St. Kitts-Nevis-Anguilla National Bank Limited

Separate Financial Statements
June 30, 2016
(expressed in Eastern Caribbean dollars)

Grant Thornton
Corner Bank Street and West
Independence Square
P.O. Box 1038
Basseterre, St. Kitts
West Indies

T +1 869 466 8200
F +1 869 466 9822
www.grantthornton.kn

Independent Auditors' Report

To the Shareholders
St. Kitts-Nevis-Anguilla National Bank Limited

We have audited the accompanying separate financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited,** which comprise the separate statement of financial position as of June 30, 2016, and the separate statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the **St. Kitts-Nevis-Anguilla National Bank Limited** as of June 30 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton

Chartered Accountants
March 30, 2017
Basseterre, St. Kitts

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Financial Position

As of June 30, 2016

(expressed in Eastern Caribbean dollars)

	Notes	June 30 2016 $	June 30 2015 Restated $	July 1 2014 Restated $
Assets				
Cash and balances with Central Bank	5	**269,151,813**	239,696,341	293,226,003
Treasury bills	6	**135,370,549**	143,796,220	162,908,892
Deposits with other financial institutions	7	**895,478,694**	1,173,713,941	710,787,386
Financial asset	30	**798,480,221**	798,396,748	566,695,449
Loans and receivables – Loans and advances to customers	8	**715,110,073**	656,768,900	694,712,311
– Originated debts	9	**114,164,002**	108,555,815	90,518,117
Investment securities – available-for-sale	10	**613,956,008**	384,212,294	525,426,711
Investment in subsidiaries	11	**26,750,000**	26,750,000	26,750,000
Customers' liability under acceptances, guarantees and letters of credit	12	**7,743,745**	6,802,840	4,735,557
Income tax recoverable	18	**4,417,997**	4,417,997	4,417,997
Property and equipment	13	**28,957,351**	29,615,216	21,039,067
Intangible assets	14	**423,924**	473,240	260,522
Other assets	15	**22,441,489**	25,435,747	29,883,740
Deferred tax asset	18	**41,464,236**	29,567,800	15,043,703
Total assets		**3,673,910,102**	3,628,203,099	3,146,405,455
Liabilities				
Customers' deposits	16	**3,232,571,338**	3,175,587,428	2,680,140,065
Due to other financial institutions		**224,753**	692,915	646,839
Acceptances, guarantees and letters of credit	12	**7,743,745**	6,802,840	4,735,557
Accumulated provisions, creditors and accruals	17	**21,878,797**	20,721,120	29,355,360
Other borrowed funds		–	–	2,709
Total liabilities		**3,262,418,633**	3,203,804,303	2,714,880,530
Shareholders' equity				
Issued share capital	19	**135,000,000**	135,000,000	135,000,000
Share premium		**3,877,424**	3,877,424	3,877,424
Reserves	20	**258,637,739**	277,143,688	286,731,109
Retained earnings		**13,976,306**	8,377,684	5,916,392
Total shareholders' equity		**411,491,469**	424,398,796	431,524,925
Total liabilities and shareholders' equity		**3,673,910,102**	3,628,203,099	3,146,405,455

The notes on pages 1 to 76 are an integral part of these separate financial statements.

Approved for issue by the Board of Directors on March 30, 2017.

Director **Director**

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Income

For the year ended June 30, 2016

(expressed in Eastern Caribbean dollars)

	Notes	2016 $	2015 Restated $
Interest income		**92,039,509**	93,988,303
Interest expense		**(66,422,880)**	(74,089,484)
Net interest income	21	**25,616,629**	19,898,819
Fees and commission income		**15,518,640**	14,874,248
Fees expense		**(8,583,477)**	(11,143,216)
Net fees and commission income	22	**6,935,163**	3,731,032
Net realised gains and losses from investments	23	**11,892,436**	24,720,068
Gain on foreign exchange		**4,862,868**	5,864,017
Dividend income		**3,760,287**	2,290,988
Other operating income		**358,438**	2,216,049
Other income		**20,874,029**	35,091,122
Total operating income		**53,425,821**	58,720,973
Operating expenses			
Administrative and general expenses	25	**26,764,036**	35,505,464
Depreciation and amortisation	13 & 14	**2,046,699**	2,195,763
Directors fees and expenses		**563,082**	675,338
Audit fees and expenses		**330,000**	382,100
Impairment charges	24	**278,594**	2,566,941
Total operating expenses		**29,982,411**	41,325,606
Income before tax		**23,443,410**	17,395,367
Income tax credit	18	**429,868**	3,390,629
Net income for the year		**23,873,278**	20,785,996
Earnings per share (basic and diluted)	26	**0.18**	0.15

