of Eastern Caribbean dollars)

33 Net interest income

	2016 $'000	Restated 2015 $'000
Interest income		
Loans and advances	**107,394**	126,991
Treasury bills and investment securities	**19,445**	17,099
Cash and short-term funds	**30**	350
	126,869	144,440
Interest expense		
Time deposits	**21,321**	29,780
Borrowings	**6,297**	6,573
Savings deposits	**21,894**	23,771
Demand deposits	**2,263**	2,417
Correspondent banks	**1,358**	1,564
	53,133	64,105
Net interest income	**73,736**	80,335

34 Net fee and commission income

	2016 $'000	2015 $'000
Fee and commission income		
Credit related fees and commissions	**42,510**	33,669
Asset management and related fees	**239**	276
	42,749	33,945

35 Net foreign exchange trading income

	2016 $'000	2015 $'000
Foreign exchange		
Net realised gains	**14,372**	11,483
Net unrealised gains	**302**	248
	14,674	11,731

(in thousands of Eastern Caribbean dollars)

36 Other operating income

	2016 $'000	2015 $'000
Rental income	**1,787**	1,865
Other	**2,014**	1,006
	3,801	2,871

37 Other gains, net

	2016 $'000	2015 $'000
Gains/(losses)gains on disposal of available-for-sale investment securities	**423**	(1,758)
Gains on disposal of held to maturity investment securities	**12**	18
Fair value gains/(losses) on held for trading investment securities	**17**	(74)
Fair value loss on investment property	**(1,315)**	–
Retirement benefit gains	**1,881**	2,474
Other gains	**43**	980
	1,061	1,640

(in thousands of Eastern Caribbean dollars)

38 Operating expenses

	2016 $'000	2015 $'000
Employee benefit expense (Note 39)	**40,760**	40,980
Depreciation and amortisation	**8,646**	8,854
Utilities and telecommunications	**5,569**	6,910
Repairs and maintenance	**6,348**	5,606
Advertising and promotion	**1,265**	2,149
Bank and other licences	**1,300**	1,470
Security	**2,256**	2,211
Printing and stationery	**1,431**	1,768
Legal and professional fees	**1,675**	1,667
Insurance	**1,243**	1,535
Credit card & IDC visa charges	**7,564**	6,986
Borrowing fees	**454**	131
Corporate responsibility	**443**	421
Broker fees	**55**	242
Interest levy	**4,282**	4,060
Bank charges	**2,125**	1,564
Business development	–	–
Travel and entertainment	**294**	449
Provision for loss on disposal of subsidiary	–	–
Other expenses	**13,335**	11,717
	99,045	98,720

39 Employee benefit expense

	2016 $'000	2015 $'000
Wages and salaries	**31,358**	30,078
Other staff cost	**7,273**	9,168
Pensions	**2,129**	1,734
	40,760	40,980

(in thousands of Eastern Caribbean dollars)

40 Disposal group classified as Held for Sale

During December 2016, the Group publicly announced the decision of the board of directors to dispose of the offshore banking subsidiary in order to divest from the inherent risks associated with this line of business.

The classes of assets and liabilities of the subsidiary classified as held for sale are as follows:

	2016 $'000
Assets	
Cash and balances with Central Bank	352,713
Investment Securities	369,603
Loans and advances to customers	14,216
Due from banks	–
Other current assets	1,645
Property & Equipment	2,467
Total	740,644
Liabilities	
Customer Deposits	717,376
Other liabilities	6,691
Total	724,067

	2016 $'000
Net assets in the statement of consolidated financial position	16,577
Adjustments for intercompany balances	17,443
Loss on disposals	15,453
	49,473

The provision for loss on disposal of subsidiary is as follows:

	2016 $'000
Cash consideration	34,020
Less: Net assets carried at lower of cost and fair value less costs to sell	(49,473)
	(15,453)

(in thousands of Eastern Caribbean dollars)

40 Disposal group classified as Held for Sale *...continued*

The analysis of the results of discontinuing operations is as follows:

	2016 $'000	2015 $'000
Revenue	**17,540**	16,285
Administrative cost	**(9,210)**	(10,659)
Depreciation	**(1,146)**	(292)
Profit for the year	**7,184**	5,334
Total comprehensive income	**7,184**	5,334

Cash flows from discontinued operations:

	2016 $'000
Operating cash flows	**(196,611)**
Investing cash flows	**(28)**
Financing Cash flows	–
Total cash flows	**196,639**

(in thousands of Eastern Caribbean dollars)

41 Income tax expense/ (recovery)

	2016 $'000	2015 $'000
Current tax	**2,835**	3,191
Under provision of prior year tax	**1,651**	–
Deferred tax charge (Note 27)	**3,939**	854
	8,425	4,045
Deferred tax expense in other comprehensive income:		
Deferred tax arising from defined benefit pension plan	**255**	(1,260)

Tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 30% as follows:

	2016 $'000	2015 $'000
(Loss)/profit for the year before income tax	**(94,809)**	(1,376)
Tax calculated at the applicable tax rate of 30%	**(28,443)**	(413)
Tax effect of income not subject to tax	**(5,942)**	(7,807)
Deferred tax asset unrecognised on tax losses	**35,269**	4,084
Tax effect of expenses not deductible for tax purposes	**5,890**	8,181
Under provision of income tax	**1,651**	–
Over provision of deferred tax	**3,876**	–
	8,425	4,045

(in thousands of Eastern Caribbean dollars)

41 Income tax expense/(recovery) *…continued*

The Group has unutilised tax losses of $17,033 (2015 – $29,952) for which a deferred tax asset has been recognised due to the certainty of its recoverability. Unutilized tax losses may be carried forward and deducted against 50% of future taxable income within six years following the year in which the losses were incurred. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department. The Group also has unutilised tax losses of $242,710 (2015 – $145,242) for which no deferred tax asset has been recognized.

Tax losses expire as follows:

	2016 $'000	**2015 $'000**
2016		
2017	–	20,530
2018	**11,456**	11,456
2019	**98,265**	98,265
2020	**24,957**	24,957
2021	**6,367**	6,367
2022	**13,619**	13,619
	105,079	–
	259,743	175,194

There was no income tax effect relating to components of other comprehensive income.

42 Earnings per share

Basic

The calculation of basic earnings per share is based on the loss from continuing operations attributable to ordinary shareholders of $105,944 (2015 – ($16,862) and 24,465 (2015 – 24,465) shares, being the weighted average number of ordinary shares in issue in each year. For the purpose of calculating basic earnings per share, the (loss)/profit for the year attributable to ordinary shares is the (loss)/profit for the year after deducting preference dividends of $291 (2015 – $291).

Diluted

The calculation of diluted earnings per share is based on the loss from continuing operations attributable to ordinary shareholders of $105,944 (2015 – ($16,862 and 25,295 (2015 – 25,295) shares, being the weighted average number of shares in issue. For the purpose of calculating diluted earnings per share, the (loss)/profit for the year attributable to ordinary shares is the (loss) /profit for the year after deducting preference dividends of $291 (2015 – $291).

(in thousands of Eastern Caribbean dollars)

43 Cash and cash equivalents

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

	2016 $'000	**2015 $'000**
Cash and balances with Central Bank (Note 6)	**219,720**	202,213
Deposits with other banks (Note 8)	**227,992**	702,728
Deposits with non-bank financial institutions (Note 10)	**8,730**	7,896
Treasury Bills (Note 7)	**31,319**	21,336
Cash of disposal group	**352,713**	–
	840,474	934,173

44 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.

	2016 $'000	**2015 $'000**
Loan commitments	**84,356**	129,901
Guarantees, letters of credit and other credit obligations	**27,182**	25,808
	111,538	155,709

Contingent liabilities

Operating leases
The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2016 $'000	**2015 $'000**
Not later than 1 year	**1,535**	5,654
Later than 1 year and not later than 5 years	**1,028**	4,245
	2,563	9,899

(in thousands of Eastern Caribbean dollars)

45 Principal subsidiary undertakings

	Holding 2016 %	Holding 2015 %
Bank of Saint Lucia Limited	**100**	100
Bank of Saint Lucia International Limited	**100**	100
ECFH Global Investment Solution Limited	–	100
Bank of Saint Vincent and the Grenadines Limited	**51**	51
Student Loan Guarantee Fund Limited **	**–**	–
Productive Sector Equity Fund Incorporated **	**–**	–

Bank of St. Vincent and the Grenadines Limited is incorporated in St. Vincent and the Grenadines. All other subsidiaries are incorporated in Saint Lucia.

** Allotment of shares had not been completed at the reporting date.

As part of its strategic objectives, the local companies of the ECFH Group namely; Bank of Saint Lucia Limited and ECFH Global Investment Solutions were amalgamated with ECFH holding company in October 2016, and this amalgamated entity continued as Bank of Saint Lucia Limited. Another company named East Caribbean Financial Holding Company Limited was then incorporated at the same time to hold the shares of Bank of Saint Lucia Limited, Bank of Saint Lucia International Limited and Bank of Saint Vincent and the Grenadines limited.

46 Cumulative preference shares

	No. of shares	2016 $'000	No. of Shares	2015 $'000
7% Cumulative preference shares				
Authorised:				
11,550,000 preference shares				
At beginning and end of year	**830,000**	**4,150**	830,000	4,150

The preference shares are non-voting and are to be converted to ordinary shares. The Group has imposed certain restrictions with respect to the number of preference shares that can be converted to ordinary shares in any one year.

The Board of Directors of the Company and the National Insurance Corporation have formally agreed that future conversions of preference shares should be done at $5 per share.

Dividends declared and unpaid on the preference shares during the year amounted to $291 (2015 – $291).

(in thousands of Eastern Caribbean dollars)

47 Subsequent events

The Board of the Group took a decision to sell the operations of its offshore and international banking subsidiary (BOSLIL), as part of its restructuring and risk mitigation strategy. BOSLIL was sold to Proven Investments Limited on 10 March 2017 (See Note 40)

The Board of Directors on 21 February 2017 took a decision to divest its 51% shareholding interest in the Bank of St. Vincent and the Grenadines Limited. The process is expected to be completed on or before 30 June 2017.

48 Comparatives

Certain balances were reclassified in the prior year to meet the current year presentation period. These changes had no impact on the total assets or total equity. The changes represented $2,945 reclassification from unrealised gains and losses to retained earnings relating to amortisation and accretion of premiums and discounts on investment securities and $6,016 from property plant and equipment to investment properties.

Bank of Saint Lucia Limited

Financial Statements

For the year ended 31 December 2016
(Expressed in Eastern Caribbean Dollars)

Bank of Saint Lucia Limited

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For the year ended 31 December 2016

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Building a better
working world

Ernst & Young
P.O. Box BW 368,
Rodney Bay, Gros Islet,
St. Lucia, W.I.

Street Address
Mardini Building, Rodney Bay,
Gros Islet,
St. Lucia, W.I.

Tel: +758 458 4720
+758 458 4730
Fax: +758 458 4710

www.ey.com

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF BANK OF SAINT LUCIA LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank of Saint Lucia Limited (the Bank), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016 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 Financial Statements* section of our report. We are independent of the Bank 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.

Responsibilities of Management and the Audit Committee for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the 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 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 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 Bank'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 Bank'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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the bank audit. We remain solely responsible for our audit opinion.

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.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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.

Ernst & Young Ltd.

Ernst + Young

CHARTERED ACCOUNTANTS
Castries
St. Lucia
23 March 2017

Bank of Saint Lucia Limited

Statement of Financial Position

As at 31 December 2016

(expressed in Eastern Caribbean dollars)

	2016 $	2015 Restated $
Assets		
Cash and balances with Central Bank (Note 5)	**242,615,038**	258,987,147
Deposits with other banks (Note 6)	**95,603,876**	73,921,253
Deposits with non-bank financial institutions (Note 7)	**8,729,733**	7,896,441
Treasury bills (Note 8)	**23,006,088**	15,149,507
Financial assets held for trading (Note 9)	**18,599,712**	14,946,551
Investment securities (Note 12)	**458,558,435**	385,499,052
Financial instruments-pledged assets (Note 13)	**21,366,983**	17,459,414
Due from related parties (Note 14)	**84,137,685**	84,137,686
Loans and receivables - loans and advances to customers (Note 10)	**898,627,332**	1,069,182,002
Property and equipment (Note 15)	**78,772,529**	81,986,014
Other assets (Note 16)	**65,504,927**	43,626,024
Investment in associates (Note 18)	**4,800,000**	5,455,535
Investment properties (Note 19)	**6,547,711**	8,077,711
Retirement benefit asset (Note 20)	**10,626,569**	7,897,140
Deferred tax asset (Note 21)	**-**	4,329,611
Income tax recoverable	**4,482,139**	3,481,282
Total assets	**2,021,978,757**	2,082,032,370
Liabilities		
Deposits from banks (Note 22)	**54,511,798**	52,744,616
Due to customers (Note 23)	**1,748,686,109**	1,735,641,190
Repurchase agreements (Note 13)	**13,838,910**	19,936,023
Borrowings (Note 24)	**93,629,412**	67,076,262
Dividends payable	**566,415**	276,007
Preference shares (Note 25)	**4,150,000**	4,150,000
Other liabilities (Note 26)	**30,157,005**	17,278,991
Total liabilities	**1,945,539,649**	1,897,103,089
Equity		
Share capital (Note 27)	**198,718,745**	198,718,745
Reserves (Note 28)	**149,583,770**	146,854,341
Revaluation surplus	**13,855,322**	13,855,322
Unrealised loss on investments	**(1,006,930)**	(2,899,994)
Accumulated deficit	**(284,711,799)**	(171,599,133)
Total equity	**76,439,108**	184,929,281
Total liabilities and equity	**2,021,978,757**	2,082,032,370

The accompanying notes form part of these financial statements.

Approved by the Board of Directors on 23rd March 2017

________________ Director ________________ Director

Bank of Saint Lucia Limited
Statement of Changes in Equity
For the year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

	Share capital (Note 27) **$**	**Reserves** (Note 28) **$**	**Revaluation Surplus $**	**Unrealised Loss on Available for sale investments Restated $**	**Accumulated Deficit Restated $**	**Total $**
Balance at 1 January 2015	198,718,745	147,912,995	13,855,322	(3,412,348)	(149,276,105)	207,798,609
Total comprehensive loss for the year	–	–	–	512,354	(23,381,682)	(22,869,328)
Transfers from reserves	–	(1,058,654)	–	–	1,058,654	–
Balance at 31 December 2015	**198,718,745**	**146,854,341**	**13,855,322**	**(2,899,994)**	**(171,599,133)**	**184,929,281**
Balance at 1 January 2016	**198,718,745**	**146,854,341**	**13,855,322**	**(2,899,994)**	**(171,599,133)**	**184,929,281**
Total comprehensive loss for the year	**–**	**–**	–	**1,893,064**	**(110,383,237)**	**(108,490,173)**
Transfers to reserves	–	**2,729,429**	**–**	**–**	**(2,729,429)**	–
Balance at 31 December 2016	**198,718,745**	**149,583,770**	**13,855,322**	**(1,006,930)**	**(284,711,799)**	**76,439,108**

The accompanying notes form part of these financial statements.

Bank of Saint Lucia Limited

Statement of Comprehensive Income

For the year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

	2016 $	2015 $
Interest income (Note 30)	**76,683,324**	95,793,914
Interest expense (Note 30)	**(35,490,104)**	(45,535,122)
Net interest income	**41,193,220**	50,258,792
Fee and commission income (Note 31)	**35,296,024**	27,028,414
Dividend income (Note 32)	**1,663,616**	973,921
Net foreign exchange trading income (Note 33)	**9,997,188**	7,429,874
Other income (Note 34)	**4,084,880**	4,288,434
Other gains/(losses) (Note 35)	**872,048**	(113,417)
Impairment losses on loans and advances (Note 11)	**(128,782,213)**	(37,345,555)
Impairment losses on investments (Note 12)	**–**	(1,885,682)
Operating expenses (Note 36)	**(69,285,200)**	(68,948,727)
Loss before income tax and preference shares	**(104,960,437)**	(18,313,946)
Dividends on preference shares (Note 25)	**(290,500)**	(290,500)
Loss before income tax	**(105,250,937)**	(18,604,446)
Income tax expense (Note 38)	**(5,726,455)**	(1,838,250)
Net loss for the year	**(110,977,392)**	(20,442,696)

Bank of Saint Lucia Limited

Statement of Comprehensive Income *…continued*

For the year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

	2016 $	2015 $
Net loss for the year	**(110,977,392)**	(20,442,696)
Other comprehensive income/(loss)		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Unrealised gain on available for sale investments	**2,686,352**	833,984
Realised gain transferred to statement of income	**(793,288)**	(321,630)
	1,893,064	512,354
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent period:		
Re-measurement gains/(losses) on defined benefit pension scheme	**848,793**	(4,198,552)
Income tax effect	**(254,638)**	1,259,566
	594,155	(2,938,986)
Total other comprehensive income/(loss)	**2,487,219**	(2,426,632)
Total comprehensive loss for the year	**(108,490,173)**	(22,869,328)
Basic loss per share (Note 39)	**(73.36)**	(15.46)

The accompanying notes form part of these financial statements.

Bank of Saint Lucia Limited

Statement of Cash Flows

For the year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

	2016 $	2015 $
Cash flows from operating activities		
Loss before income tax	**(104,960,437)**	(18,313,946)
Adjustments to reconcile net profit before tax to net cash flows:		
Interest income from investments, treasury bills and deposits with banks	**(16,086,734)**	(14,010,830)
Impairment losses on loans and advances	**128,782,213**	37,345,555
Impairment losses on investments	–	1,885,682
Fair value loss on investment property	**1,530,000**	–
Depreciation	**5,171,116**	5,316,990
Retirement benefit contributions	**(2,410,838)**	(3,264,177)
Retirement benefit expense	**530,202**	790,272
Unrealised gain on investments held for trading	**17,329**	73,731
(Gain)/loss on disposal of investments	**(504,083)**	1,739,591
Amortised premium on investments	**(367,841)**	(572,236)
Loss (gain) on disposal of property and equipment	**48,154**	(19,122)
Cash flows before changes in operating assets and liabilities	**11,749,081**	10,971,510
Increase in mandatory deposits with Central Bank	**(1,562,395)**	(8,209,840)
Decrease in loans and advances to customers	**41,772,457**	63,294,477
(Increase)/decrease in pledged assets	**(2,909,315)**	6,485,210
Increase in financial assets held for trading	**(3,493,841)**	(5,751,549)
Increase in other assets	**(21,878,902)**	(16,040,060)
Decrease/(increase) in treasury bills	**2,121,118**	(3,465,922)
Increase in due to customers	**13,044,919**	127,058,578
Increase/(decrease) in deposits from banks	**1,767,182**	(6,430,129)
Decrease in repurchase agreements	**(6,097,113)**	(3,875,624)
Increase in other liabilities	**12,877,921**	3,437,076
Net cash generated from operations	**47,391,112**	167,473,727
Income tax paid	**(2,652,338)**	(1,211,010)
Interest received	**14,230,142**	13,230,295
Net cash generated from operating activities	**58,968,916**	179,493,012
Cash flows from investing activities		
Purchase of investment securities	**(216,768,401)**	(177,136,840)
Net proceeds from disposal and redemption of investment securities	**147,811,230**	79,098,460

(expressed in Eastern Caribbean dollars)

	2016 $	2015 $
Purchase of property and equipment	**(2,067,356)**	(3,827,427)
Proceeds from disposal of property and equipment	**61,571**	39,245
Net cash used in investing activities	**(70,962,956)**	(101,826,562)

	2016 $	2015 $
Cash flows from financing activities		
Dividends paid	–	(581,310)
Repayments of borrowings	**(24,546,987)**	(12,341,126)
Proceeds from borrowings	**51,100,137**	2,366,017
Net cash from (used in) financing activities	**26,553,150**	(10,556,419)
Net increase in cash and cash equivalents	**14,559,110**	67,110,031
Cash and cash equivalents at beginning of year	**249,329,650**	182,219,619
Cash and cash equivalents at end of year (Note 40)	**263,888,760**	249,329,650

The accompanying notes form part of these financial statements.

(expressed in Eastern Caribbean dollars)

1 General information

Bank of Saint Lucia Limited (the Bank) was incorporated in Saint Lucia on 30 June 2001. The Bank provides retail, corporate banking and investment banking services. The Bank is domiciled in St. Lucia and is a wholly owned subsidiary of East Caribbean Financial Holding Company Limited (the "Parent Company), a limited liability company incorporated and domiciled in Saint Lucia.

In October 2016 the East Caribbean Financial Holding Company limited (ECFH) was amalgamated with Bank of Saint Lucia Limited and ECFH Global Investment Solutions in accordance with the provisions of the Companies Act CAP 13.01, Revised Laws of Saint Lucia and continued as Bank of Saint Lucia Limited. Another company with the same name East Caribbean Financial Holding Company Limited was then reincorporated under the same act to hold the shares of Bank of Saint Lucia Limited, Bank of Saint Lucia International Limited and Bank of St. Vincent & the Grenadines. The amalgamation was between entities under common control and was accounted for as a pooling of interest.

The Bank is subject to the Companies Act, 1996 and the provisions of the Banking Act of Saint Lucia, 2015.

The Bank's principal place of business and registered office is located at No.1 Bridge Street, Castries, Saint Lucia.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these 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 Saint Lucia Limited's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as at 31 December 2016 (the reporting date).

Basis of preparation
The 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 statement of financial position as financial assets held for trading and land and buildings classified as property and equipment and investment properties.

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 Bank's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Basis of preparation…*continued*

(a) Changes in accounting policies and disclosures:

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended December 31, 2015. There were no new interpretations or standards which were applicable to the Bank in the current year.

(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*
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 2015 the Group set up a multidisciplinary implementation team ('the Team') with members from its various subsidiaries, Risk, Finance, Information Technology and Operations to prepare for IFRS 9 implementation ('the Project'). The Project is sponsored by the Chief Financial Officer, who regularly report to the Group's Supervisory Board. Training session on IFRS 9 and its implications have been held with team members and work has commenced on strategies to gather the relevant information. The Project timeless will become clearer by the end of the first quarter in 2017 where the analysis phase will be completed. Thereafter the design, build, testing and parallel run will be completed before the end of 2017 and go live in 2018.

Classification and measurement
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.

The Bank does not expect a significant impact on the balance sheet and equity except for the effect of applying the impairment requirement of IFRS 9. The Group does not anticipate early adopting IFRS 9 and is currently assessing the 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*

IFRS 15 ***Revenue from Contracts with Customers***
In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases
The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

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

Amendments to IAS 12 Income Taxes
In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows
In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Basis of preparation…*continued*

(c) Fair value measurement

The Bank measures financial instruments such as investment securities and non- financial instruments 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:

Disclosures for valuation methods, significant estimates and assumptions	Notes 2 and 3
Quantitative disclosures of fair value measurement hierarchy	Note 3
Financial instruments (including those carried at amortised cost)	Note 12,9
Land and buildings	Note 15
Investment properties	Note 19

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.

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 best use or by selling to another participant that would use the asset in its highest and best use.

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

(c) 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.

The Bank 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.

Investment in associates

Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associate is accounted for at cost.

Financial assets

The Bank 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.

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 Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

(c) Fair value measurement*…continued*

Financial assets*…continued*

(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, or 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 Bank's management has the positive intention and ability to hold to maturity, other than: (a) those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank designates as available for sale; and (c) 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 statement of income. The losses arising from impairment are recognised in the statement of income as impairment losses on investments.

If the Bank 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 judgements 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 Bank's right to receive payment is established. Where fair value cannot be determined cost is used to value investments.

Recognition/Derecognition
The Bank 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 derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

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

Impairment of financial assets
The Bank 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 Bank uses to determine that there is objective of an impairment loss include:
(i) significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Impairment of financial assets…*continued*
The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the 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, loan to collateral ratios, concentrations of risks and economic data country risk and the performance of different groups.

Assets carried at amortised cost
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.

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 decrease the amount of the provision for the loan impairment 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 statement of income.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Impairment of financial assets*…continued*

<u>Assets classified as available-for-sale</u>
The Bank makes judgments at each reporting date of 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 in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

<u>Renegotiated loans</u>
During the normal course of business financial assets carried at amortised cost may be restructured with the mutual agreement of the "Bank" and the counterparty. When this occurs for reasons other than those which could be considered indicators of impairment, the Bank 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 bank derecognises the original financial asset and recognises a new one at fair value with any difference recognized in the statement of income.

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.

Sale and repurchase agreements
Securities sold subject to linked repurchase agreements (repos) are retained in the financial statements as investments securities and the counterparty liability is included in repurchase agreement on the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of the repurchase agreement using the effective interest method.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Property and equipment

Land and building comprise mainly branches and offices occupied by the Bank. Land and buildings are shown at their fair value less subsequent depreciation for buildings.

Subsequent costs 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 Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged against other comprehensive income, all other decreases are charged to the statement of income.

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:

Buildings	2%
Leasehold improvements	10%
Office furniture and equipment	10%-15%
Computer equipment	33 1/3%
Motor vehicles	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 carrying 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 disposals are determined by comparing proceeds with carrying amount. These are included in the statement of income.

Leases

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, are classified as investment properties. Investment property comprises freehold land and buildings which are leased out under operating leases. Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and 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 was incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

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 value of investment properties are included in the Company's statement of comprehensive income in the year in which they arise.

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period 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 adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Company 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.

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 may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Income tax

(a) Current tax
Income tax payable/(receivable) is calculated on the basis of the applicable tax law in St. Lucia and is recognised as an expense/(income) for the period 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 other comprehensive income.

Where the Bank 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 periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the statement of financial position.

(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 financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position 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 and tax losses. 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 Bank’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.

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 statement of income over the period of the borrowings using the effective interest method.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Provisions
Provisions are recognised when the bank has a present of 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
Pension obligations
Certain of the Bank's employees are covered by the defined benefit plan of the Bank. The contributions to the plan are allocated to the group companies based on employee membership in the plan. Contributions paid on behalf of employees of the Bank are charged to the statement of income in the period in which the contributions are paid.

The Bank operates a defined benefit plan. The scheme is funded through payments to trustee-administered funds, determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The pension obligation valuations are undertaken annually. The asset recognised in the statement of financial position of the parent company in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets, are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur.

Re-measurements are not reclassified to the consolidated statement of income in subsequent periods.

Past service costs are recognised in the parent's consolidated statement of income on the earlier of:
- The date of the plan amendment or curtailment, and
- The date that the Bank recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.
The Group recognises the following changes in the net defined benefit obligation under 'operating expenses' in the consolidated statement of income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Employee benefits*…continued*

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

Guarantees and letters of credit
Guarantees and letters of credit comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank 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 statement of income within other operating expenses.

Fiduciary activities
The Bank commonly acts as trustee and in other fiduciary capacities that result in the holding and placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

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

Reserves
The Bank allocates reserves in accordance with the Banking Act of Saint Lucia of 2015.

Dividend on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends for the year that are declared after the reporting date are dealt with in the subsequent events note.

Redeemable preference shares
Preference shares which are mandatorily redeemable on a specific date are classified as liabilities. The dividend on these preference shares are recognised in the statement of income.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Interest income and expense
Interest income and expense are recognised in the statement of comprehensive 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 through the expected life of the financial instrument. When calculating the effective interest rate, the Bank 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.

Fee and commission income
Fees and commissions are generally 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 from available-for-sale equities is recognised when the right to receive payment is established.

Rental income
Rental income from operating leases is recognised on a straight-line basis over the lease term.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions 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 with the closing rates as at the reporting date.

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

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 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 or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income. 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.

Financial instruments

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management

Strategy in using financial instruments

The Bank'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 Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank'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 Bank 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 Bank's Management Committee identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. 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 and interest rate risks.

Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfill their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, 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 Bank is also exposed to other credit risks arising from deposits with other banks and non-financial institutions, investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets.

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

<u>Debt securities and treasury bills</u>
For debt securities and treasury bills, external ratings such as Standard & Poor's and Caricris ratings or their equivalents are used by Bank Treasury for managing 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 requirements at the same time.

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

Cash and balances with Banks

Credit risk from balances with banks and financial institutions is managed by the Group in accordance with the Bank's policy. Counterparty credit limits are reviewed by the Bank'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 Bank manages, limits and controls concentrations of credit risk wherever they are identified − in particular, to individual counterparties and groups, and to industries.

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

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

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

The Bank'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 Bank'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 Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

Credit risk*…continued*

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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised 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 Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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 Bank:

- 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 Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at 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

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

	Maximum exposure	
	2016	**2015**
	$	**$**
Balances with Central Bank	**214,788,486**	232,279,062
Deposits with other banks	**95,603,876**	73,921,253
Deposits with non-bank financial institutions	**8,729,733**	7,896,441
Treasury Bills	**23,006,088**	15,149,507
Loans and advances to customers:		
Overdrafts	**40,952,769**	55,226,817
Term loans	**212,546,519**	242,080,381
Large corporate loans	**291,131,009**	406,205,984
Mortgages	**353,997,035**	365,668,820
Financial Assets held for trading	**18,599,712**	14,946,551
Investment securities	**443,679,166**	373,026,869
Due from related parties	**84,137,685**	84,137,686
Financial instruments -pledged assets	**21,366,983**	17,459,414
Other assets	**63,097,613**	40,874,280
	1,871,636,674	1,928,873,065

	Maximum exposure	
	2016	**2015**
	$	**$**
Credit risk exposures relating to financial assets off- the statement of financial position:		
Loan commitments	**72,455,496**	118,276,854
Guarantees and letters of credit	**27,141,676**	25,667,178
	99,597,172	143,944,032
	1,971,233,846	2,072,817,097

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Maximum exposure to credit risk…*continued*
The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2016 and 31 December 2015, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 48% (2015 – 52%) of the total maximum exposure is derived from loans and advances to customers and 23% (2015 – 18%) represents investments in debt securities.

Loans and advances
Loans and advances to customers are summarised as follows:

	2016 **$**	**2015** **$**
Neither past due nor impaired	**539,217,292**	558,147,360
Past due but not impaired	**96,363,115**	118,254,448
Impaired	**363,209,695**	518,550,640
Gross	**998,790,102**	1,194,952,448
Less allowance for impairment losses on loans and advances to customers	**(100,162,770)**	(125,770,446)
Net	**898,627,332**	1,069,182,002

The total impairment provision for loans and advances to customers is $100,162,770 (2015 – $125,770,446) of which $67,461,756 (2015 – $98,435,638) represents the individually impaired loans and the remaining amount of $32,701,014 (2015 – $27,334,808) represents the collective provision. Further information on the allowance for impairment losses on loans and advances to customers is provided in Notes 10 and 11.

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 Bank.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Loans and advances…*continued*

	Overdrafts $	Term Loans $	Mortgages $	Large Corporate Loans $	Total $
31-Dec-16	**30,154,828**	**129,043,866**	**262,997,508**	**117,021,090**	**539,217,292**
31-Dec-15	30,774,734	133,485,424	264,216,433	129,670,769	558,147,360

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. 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 $	Total $
At 31 December 2016				
Past due up to 30 days	**18,909,778**	**35,954,682**	**17,654,488**	**72,518,948**
Past due 30 - 60 days	**4,834,539**	**7,087,674**	**3,069,971**	**14,992,184**
Past due 60 - 90 days	**3,826,174**	**4,721,750**	**304,059**	**8,851,983**
At 31 December 2016	**27,570,491**	**47,764,106**	**21,028,518**	**96,363,115**
At 31 December 2015				
Past due up to 30 days	41,683,134	37,381,489	12,367,711	91,432,334
Past due 30 - 60 days	4,638,231	5,992,222	6,309,378	16,939,831
Past due 60 - 90 days	3,943,121	5,446,846	492,316	9,882,283
At 31 December 2015	50,264,486	48,820,557	19,169,405	118,254,448

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk …*continued*

Loans and advances to customers individually impaired
The breakdown of the gross amount of individually impaired loans and advances by class are as follows:

	Overdrafts $	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Total $
31 December 2016	**12,285,137**	**72,950,430**	**56,479,703**	**221,494,425**	**363,209,695**
31 December 2015	40,404,563	87,818,419	67,658,266	322,669,392	518,550,640

Debt securities and treasury bills
The table below presents an analysis of debt securities and treasury bills by rating agency designation at 31 December 2016 and 2015, based on Standard & Poor's and Moody's ratings:

	Financial Assets Held For Trading $	Investment Securities $	Pledged Assets $	Treasury Bills $	Total $
At 31 December 2016					
AA- to A+	**–**	**100,307,319**	**–**	**–**	**100,307,319**
Lower than A+	**586,049**	**235,789,348**	**–**	**23,006,088**	**259,381,485**
Unrated	**18,013,663**	**107,582,499**	**21,366,983**	**–**	**146,963,145**
Total	**18,599,712**	**443,679,166**	**21,366,983**	**23,006,088**	**506,651,949**
At 31 December 2015					
AA- to A+	–	91,809,830	–	–	91,809,830
Lower than A+	–	228,978,461	–	15,149,507	244,127,968
Unrated	14,946,551	52,238,578	17,459,414	–	84,644,543
Total	14,946,551	373,026,869	17,459,414	15,149,507	420,582,341

Deposits with other banks and non-bank financial institutions are held with reputable financial institutions as such credit risk is deemed to be minimal.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Concentrations of risks of financial assets with credit exposure

(a) Geographical sectors
The Bank operates primarily in Saint Lucia.

(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 Bank's counterparties.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Industry concentrations of risks of financial assets with credit exposure *...continued*

At 31 December 2016	Financial Institutions $	Manu-facturing $	Tourism $	Government $	Professional and Other Services $	Personal $	* Other Industries $	Total $
Financial assets								
Balances with central bank	214,788,486	–	–	–	–	–	–	214,788,486
Deposits with other banks	95,603,876	–	–	–	–	–	–	95,603,876
Deposits with non-bank financial Institutions	8,729,733	–	–	–	–	–	–	8,729,733
Treasury Bills	–	–	–	23,006,088	–	–	–	23,006,088
Loans and advances to customers net:								
Overdrafts	6,504,602	1,337,686	5,750,804	5,739	4,255,172	698,622	22,400,144	40,952,769
Term loans	215,910	1,995,231	9,140,851	2,744	22,980,184	152,042,346	26,169,253	212,546,519
Large corporate loans	45,106,435	5,716,206	60,916,964	13,083,784	62,098,380	15,112,636	89,096,604	291,131,009
Mortgage loans	–	55,253	–	–	1,817,943	351,793,412	330,427	353,997,035
Financial assets held for trading-debt securities	–	–	–	18,013,663	–	–	586,049	18,599,712
Investment securities	154,942,003	–	–	104,533,117	–	–	184,204,046	443,679,166
Due from related parties	84,137,685	–		–	–	–	–	84,137,685
Financial instruments - pledged assets	–	–	–	21,366,983	–	–	–	21,366,983
Other assets	–	–	–	–	–	–	63,097,613	63,097,613
At 31 December 2016	**610,028,730**	**9,104,376**	**75,808,619**	**180,012,118**	**91,151,679**	**519,647,016**	**385,884,136**	**1,871,636,674**
Guarantees and letters of credit	–	193,300	15,000	31,000	169,000	22,195,776	4,537,600	27,141,676
Loan commitments and other credit related obligations	1,050,000	4,229,641	1,371,498	32,500,000	562,189	376,202	32,365,966	72,455,496

* Other industries include construction and land development.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Industry concentrations of risks of financial assets with credit exposure...*continued*

At 31 December 2015	Financial Institutions $	Manu-facturing $	Tourism $	Government $	Professional and Other Services $	Personal $	* Other Industries $	Total $
Financial assets								
Balances with central bank	232,279,062	–	–	–	–	–	–	232,279,062
Deposits with other banks	73,921,253	–	–	–	–	–	–	73,921,253
Deposits with non-bank financial Institutions	7,896,441	–	–	–	–	–	–	7,896,441
Treasury Bills	–	–	–	15,149,507	–	–	–	15,149,507
Loans and advances to customers net:								
Overdrafts	1,215,377	2,397,242	6,497,214	8,232	6,934,535	739,206	37,435,011	55,226,817
Term loans	514,933	2,442,415	10,107,800	41,985	23,272,563	172,524,275	33,176,410	242,080,381
Large corporate loans	45,512,144	12,469,005	79,177,241	1,245,783	93,626,027	14,550,679	159,625,105	406,205,984
Mortgage loans	–	83,077	–	–	2,547,180	362,502,813	535,750	365,668,820
Financial assets held for trading-debt securities	3,281	–	–	14,369,968	–	–	573,302	14,946,551
Investment securities	133,467,105	–	–	32,866,483	–	–	206,693,281	373,026,869
Due from related parties	84,137,686	–	–	–	–	–	–	84,137,686
Financial instruments - pledged assets	–	–	–	17,459,414	–	–	–	17,459,414
Other assets	2,642,621	–	–	–	–	–	38,231,659	40,874,280
At 31 December 2015	**581,589,903**	**17,391,739**	**95,782,255**	**81,141,372**	**126,380,305**	**550,316,973**	**476,270,518**	**1,928,873,065**
Guarantees and letters of credit	–	193,300	15,000	31,000	169,000	20,714,878	4,544,000	25,667,178
Loan commitments and other credit related obligations	375,000	3,785,669	4,434,218	31,500,000	855,807	487,146	76,839,014	118,276,854

* Other industries include construction and land development.

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

Market risk

The Bank 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 Bank exposures to market risks arise from its non-trading portfolios. Senior management of the bank monitors and manages market risk through the Asset Liability Committee which advises on financial risks and assigns risk limits for the bank.

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

Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. 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 Bank'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. The following table summarises the Bank's exposure to foreign currency exchange rate risk at 31 December.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Currency risk…*continued*

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
At 31 December 2016								
Financial assets								
Cash and balances with Central Bank	236,631,117	4,783,814	145,414	646,308	206,632	201,753	–	242,615,038
Deposits with other banks	75,821,882	17,092,432	1,524,782	–	529,414	287,824	347,542	95,603,876
Deposits with non-bank financial institution	–	8,708,170	–	–	21,563	–	–	8,729,733
Treasury bills	23,006,088	–	–	–	–	–	–	23,006,088
Financial assets held for trading	18,013,663	586,049	–	–	–	–	–	18,599,712
Loans and receivables:								
loans and advances to customers	859,396,227	39,231,105	–	–	–	–	–	898,627,332
Investment securities:								
held-to-maturity	7,740,154	86,183,889	–	–	–	–	–	93,924,043
Available-for-sale	66,097,080	298,537,312	–	–	–	–	–	364,634,392
Financial instruments - pledged assets	21,366,983	–	–	–	–	–	–	21,366,983
Due from related parties	84,137,685	–	–	–	–	–	–	84,137,685
Other assets	63,097,613	–	–	–	–	–	–	63,097,613
Total financial assets	**1,455,308,492**	**455,122,771**	**1,670,196**	**646,308**	**757,609**	**489,577**	**347,542**	**1,914,342,495**
Financial liabilities								
Deposits from banks	51,283,204	3,228,594	–	–	–	–	–	54,511,798
Due to customers	1,584,776,521	161,478,540	–	2,431,048	–	–	–	1,748,686,109
Repurchase agreements	10,659,562	3,179,348	–	–	–	–	–	13,838,910
Borrowings	56,998,800	36,630,612	–	–	–	–	–	93,629,412
Other liabilities	30,157,005	–	–	–	–	–	–	30,157,005
Total financial liabilities	**1,733,875,092**	**204,517,094**	–	**2,431,048**	–	–	–	**1,940,823,234**
Net assets/ (liabilities)	**(278,566,600)**	**250,605,677**	**1,670,196**	**(1,784,740)**	**757,609**	**489,577**	**347,542**	**(26,480,739)**
Loan commitments, guarantees and letters of credit	**99,597,172**	–	–	–	–	–	–	**99,597,172**

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Currency risk…*continued*

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
At 31 December 2015								
Financial assets								
Cash and balances with Central Bank	255,148,632	2,973,966	114,696	411,468	185,607	152,778	–	258,987,147
Deposits with other banks	31,117,400	28,927,585	1,504,193	7,460,091	611,330	239,984	4,060,670	73,921,253
Deposits with non-bank financial institution	–	7,870,313	–	–	26,128	–	–	7,896,441
Treasury bills	15,149,507	–	–	–	–	–	–	15,149,507
Financial assets held for trading	13,987,845	958,706	–	–	–	–	–	14,946,551
Loans and receivables:								
loans and advances to customers	1,024,802,781	44,379,221	–	–	–	–	–	1,069,182,002
Investment securities:								
held-to-maturity	3,376,397	58,410,896	–	–	–	–	–	61,787,293
Available-for-sale	26,571,718	297,140,041	–	–	–	–	–	323,711,759
Financial instruments - pledged assets	16,847,102	612,312	–	–	–	–	–	17,459,414
Due from related parties	84,137,686	–	–	–	–	–	–	84,137,686
Other assets	40,874,280	–	–	–	–	–	–	40,874,280
Total financial assets	**1,512,013,348**	**441,273,040**	**1,618,889**	**7,871,559**	**823,065**	**392,762**	**4,060,670**	**1,968,053,333**
Financial liabilities								
Deposits from banks	49,563,408	3,181,208	–	–	–	–	–	52,744,616
Due to customers	1,552,071,111	175,391,069	–	8,179,010	–	–	–	1,735,641,190
Repurchase agreements	16,811,378	3,124,645	–	–	–	–	–	19,936,023
Borrowings	11,685,701	55,390,561	–	–	–	–	–	67,076,262
Other liabilities	17,278,991	–	–	–	–	–	–	17,278,991
Total financial liabilities	**1,647,410,589**	**237,087,483**	–	**8,179,010**	–	–	–	**1,892,677,082**
Net assets/ (liabilities)	**(135,397,241)**	**204,185,557**	**1,618,889**	**(307,451)**	**823,065**	**392,762**	**4,060,670**	**75,376,251**
Loan commitments, guarantees and letters of credit	143,944,032	–	–	–	–	–	–	143,944,032

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk

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

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk …*continued*

Concentrations of financial assets and financial liabilities

	Up to 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Over 5 years $	Non-interest Bearing $	Total $
At 31 December 2016							
Financial assets							
Cash and balances with Central Bank	–	–	–	–	–	242,615,038	242,615,038
Deposits with other banks	3,910,391	11,582,065	–	–	–	80,111,420	95,603,876
Deposits with non-bank financial Institution	8,729,733	–	–	–	–	–	8,729,733
Treasury Bills	11,009,263	10,136,107	1,860,718	–	–	–	23,006,088
Financial assets held for trading	–	–	–	10,950,785	7,648,927	–	18,599,712
Loans and receivables:							
-Loans and advances to customers	53,225,766	8,890,889	34,867,846	158,730,973	642,911,858	–	898,627,332
Investment securities:							
-Held-to-maturity	5,636,827	3,167,265	4,519,358	44,904,564	35,696,029	–	93,924,043
-Available-for-sale	6,027,419	16,295,571	68,805,269	168,140,689	90,486,175	–	349,755,123
Financial instruments - pledged assets	–	–	–	6,980,953	14,386,030	–	21,366,983
Due from related parties	–	–	–	–	–	84,137,685	84,137,685
Other assets	–	–	–	–	–	63,097,613	63,097,613
Total financial assets	**88,539,399**	**50,071,897**	**110,053,191**	**389,707,964**	**791,129,019**	**469,961,756**	**1,899,463,226**
Financial liabilities							
Deposits from banks	–	3,075,749	44,761,333	–	–	6,674,716	54,511,798
Due to customers	886,809,170	99,158,178	363,107,492	36,928,641	25,590,422	337,092,206	1,748,686,109
Repurchase agreements	–	–	13,838,910	–	–	–	13,838,910
Borrowings	4,822,145	899,195	16,568,648	38,756,335	32,583,089	–	93,629,412
Other liabilities	–	–	–	–	–	30,157,005	30,157,005
Total financial liabilities	**891,631,315**	**103,133,122**	**438,276,383**	**75,684,976**	**58,173,511**	**373,923,927**	**1,940,823,234**
Net interest repricing gap	**(803,091,916)**	**(53,061,225)**	**(328,223,192)**	**314,022,988**	**732,955,508**	**96,037,829**	**(41,360,008)**

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk…*continued*

Concentrations of financial assets and financial liabilities

	Up to 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Over 5 years $	Non-interest Bearing $	Total $
At 31 December 2015							
Financial assets							
Cash and balances with Central Bank	–	–	–	–	–	258,987,147	258,987,147
Deposits with other banks	1,212,640	–	9,181,535	–	–	63,527,078	73,921,253
Deposits with non-bank financial Institution	7,896,441	–	–	–	–	–	7,896,441
Treasury Bills	1,000,000	10,167,671	3,981,836	–	–	–	15,149,507
Financial assets held for trading	65,865	–	–	2,655,615	12,225,071	–	14,946,551
Loans and receivables:							
-Loans and advances to customers	70,231,287	5,383,211	44,739,464	223,591,428	725,236,612	–	1,069,182,002
Investment securities:							
-Held-to-maturity	2,658,198	51,931	1,336,292	34,917,753	22,823,119	–	61,787,293
-Available-for-sale	16,607,487	4,441,050	40,398,551	174,304,181	75,488,307	–	311,239,576
Financial instruments - pledged assets	–	–	–	–	17,459,414	–	17,459,414
Due from related parties	–	–	–	–	–	84,137,686	84,137,686
Other assets	–	–	–	–	–	40,874,280	40,874,280
Total financial assets	**99,671,918**	**20,043,863**	**99,637,678**	**435,468,977**	**853,232,523**	**447,526,191**	**1,955,581,150**
Financial liabilities							
Deposits from banks	–	3,010,875	43,381,086	–	–	6,352,655	52,744,616
Due to customers	811,441,371	98,092,497	482,294,409	38,254,482	22,971,940	282,586,491	1,735,641,190
Repurchase agreements	–	–	19,936,023	–	–	–	19,936,023
Borrowings	12,582,927	900,840	19,129,226	7,774,405	26,688,864	–	67,076,262
Other liabilities	–	–	–	–	–	17,278,991	17,278,991
Total financial liabilities	**824,024,298**	**102,004,212**	**564,740,744**	**46,028,887**	**49,660,804**	**306,218,137**	**1,892,677,082**
Net interest repricing gap	**(724,352,380)**	**(81,960,349)**	**(465,103,066)**	**389,440,090**	**803,571,719**	**140,508,050**	**62,904,068**

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Sensitivity analysis
Cash flow interest rate risk arises from loans and advances to customers and borrowings at variable rates. At 31 December 2016, if variable interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit/(loss) for the year would have been $880,415 (2015 – $5,179,411) lower/higher, mainly as a result of higher/lower interest income on variable rate loans.

Liquidity risk
Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

The Bank is exposed to daily cash calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board 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 borrowing 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 maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched as transacted business is often of uncertain term and 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 Bank 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 Bank 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 Bank under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Liquidity risk management…*continued*

	Up to 1 month $	1-3 Months $	3-12 Months $	1-5 Years $	Over 5 years $	Total $
As at 31 December 2016						
Financial liabilities						
Deposits from banks	6,676,787	3,092,197	45,228,027	–	–	54,997,011
Due to customers	1,233,100,450	99,550,718	366,873,390	37,515,921	25,590,422	1,762,630,901
Repurchase Agreements	–	–	13,987,935	–	–	13,987,935
Borrowings	4,268,097	2,899,162	18,850,589	75,424,271	50,529,921	151,972,040
Other liabilities	7,734,251	22,250,832	–	171,922	–	30,157,005
Total financial liabilities	**1,251,779,585**	**127,792,909**	**444,939,941**	**113,112,114**	**76,120,343**	**2,013,744,892**

	Up to 1 month $	1-3 Months $	3-12 Months $	1-5 Years $	Over 5 years $	Total $
As at 31 December 2015						
Financial liabilities						
Deposits from banks	6,392,863	3,030,015	43,959,403	–	–	53,382,281
Due to customers	1,118,494,990	98,675,387	488,973,845	39,362,922	22,971,940	1,768,479,084
Repurchase Agreements	–	–	20,194,756	–	–	20,194,756
Borrowings	13,248,439	1,071,765	21,545,198	10,438,731	29,576,468	75,880,602
Other liabilities	34,138	6,609,443	8,501,156	–	–	15,144,737
Total financial liabilities	**1,138,170,430**	**109,386,610**	**583,174,358**	**49,801,653**	**52,548,408**	**1,933,081,459**

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

Liquidity risk management*…continued*

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

The Bank's assets held for managing liquidity risk comprise cash and balances with central banks, certificate of deposits, 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 Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

The table below includes the expected undiscounted cash flows arising from the assets and liabilities used to manage liquidity.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Off-balance sheet items

(a) Loan commitments
The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 29), are summarised in the table below.

(b) Financial guarantees and other financial facilities
Financial guarantees (Note 29) are also included below based on the earliest contractual maturity date.

	1 Year $	Total $
At 31 December 2016		
Loan commitments	**72,455,496**	**72,455,496**
Guarantees and letters of credit	**27,141,676**	**27,141,676**
Total	**99,597,172**	**99,597,172**
At 31 December 2015		
Loan commitments	**118,276,854**	118,276,854
Guarantees and letters of credit	**25,667,178**	25,667,178
Total	**143,944,032**	143,944,032

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

The fair values of cash resources, other assets and liabilities, cheques and other items in transit and due to other banks are assumed to approximate their carrying values due to their short term nature. The fair value of off-balance sheet commitments is also assumed to approximate the amounts disclosed in Note 29 due to their short term nature.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

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 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. The fair value for held-to-maturity assets is 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.

Pledged assets

The estimated fair value of pledged assets are derived from market prices or broker/dealer 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 to customers

Loans and advances are net of provisions for impairment. The estimated fair values of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates 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 Bank's statement of financial position at their fair value.

	Carrying value		Fair value	
	2016 **$**	**2015** **$**	**2016** **$**	**2015** **$**
Financial assets				
Loans and advances to customers:				
-Term loans	**212,546,519**	242,080,381	**229,160,932**	243,799,346
-Large corporate loans	**291,131,009**	406,205,984	**332,077,135**	554,275,236
-Overdrafts	**40,952,769**	55,226,817	**40,981,664**	72,309,955
-Mortgages	**353,997,035**	365,668,820	**369,001,722**	365,590,081
Investment securities:				
-Held to maturity	**93,924,043**	61,787,293	**98,286,047**	63,920,030
Financial liabilities				
Borrowings	**93,629,412**	67,076,262	**101,459,850**	62,519,027

Management assessed that cash and short term deposits, 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 Bank'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 year.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

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 exchanges such as the Luxembourg Stock Exchange and New York Stock Exchange.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

Assets measured at fair value

	Level 1 $	Level 2 $	Level 3 $	Total $
31 December 2016				
Investment properties	**–**	**6,547,711**	**–**	**6,547,711**
Land and buildings	**–**	**–**	**71,350,078**	**71,350,078**
Financial assets held for trading				
− Debt securities	**–**	**18,599,712**	**–**	**18,599,712**
Financial assets available for sale				
− debt securities	**2,636,009**	**338,105,072**	**9,014,042**	**349,755,123**
− equity securities	**5,803,125**	**5,229,407**	**–**	**11,032,532**
Financial instruments-pledged	**–**	**21,366,983**	**–**	**21,366,983**
Total financial assets	**8,439,134**	**389,848,885**	**80,364,120**	**478,652,139**

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

Fair values of financial assets and liabilities*…continued*

	Level 1 $	Level 2 $	Level 3 $	Total $
Investment properties	–	8,077,711	–	8,077,711
Land and buildings	–	–	70,230,402	70,230,402
Financial assets held for trading				
− Debt securities	–	14,946,551	–	14,946,551
Financial assets available for sale				
− debt securities	–	310,535,324	704,252	311,239,576
− equity securities	166,991	10,500,068	–	10,667,059
Financial instruments-pledged	–	17,459,414	–	17,459,414
Total financial assets	166,991	361,519,068	70,934,654	432,620,713

Assets for which fair values are disclosed

	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2016			
Loans and receivable	–	**971,221,453**	971,221,453
Held to maturity investments	**93,924,043**	–	93,924,043
Total financial assets	**93,924,043**	**971,221,453**	1,065,145,496
31 December 2015			
Loans and receivable	–	1,235,974,618	1,235,974,618
Held to maturity investments	63,920,030	–	63,920,030
Total financial assets	63,920,030	1,235,974,618	1,299,894,648

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

Liabilities for which fair values are disclosed:

	Level 3 $'000	Total $'000
31 December 2016		
Borrowings	**101,459,850**	**101,459,850**
Repurchase agreements	**13,838,910**	**13,838,910**
Total financial liabilities	**115,298,760**	**115,298,760**
31 December 2015		
Borrowings	62,519,027	62,519,027
Repurchase agreements	19,936,023	19,936,023
Total financial liabilities	82,455,050	82,455,050

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, 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 maximise the use of observable market data where it is available and rely as little 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.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no transfers between level 1 and level 2 financial assets during the reporting period or any transfers to level 3.

The following table presents the change in level 3 instruments for the year ended 31 December 2016. There were no movements in level 3 for the year ended 31 December 2016.

	Available-for-Sale	
	Debt Securities 2016 $'000	**Debt Securities 2015 $'000**
31 December 2016		
At beginning of year	**704,252**	**704,252**
Purchases	**8,309,790**	**-**
At end of year	**9,014,042**	**704,252**

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Fiduciary activities
The Bank provides investment management and advisory services to third parties, which involve the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Bank accepting targets for benchmark levels of returns for the assets under the Bank's care. At the reporting date, the Bank had financial assets under administration amounting to $67,159,749 (2015 – $70,904,100).

Capital management
The Bank'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 set by the regulators of the banking markets where the Bank operates;

- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the East Caribbean Central Bank (ECCB) for supervisory purposes. The required information is filed with the ECCB on a quarterly basis.

The ECCB 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%.

The Bank'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 revaluation of fixed assets (limited to 50% of Tier 1 capital).

Investment in associates 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-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Capital management…*continued*
The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2016 and 2015. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject.

	2016 $	2015 $
Tier 1 capital		
Share capital	**198,718,745**	198,718,745
Reserves	**149,583,770**	146,854,341
Accumulated deficit	**(284,711,799)**	(171,599,131)
Total qualifying Tier 1 capital	**63,590,716**	173,973,955
Tier 2 capital		
Revaluation reserve – available-for-sale investments	**(1,006,930)**	(2,899,994)
Revaluation reserve- property plant and equipment	**13,855,322**	13,855,322
Collective impairment allowance (limited to 1.25% of risk weighted assets)	**17,002,000**	18,404,000
Redeemable preference shares	**4,150,000**	4,150,000
Subordinated debt (limited to 50% of tier 1 capital)	**31,795,358**	–
Total qualifying Tier 2 capital	**65,795,750**	33,509,328
Total regulatory capital	**129,386,466**	207,483,283
Risk-weighted assets:		
On-balance sheet	**1,257,134,600**	1,380,703,292
Off-balance sheet	**19,919,400**	28,788,800
Total risk-weighted assets	**1,277,054,000**	1,409,492,092
Basel capital adequacy ratio	**10.13%**	14.72%

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates, and judgements in applying accounting policies

The Bank 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 Bank reviews its loan portfolio to assess impairment at least annually. In determining whether an impairment loss should be recorded in the statement of income, the Bank 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 $3,643,800/$3,375,534 (2015 – $5,002,434/$5,867,481) higher/lower.

Impairment of assets carried at fair value
The Bank determines that available-for-sale and held for trading 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 Bank 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 Bank 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 fair value of the instrument increases in a subsequent year, the impairment loss is reversed through the 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 Bank 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 Bank evaluates its intention and ability to hold such investments to maturity. If the Bank 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 were tainted, the fair value would increase by $4,362,004 (2015 – decrease by $2,132,737) with a corresponding entry in the fair value reserve in equity.

(expressed in Eastern Caribbean dollars)

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

Fair value of financial instruments
Financial instruments where 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 deferred tax asset, management uses judgment to determine the possibility that future taxable profits will be available to facilitate utilization of temporary tax differences which may arise.

Corporate income taxes
Significant estimates are required in determining the provision for income taxes. The Bank 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. The deferred tax assets recognised at 31 December 2016 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.

The Bank has obtained legal advice that the reassessment is based on a fundamental misinterpretation of the relevant provisions of the Income Tax Act.

Adjustments arising, if any, will be reflected in the period in which agreement is reached.

Revaluation of land and buildings and investment property
The Company measures its land and buildings and investment property at revalued amounts with changes in fair value being recognized in other comprehensive income and the statement of comprehensive income respectively. The Company engages independent valuation specialists to determine fair value of its land and buildings. 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.

Retirement benefits
The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The most sensitive assumptions used in determining the net cost (income) for pensions include the discount rate and future salary increases. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of Government that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Were the discount rate used to increase/(decrease) by 1% from management's estimates, the defined benefit obligation for pension benefits would be an estimated $6,127,347 lower or $8,841,357 higher (2015 - $5,679,846 lower or $8,257,640 higher).

Were the estimated salary increases used to increase/ (decrease) by 1% from management's estimates, the defined benefit obligation for pension benefits would be an estimated $3,459,470 lower or $4,196,962 higher (2015 . $3,560,325 lower or $4,289,107 higher.

(expressed in Eastern Caribbean dollars)

5 Cash and balances with Central Bank

	2016 $	2015 $
Cash in hand	**27,826,552**	26,708,085
Balances with Central Bank other than mandatory reserve deposits	**110,583,229**	129,636,200
Included in cash and cash equivalents (Note 40)	**138,409,781**	156,344,285
Mandatory reserve deposits with Central Bank	**104,205,257**	102,642,862
	242,615,038	258,987,147

Pursuant to the Banking Act of Saint Lucia of 2015, the Bank is 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 Bank's day-to-day operations. The balances with the Central Bank are non-interest bearing.

6 Deposits with other banks

	2016 $	2015 $
Items in the course of collection with other banks	**9,393,935**	9,484,227
Placements with other banks	**70,717,485**	54,042,851
Interest bearing deposits	**15,492,456**	10,394,175
Included in cash and cash equivalents (Note 40)	**95,603,876**	73,921,253

The weighted average effective interest rate in respect of interest bearing deposits at 31 December 2016 was 0.31% (2015 – 1.14%).

7 Deposits with non-bank financial institutions

	2016 $	2015 $
Deposits (Note 40)	**8,729,733**	7,896,441

The weighted average effective interest rate in respect of interest bearing deposits at 31 December 2016 and 2015 was nil. Interest rate on deposits depends on the value of deposits held.

(expressed in Eastern Caribbean dollars)

8 Treasury bills

	2016 $	2015 $
Treasury bills – cash and cash equivalents (Note 40)	**21,145,370**	11,167,671
Treasury bills – more than 90 days to maturity	**1,860,718**	3,981,836
	23,006,088	15,149,507

The weighted average interest rate on treasury bills was 3.30% (2015 4.50)%

9 Financial assets held for trading

	2016 $	2015 $
Debt securities	**18,599,712**	14,946,551

Financial assets held for trading were acquired for the purpose of selling in the near term and would otherwise have been classified as held-to-maturity investments. The weighted average interest rate on debt securities was 7.1% (2015 – 7.0%).

10 Loans and advances to customers

	2016 $	2015 $
Large corporate loans	**359,544,033**	471,509,566
Mortgage loans	**367,241,317**	380,695,256
Term loans	**229,564,787**	271,568,329
Overdrafts	**42,439,965**	71,179,297
Gross	**998,790,102**	1,194,952,448
Less allowance for impairment losses on loans and advances (Note 11)	**(100,162,770)**	(125,770,446)
Net	**898,627,332**	1,069,182,002

The weighted average effective interest rate on productive loans stated at amortised cost at 31 December 2016 was 7.05% (2015 – 7.90%) and productive overdrafts stated at amortised cost was 15.14% (2015 – 14.67%).

(expressed in Eastern Caribbean dollars)

11 Allowance for impairment losses on loans and advances

The movement on the provision by class was as follows:

	2016 $	2015 $
Large corporate loans		
At beginning of year	**65,303,582**	40,112,659
Provision for individual loan impairment	**76,433,934**	24,257,310
Provision for collective loan impairment	**5,055,820**	933,613
Written-off during the year as uncollectible	**(78,380,312)**	–
At end of year	**68,413,024**	65,303,582
Term loans		
At beginning of year	**29,487,948**	26,730,351
Provision for individual loan impairment	**18,946,460**	4,657,101
Provision for collective loan impairment	**188,031**	(386,645)
Written-off during the year as uncollectible	**(31,604,171)**	(1,512,859)
At end of year	**17,018,268**	29,487,948
Mortgage loans		
At beginning of year	**15,026,436**	10,959,506
Provision for individual loan impairment	**14,875,691**	4,185,165
Provision for collective loan impairment	**2,146,400**	–
Written-off during the year as uncollectible	**(18,804,245)**	(118,235)
At end of year	**13,244,282**	15,026,436
Overdrafts		
At beginning of year	**15,952,480**	12,576,524
Provision for individual loan impairment	**13,159,922**	3,699,011
Provision for collective loan impairment	**(2,024,045)**	–
Written-off during the year as uncollectible	**(25,601,161)**	(323,055)
At end of year	**1,487,196**	15,952,480
	100,162,770	125,770,446

(expressed in Eastern Caribbean dollars)

12 Investment securities

	2016 $	2015 $
Securities held-to-maturity		
Debt securities at amortised cost		
- Unlisted	**6,218,333**	8,716,181
-Listed	**92,017,864**	57,383,266
Less allowance for impairment	**(4,312,154)**	(4,312,154)
Total securities held- to- maturity	**93,924,043**	61,787,293
Securities available-for-sale		
Debt securities at fair value		
- Unlisted	**39,129,054**	17,485,079
- Listed	**311,027,507**	296,582,408
	350,156,561	314,067,487
Less allowance for impairment	**(401,438)**	(2,827,911)
	349,755,123	311,239,576
Equity securities:		
-Unlisted	**3,846,737**	1,805,124
-Listed	**11,032,532**	10,667,059
Total securities available- for- sale	**364,634,392**	323,711,759
Total investment securities	**458,558,435**	385,499,052

All debt securities have fixed interest rates.

The weighted average effective interest rate on securities held-to-maturity stated at amortised cost at 31 December 2016 was 3.42% (2015 – 3.1%).

The weighted average effective interest rate on available-for-sale securities at 31 December 2016 was 3.1% (2015 – 2.87%).

(expressed in Eastern Caribbean dollars)

12 Investment securities …..*continued*

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

	Held-to-maturity $	Available-for-sale $	Held for trading $	Total $
At 31 December 2015	**61,787,293**	**323,711,759**	**15,625,329**	**401,124,381**
Additions	39,466,060	177,957,876	6,481,618	223,905,554
Movement in interest accrued	290,296	391,395	176,649	858,340
Disposals (sale and redemption)	(7,987,447)	(139,319,702)	(3,701,213)	(151,008,362)
Unrealised gain from changes in fair value	–	1,893,064	17,329	1,910,393
Amortisation of premium/discount	367,841	–	–	367,841
At 31 December 2016	**93,924,043**	**364,634,392**	**18,599,712**	**477,158,147**
At 31 December 2014	**5,393,140**	**285,229,843**	**9,147,610**	**299,770,593**
Additions	58,074,519	119,062,321	11,402,369	188,539,209
Movement in interest accrued	446,599	134,522	121,123	702,244
Disposals (sale and redemption)	(813,519)	(81,227,281)	(5,650,820)	(87,691,620)
Unrealised loss from changes in fair value	–	512,354	(73,731)	438,623
Impairment loss on investments	(1,885,682)	–	–	(1,885,682)
Amortisation of premium/discount	572,236	–	–	572,236
At 31 December 2015	**61,787,293**	**323,711,759**	**14,946,551**	**400,445,603**

(expressed in Eastern Caribbean dollars)

13 Financial instruments - pledged assets and repurchase agreements

The following assets are pledged against other funding instruments and as collateral on borrowings on behalf of the parent company, East Caribbean Financial Holding Company Limited.

	Pledged assets	
	2016	**2015**
	$	**$**
Pledged against repurchase agreements	**10,822,478**	17,459,414
Pledged against Automated Clearing House	**10,544,505**	–
	21,366,983	17,459,414

The value of repurchase agreements on the statement of financial position which are secured by pledged assets is $13,838,910 (2015 - $19,936,023). The variance between investment pledged against repurchase agreements and the value of repurchase agreements represents accrued interest.

14 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.

The Bank is controlled by East Caribbean Financial Holding Company Limited which owns 100% of the ordinary shares and is related to the companies listed below by common ownership and control.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans and receivables. Included in loans to related parties is an amount of $84,137,685 which is non-interest bearing and has no fixed terms of repayment.

	2016	**2015**
	$	**$**
Due from related parties		
East Caribbean Financial Holding Company Limited	**84,137,685**	84,137,686

(expressed in Eastern Caribbean dollars)

14 Related parties balances and transactions…*continued*

The following accounts maintained by related parties are included under due to customers and loans and advances:

	2016 $	2015 $
Bank of Saint Lucia International Limited		
Fixed deposits	**17,424,889**	17,118,483
Bank account	**1,941,151**	1,030,999
Bank of Saint Vincent and the Grenadines Limited		
Current account	**853,006**	299,751
Investments	**6,717,263**	6,553,428
EC Global Insurance Company Limited		
Current account	**2,209,117**	733,228
Fixed deposit	**96,967**	95,066
Managed funds	**6,637,059**	7,653,624
East Caribbean Amalgamated Bank		
Current account	**199,912**	26,783
Fixed Deposit	**18,567,376**	18,123,799
Loans	**128,094**	509,782
Student Loan Guarantee Fund		
Current account	**71,687**	40,377
Fixed deposit	**1,196,752**	1,164,721
Productive Equity Funds		
Current account	**2,273,636**	2,273,646

(expressed in Eastern Caribbean dollars)

14 Related parties balances and transactions*…continued*

The following transactions were carried out with related companies:

	2016 $	2015 $
Income		
Rent	**584,319**	584,320
Service and management charges	**761,572**	755,652
Dividend income	**1,479,000**	765,000
Expenses		
Interest expense	**467,445**	26,914

The Bank has an agency arrangement with EC Global Insurance Company Limited. The balances and transactions with respect to this arrangement are as follows:

	2016 $	2015 $
Assets	**1,623,892**	1,398,290
Liabilities	**826,196**	141,106
Commissions	**2,101,899**	1,386,531
Expenses	**1,686,898**	1,725,503

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. The volumes of related party transactions, outstanding balances at year end, and relating expenses and income for the year are as follows:

Other related parties balances with the Bank:

	2016		2015	
	Loans $	Deposits $	Loans $	Deposits $
Government of Saint Lucia	**4,542**	**115,660,846**	8,416	73,101,476
Statutory bodies	**17,241,549**	**406,009,618**	18,808,715	411,720,314
Directors and key management	**9,382,287**	**4,484,456**	10,078,207	9,557,412

(expressed in Eastern Caribbean dollars)

14 Related parties balances and transactions…*continued*

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

The loans issued to directors and other key management personnel during the year are repayable monthly over an average of 6 years (2015 – 8 years) and have a weighted average effective interest rates of 6.5% (2015 – 5.5%)

Interest income and interest expense with other related parties:

	2016		2015	
	Income	**Expenses**	**Income**	**Expenses**
	$	**$**	**$**	**$**
Government of Saint Lucia	**2,173**	**728,894**	4,482	764,003
Statutory bodies	**1,306,478**	**7,618,606**	1,394,718	10,984,350
Directors and key management	**561,478**	**102,132**	579,319	205,417

Transactions with related parties were carried out on commercial terms and conditions.

Key management compensation
Key management includes the bank's complete management team. The compensation paid or payable to key management for employee services is shown below:

	2016	**2015**
	$	**$**
Key management compensation		
Salaries and other short-term benefits	**7,142,144**	3,586,566
Post employment benefit – Pension costs	**509,449**	243,026
	7,651,593	3,829,592

(expressed in Eastern Caribbean dollars)

15 Property and equipment

	Land and Buildings $	Leasehold Improvements $	Office Furniture and Equipment $	Computer Equipment and Software $	Motor Vehicles $	Total $
Year ended 31 December 2015						
Opening net book amount	72,856,876	2,207,733	6,113,703	1,379,664	540,931	83,098,907
Additions	–	1,117,154	1,679,533	1,267,329	160,204	4,224,220
Disposals at cost	–	(35,388)	(73,331)	(57,951)	(59,000)	(225,670)
Accumulated depreciation on disposals	–	35,019	53,577	57,951	59,000	205,547
Depreciation charge (Note 36)	(1,506,798)	(856,369)	(1,832,782)	(930,738)	(190,303)	(5,316,990)
Closing net book amount	71,350,078	2,468,149	5,940,700	1,716,255	510,832	81,986,014
At 31 December 2015						
Cost	86,259,882	9,316,126	26,615,774	28,986,648	1,936,053	153,114,483
Accumulated depreciation	(14,909,804)	(6,847,977)	(20,675,074)	(27,270,393)	(1,425,221)	(71,128,469)
Net book amount	71,350,078	2,468,149	5,940,700	1,716,255	510,832	81,986,014
Year ended 31 December 2016						
Opening net book amount	**71,350,078**	**2,468,149**	**5,940,700**	**1,716,255**	**510,832**	**81,986,014**
Additions	**467,758**	–	**716,318**	**883,280**	–	**2,067,356**
Disposals at cost	–	–	**(652,888)**	**(4,640)**	**(465,915)**	**(1,123,443)**
Accumulated depreciation on disposals	–	–	**604,773**	**1,676**	**407,269**	**1,013,718**
Depreciation charge (Note 36)	**(1,587,434)**	**(691,786)**	**(1,670,192)**	**(1,020,127)**	**(201,577)**	**(5,171,116)**
Closing net book amount	**70,230,402**	**1,776,363**	**4,938,711**	**1,576,444**	**250,609**	**78,772,529**
At 31 December 2016						
Cost	**86,727,640**	**9,316,125**	**26,679,203**	**29,865,288**	**1,525,239**	**154,113,495**
Accumulated depreciation	**(16,497,238)**	**(7,539,762)**	**(21,740,492)**	**(28,288,844)**	**(1,274,630)**	**(75,340,966)**
Net book amount	**70,230,402**	**1,776,363**	**4,938,711**	**1,576,444**	**250,609**	**78,772,529**

(expressed in Eastern Caribbean dollars)

15 Property and equipment…*continued*

The major component of land and buildings were revalued in 2017 by an independent valuer based on open market value and a management internal specialist performed a review of the remaining buildings. The valuation indicates that the market value does not differ materially from the carrying amount of the respective assets in the books of the Bank.

The historical cost of land and buildings is:

	2016 **$**	**2015** **$**
Cost	**68,143**	66,682
Accumulated depreciation based on historical cost	**(19,219)**	(17,028)
Depreciated historical cost	**48,924**	49,654

(expressed in Eastern Caribbean dollars)

16 Other assets

	2016 $	2015 $
Suspense accounts- credit cards	**33,821,123**	18,813,570
Other receivables	**32,932,683**	25,299,720
Trade receivables	**850,870**	749,572
	67,604,676	44,862,862
Less provision for impairment on other receivables	**(4,507,063)**	(3,988,582)
	63,097,613	40,874,280
Stationery and supplies	**846,888**	692,685
Prepaid expenses	**1,560,426**	2,059,059
	2,407,314	2,751,744
	65,504,927	43,626,024

As of 31 December 2016, trade receivables of $615,863 (2015 - $747,991) were past due but not impaired. These relate mainly to receivables from existing customers with some defaults in the past but all amounts due were fully recovered. The aging analysis of these trade receivables is as follows:

	2016 $	2015 $
Greater than 30 days but less than 60 days	**142,755**	218,448
Greater than 60 days but less than 90 days	**166,099**	108
Greater than 90 days	**640,220**	529,435
	949,074	747,991

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

17 Provision for impairment on other receivables

The movement on the provision for impairment on other receivables was as follows:

	2016 $	2015 $
At beginning of year	**3,988,582**	3,721,085
Provisions made during the year	**827,564**	752,286
Write offs during the year	**(309,083)**	(484,789)
At end of year	**4,507,063**	3,988,582

(expressed in Eastern Caribbean dollars)

18 Investment in associates

	2016 $	2015 $
At beginning of year	**5,455,535**	5,455,535
Transfer to investment securities	**(655,535)**	–
At end of year	**4,800,000**	5,455,535

The Company's interests in its associates comprise a 20% holding in East Caribbean Amalgamated Bank Limited, an unlisted company incorporated in St. Kitts. During the year, the company's interest in EC Global Insurance Company Limited was reduced from 20% to 11%. As a result of the loss of substantial interest in the company, the investment was reclassified to investment securities.

19 Investment properties

	2016 $	2015 $
At beginning of year	**8,077,711**	8,077,711
Fair value loss (Note 35)	**(1,530,000)**	–
At end of year	**6,547,711**	8,077,711

The investment properties are composed of land and buildings. The investment properties are valued annually at fair value by an independent, professionally qualified valuer. The following amounts have been recognised in the statement of comprehensive income:

	2016 $	2015 $
Rental income	**6,130,965**	6,208,891
Direct operating expenses arising from investment properties that generated rental income	**(1,947,129)**	(1,539,721)
Direct operating expenses that did not generate rental income	**(343,295)**	(659,546)
Profit arising from investment properties carried at fair value	**3,840,541**	4,009,624

(expressed in Eastern Caribbean dollars)

19 Investment properties…*continued*

Under the market comparable method (or market comparable approach), a property's fair value is estimated based on comparable transactions. Although property interests are not homogeneous, the International Valuation Standards Council considers the market approach most commonly applied. "In order to compare the subject of the valuation with the price of other real property interests that have been recently exchanged or that may be currently available in the market, it is usual to adopt a suitable unit of comparison. A unit of comparison is only useful when it is consistently selected and applied to the subject property and the comparable properties in each analysis."

The market comparable approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. In theory, the best comparable sale would be an exact duplicate of the subject property and would indicate, by the known selling price of the duplicate, the price for which the subject property could be sold. The unit of comparison applied by the Company is the price per square foot (sq. Ft.).

20 Retired benefit asset

The amounts recognised in the statement of financial position are determined as follows:

	2016 $	**2015 $**
Fair value of plan assets	**56,423,536**	52,208,893
Present value of funded obligation	**(45,796,967)**	(44,311,753)
Asset in the statement of financial position	**10,626,569**	7,897,140

Movement in the asset recognised in the statement of financial position:

The movement in the defined benefit obligation over the year is as follows:

	2016 $	**2015 $**
Beginning of year	**44,311,753**	38,226,542
Current service cost	**914,754**	1,298,095
Interest cost	**3,405,744**	3,003,271
Employee contribution	**960,497**	982,545
Actuarial gain	**(2,241,618)**	1,728,429
Benefits paid	**(1,554,163)**	(927,129)
End of year	**45,796,967**	44,311,753

(expressed in Eastern Caribbean dollars)

20 Retired benefit asset*…continued*

The movement in the fair value of plan assets of the year is as follows:

	2016 $	2015 $
Beginning of year	**52,208,893**	47,848,329
Actual return on plan assets	**2,583,991**	1,235,684
Employer contributions	**2,410,838**	3,264,177
Employee contributions	**960,497**	982,545
Benefits paid	**(1,554,163)**	(927,129)
Administrative expenses	**(186,520)**	(194,713)
End of year	**56,423,536**	52,208,893

	2016 $	2015 $
Net asset at beginning of year	**7,897,140**	9,621,787
Net periodic cost	**(530,202)**	(790,272)
Contributions paid	**2,410,838**	3,264,177
Effect on statement of other comprehensive income	**848,793**	(4,198,552)
Net asset at end of year	**10,626,569**	7,897,140

Benefit cost:

	2016 $	2015 $
Current service cost	**914,754**	1,298,095
Interest on net defined benefit asset	**3,405,744**	3,003,271
Expected return on plan assets	**(3,976,816)**	(3,705,808)
Administrative expenses	**186,520**	194,713
	530,202	790,271

The amounts recognised in the statement of comprehensive income are as follows:

	2016 $	2015 $
Gain from experience	**(2,241,618)**	1,728,429
Expected return on plan assets	**3,976,816**	3,705,808
Actual return on plan assets	**(2,583,991)**	(1,235,685)
	(848,793)	4,198,552

(expressed in Eastern Caribbean dollars)

20 Retirement benefit asset…*continued*

The principal actuarial assumptions used were as follows:

	2016 %	2015 %
Discount rate	**7.50**	7.50
Future promotional salary increases	**3.00-4.50**	3.00-4.50
Future inflationary salary increases	**2.00**	2.00

Assumptions are set to approximate the expected average rates over the long term and may not be appropriate in any specific year.

Plan assets allocation is as follows:

	2016 %	2015 %
Debt securities	**90**	86
Equity securities	**6**	8
Other	**4**	6
	100	100

Mortality rate
Assumptions regarding future mortality experience are set based on advice, published statistics and experience in each territory.

The average life expectancy in years of a pensioner retiring at age 60 after the statement of financial position date is as follows:

	2016	2015
Male	**24.60**	24.52
Female	**26.81**	26.77

The assumption adopted for the expected return on assets considers the actual assets the Plan holds and the outlook for returns on various asset classes. This assumption is usually derived by looking at actual asset mix and making assumptions about returns relative to the “baseline” of our discount rate, which are taken to be the returns on corporate and government bonds

(expressed in Eastern Caribbean dollars)

20 Retirement benefit asset*…continued*

The major categories of the fair value of the total plan assets are as follows:

	2016 $	2015 $
Investments quoted in active markets:		
Quoted equity investments:		
- Energy	**26,751**	11,259
- Consumer staples	**1,958,827**	1,914,127
- Other	**1,402,987**	2,111,807
Quoted Debt securities		
- Sovereign bonds	**17,924,750**	12,156,881
- Energy	**2,283,348**	5,317,746
- Industrial	**276,209**	277,604
- Consumer staples		290,971
- Other	**10,915,436**	11,247,146
Cash and cash equivalents	**3,921,414**	2,971,414
Unquoted investments		
Unquoted Debt securities		
- Sovereign bonds	**13,052,916**	11,586,175
- Other	**4,660,898**	4,323,763
Total	**56,423,536**	52,208,893

The following payments are expected contributions to the defined benefit plan in future years:

	2016 $	2015 $
Within the next 12 months	**619,389**	620,614
Between 2 and 5 years	**683,781**	2,961,276
Between 5 and 10 years	**11,654,060**	8,076,324
Total expected payments	**12,957,230**	11,658,214

The average duration of the defined benefit plan obligation at the end of the reporting period is 16 (2015 - 17)

(expressed in Eastern Caribbean dollars)

21 Deferred tax asset

The movement on the deferred tax asset is as follows:

	2016 $	2015 $
At beginning of year	**4,329,611**	4,143,354
Expense/(credit) during the year	**(4,329,611)**	186,257
At end of year	**–**	4,329,611

The deferred tax asset account is detailed below:

	2016 $	2015 $
Unutilised tax losses	**5,109,924**	8,985,514
Accelerated capital allowances	**(1,921,953)**	(2,286,762)
Fair value pension gains	**(3,187,971)**	(2,369,143)
	–	4,329,611

Deferred income taxes are calculated on all temporary differences under the liability method using the effective tax rate of 30%.

22 Deposits from banks

	2016 $	2015 $
Deposits from other banks	**54,511,798**	52,744,616

The weighted average effective interest rate on deposits from other banks at 31 December 2016 was 2.28% (2015 – 1.56%).

23 Due to customers

	2016 $	2015 $
Term deposits	**509,239,029**	643,364,547
Saving deposits	**632,147,227**	629,984,281
Call deposits	**270,207,647**	185,974,102
Demand deposits	**337,092,206**	276,318,260
	1,748,686,109	1,735,641,190

The weighted average effective interest rate of customers' deposits at 31 December 2016 was 2.02% (2015 – 2.32%).

(expressed in Eastern Caribbean dollars)

24 Borrowings

	Due	Rate %	2016 $	Rate %	2015 $
Caribbean Development Bank	2020	3	**36,630,612**	3.7	45,171,376
National Insurance Corporation	2026	7.5	**53,144,934**	6.9	3,699,632
European Investment Bank	2027	-	-	3.3	10,219,185
Prodev bond	2017	7.5	**3,853,866**		7,986,069
Total			**93,629,412**		67,076,262

Security for loans issued by the Bank includes a first hypothecary obligation over the building and property known as the Financial Center, which is located at #1 Bridge Street.

The Bank has not had any defaults of principal, interest or other breaches with respect to borrowings during the year.

The Bank had undrawn facilities at the end of the financial reporting period of $24,913,398 (2015 – $25,092,156) with the Caribbean Development Bank.

In August 2016, the Company issued a ten (10) year, EC$50 million bond via private placement. The bond which qualifies as tier II capital, pays interest semi-annually at the rate of 7.25%. Principal repayments are to be amortized by way of 10 semi-annual payments over the last 5-year term of the instrument. The National Insurance Corporation was the sole purchaser of the bond.

(expressed in Eastern Caribbean dollars)

25 Cumulative preference shares

	No. of shares	2016 $	No. of Shares	2015 $'000
7% Cumulative Preference Shares				
Authorised:				
11,550,000 preference shares				
At beginning and end of year	**830,000**	**4,150,000**	830,000	4,150,000

The preference shares are non-voting and are to be converted to ordinary shares. The Company has imposed certain restrictions with respect to the number of preference shares that can be converted to ordinary shares in any one year.

The Board of Directors of the Company and the National Insurance Corporation have formally agreed that future conversions of preference shares should be done at $5 per share.

Dividends declared on the preference shares during the year amounted to $290,500 (2015 - $290,500).

26 Other liabilities

	2016 $	2015 $
Managers' cheques outstanding	**6,863,381**	6,197,619
Trade and other payables	**23,157,160**	11,008,666
Agency loans	**136,464**	72,706
	30,157,005	17,278,991

The Agency loans are funds issued to the Bank by the Government of Saint Lucia for disbursement to the related projects. The Bank earns an agency fee on the amounts disbursed. The funds belong to the Government of Saint Lucia.

27 Share capital

	Number of shares	2016 $	Number of shares	2015 $
Authorised:				
Unlimited ordinary shares up to 3,000,000				
Issued and fully paid:				
At beginning of year	**1,478,875**	**198,718,745**	1,478,875	198,718,745
At end of year	**1,478,875**	**198,718,745**	1,478,875	198,718,745

(expressed in Eastern Caribbean dollars)

28 Reserves

	2016 $	2015 $
(a) General reserve	**48,952,219**	48,952,219
(b) Statutory reserve	**87,970,850**	87,970,850
(c) Special reserve	**2,034,132**	2,034,132
(d) Retirement benefit reserve	**10,626,569**	7,897,140
	149,583,770	146,854,341

Movements in reserves were as follows:

(a) General reserve

	2016 $	2015 $
At the beginning of the year	**48,952,219**	48,286,226
Transfer to general reserve	**-**	665,993
At the end of the year	**48,952,219**	48,952,219

It is the policy of the Bank to maintain a general reserve for reinvestment in banking operations. There were no transfers to general reserves during 2016.

(b) Statutory reserve

	2016 $	2015 $
At the beginning of year	**87,970,850**	87,970,850
At the end of the year	**87,970,850**	87,970,850

Pursuant to Section 45 (1) of the Banking Act of Saint Lucia 2015, the Bank shall, out of its net profits of each year transfer to that reserve a sum equal to not less than twenty percent of such profits whenever the amount of the fund is less than one hundred percent of the paid-up capital of the Bank.

(c) Special reserve

	2016 $	2015 $
At beginning of year	**2,034,132**	2,034,132
At end of year	**2,034,132**	2,034,132

The finance contract between the European Investment Bank ("EIB") and the former St. Lucia Development Bank, now assumed by Bank of Saint Lucia Limited, requires the Bank to establish and maintain a special reserve. Annually, an amount as specified under Section 6.05 of the contract is credited to the reserve.

(expressed in Eastern Caribbean dollars)

28 Reserves……*continued*

(d) Retirement benefit reserve

	2016 $	2015 $
At beginning of year	**7,897,140**	9,621,787
Transferred from retained earnings	**2,729,429**	(1,724,647)
At end of year	**10,626,569**	7,897,140

The retirement benefit reserve is a non-distributable reserve. It is the Group's policy to match the amount of fair value of retirement benefit plan assets with the retirement benefit reserve.

29 Contingent liabilities and commitments

Commitments

At 31 December the Bank had contractual amounts of off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	2016 $	2015 $
Loan commitments	**72,455,496**	118,276,854
Guarantees and letters of credit	**27,141,676**	25,667,178
	99,597,172	143,944,032

30 Net interest income

	2016 $	2015 $
Interest income		
Loans and advances	**60,596,590**	81,783,084
Treasury bills and investment securities	**16,071,826**	13,668,809
Deposits with banks	**14,908**	342,021
	76,683,324	95,793,914
Interest expense		
Time deposits	**(16,505,460)**	(23,669,110)
Savings deposits	**(14,214,485)**	(16,389,235)
Other borrowed funds	**(3,159,395)**	(3,669,420)
Demand deposits	**(355,986)**	(348,693)
Correspondent banks	**(1,254,778)**	(1,458,664)
	(35,490,104)	(45,535,122)
Net interest income	**41,193,220**	50,258,792

(expressed in Eastern Caribbean dollars)

31 Fee and commission income

	2016 $	2015 $
Credit related fees and commissions	**30,014,933**	23,379,981
Brokerage related fees and commissions	**5,041,959**	3,372,403
Asset management and related fees	**239,132**	276,030
	35,296,024	27,028,414

32 Dividend income

	2016 $	2015 $
Available-for-sale financial assets	**184,616**	208,921
Subsidiaries	**1,479,000**	765,000
	1,663,616	973,921

33 Net foreign exchange trading income

	2016 $	2015 $
Foreign exchange		
- transaction gains, net	**9,402,196**	7,124,094
- translation gains, net	**594,992**	305,780
	9,997,188	7,429,874

34 Other income

	2016 $	2015 $
Corporate service fees (Note 14)	**761,572**	755,652
Miscellaneous income	**281,598**	758,414
Rental income	**2,371,276**	2,449,202
Other income	**670,434**	325,166
	4,084,880	4,288,434

(expressed in Eastern Caribbean dollars)

35 Other gains, net

	2016 $	2015 $
Fair value (losses)/gains:		
- Gains /(loss) on disposal of Available- for- sale investments	**492,037**	(1,758,005)
- Gains on disposal of Held to Maturity investments	**12,046**	18,414
- Unrealised gains/(loss) on Held for trading investments	**17,329**	(73,731)
- Retirement benefit	**1,880,636**	1,699,905
- Fair value loss/gain on investment properties	**(1,530,000)**	–
	872,048	(113,417)

36 Operating expenses

	2016 $	2015 $
Employee benefit expense (Note 37)	**31,097,506**	31,767,549
Rent	**1,366,765**	2,703,513
Utilities	**3,043,090**	4,161,228
Security	**1,835,575**	1,753,526
Bank and other licences	**133,484**	400,639
Credit card expenses	**6,059,912**	5,581,433
Advertising and promotions	**804,762**	1,568,617
Repairs and maintenance	**5,875,308**	4,242,003
Legal and professional	**930,029**	1,213,234
Other expenses	**12,967,653**	10,239,995
Depreciation (Note 15)	**5,171,116**	5,316,990
	69,285,200	68,948,727

37 Employee benefit expense

	2016 $	2015 $
Wages and salaries	**23,834,023**	22,618,904
Other staff cost	**5,469,556**	6,932,970
Pensions	**1,793,927**	2,215,675
	31,097,506	31,767,549

(expressed in Eastern Caribbean dollars)

38 Income tax expense

	2016 $	2015 $
Current tax	–	1,097,625
Under provision of prior year tax	**1,651,480**	–
Deferred tax	**4,074,975**	740,625
	5,726,455	1,838,250
Income tax expense in other comprehensive income:		
Deferred tax arising from defined benefit	**254,638**	(1,259,566)
	5,981,093	578,684

Tax on the Bank's loss before taxation differs from the theoretical amount that would arise using the statutory tax rate of 30% as follows:

	2016 $	2015 $
Loss before income tax	**(104,960,437)**	(18,313,946)
Tax calculated at the applicable tax rate of 30%	**(31,488,131)**	(5,494,184)
Tax effect of exempt income	**(1,859,083)**	(786,351)
Tax effect of expenses not deductible for tax purposes	**2,022,794**	4,073,033
Deferred tax asset not recognised-losses	**37,050,949**	4,085,866
Deferred tax asset not recognised-timing differences	**(74)**	(40,114)
	5,726,455	1,838,250

The Bank has unutilised tax losses of $17,033,082 (2015 – $29,951,715) for which the deferred tax asset has been recognised due to the certainty of its recoverability. Unutilized tax losses may be carried forward and deducted against 50% of future taxable income within five years following the year in which the losses were incurred. The total tax losses of $259,742,832 are made up as follows; $11,455,572, $98,264,730 $24,956,581,$6,366,799,$13,619,552 and $105,079,598 expires in 2017, 2018, 2019, 2020,2021 and 2022 respectively. The Bank has unutilised tax losses $242,709,750 (2015 -$158,299,989) for which no deferred tax asset has been recognized.

39 Loss per share

Loss per share is calculated by dividing the comprehensive income for the year attributable to the shareholder of $108,490,173 (2015 - ($22,869,328) by the weighted average number of ordinary shares of 1,478,875 (2015 - 1,478,875) in issue during the year.

(expressed in Eastern Caribbean dollars)

40 Cash and cash equivalents

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

	2016 $	2015 $
Cash and balances with Central Bank (Note 5)	**138,409,781**	156,344,285
Deposits with other banks (Note 6)	**95,603,876**	73,921,253
Deposits with non-bank financial institutions (Note 7)	**8,729,733**	7,896,441
Treasury bills (Note 8)	**21,145,370**	11,167,671
	263,888,760	249,329,650

41 Comparatives

Certain balances were reclassified in the prior year to meet the current year presentation period. These changes had no impact on the total net assets. The changes represented $1,202,748 reclassification from unrealised gains and losses to retained earnings relating to amortisation and accretion of premiums and discounts on investment securities. The prior period was also restated to reflect the amalgamation (Note 1).