The notes on pages 1 to 76 are an integral part of these separate financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Comprehensive Income

For the year ended June 30, 2016

(expressed in Eastern Caribbean dollars)

	Notes	2016 $	2015 $
Net income for the year		**23,873,278**	20,785,996
Other comprehensive income, net of income tax:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale financial assets:			
Unrealised losses on investment securities, net of tax		**(48,089,619)**	(24,685,521)
Reclassification adjustments for gains included in income		**25,849,925**	1,864,373
	20	**(22,239,694)**	(22,821,148)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Property and equipment:			
Revaluation surplus	13	**–**	8,192,192
		–	8,192,192
Re-measurement of defined benefit asset	32	**(1,553,599)**	323,629
Income tax relating to items that will not be reclassified subsequently to profit or loss		**512,688**	(106,798)
	20	**(1,040,911)**	216,831
Total comprehensive income for the year		**592,673**	6,373,871

The notes on pages 1 to 76 are an integral part of these separate financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Changes in Shareholders' Equity

For the year ended June 30, 2016

(expressed in Eastern Caribbean dollars)

	Notes	Issued share capital $	Share premium $	Statutory reserves $	Other reserves $	Available-for-sale investment revaluation reserves $	Property revaluation reserve $	Retained earnings $	Total $
Balance as of July 1, 2014, (as previously stated)		**135,000,000**	**3,877,424**	**106,849,652**	**181,643,268**	**(9,482,432)**	**7,720,621**	**15,010,408**	**440,618,941**
Effect of correction of prior period error	33	–	–	–	–	–	–	(9,094,016)	(9,094,016)
Balance as of July 1, 2014, (Restated)		**135,000,000**	**3,877,424**	**106,849,652**	**181,643,268**	**(9,482,432)**	**7,720,621**	**5,916,392**	**431,524,925**
Net income for the year		–	–	–	–	–	–	20,785,996	20,785,996
Other comprehensive income	20	–	–	–	216,831	(22,821,148)	8,192,192	–	(14,412,125)
Total comprehensive income for the year (as restated)		–	–	–	216,831	(22,821,148)	8,192,192	20,785,996	6,373,871
Transfer to reserves	20	–	–	4,824,704	–	–	–	(4,824,704)	–
Transaction with owners									
Dividends	27	–	–	–	–	–	–	(13,500,000)	(13,500,000)
Balance as of June 30, 2015 (Restated)		**135,000,000**	**3,877,424**	**111,674,356**	**181,860,099**	**(32,303,580)**	**15,912,813**	**8,377,684**	**424,398,796**

The notes on pages 1 to 76 are an integral part of these separate financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Changes in Shareholders' Equity *…continued*

For the year ended June 30, 2016

(expressed in Eastern Caribbean dollars)

	Notes	Issued share capital $	Share premium $	Statutory reserves $	Other reserves $	Available-for-sale investment revaluation reserves $	Property revaluation reserve $	Retained earnings $	Total $
Balance as of June 30, 2015 (Restated)		**135,000,000**	**3,877,424**	**111,674,356**	**181,860,099**	**(32,303,580)**	**15,912,813**	**8,377,684**	**424,398,796**
Net income for the year		–	–	–	–	–	–	23,873,278	23,873,278
Other comprehensive income	20	–	–	–	(1,040,911)	(22,239,694)	–	–	(23,280,605)
Total comprehensive income for the year		–	–	–	(1,040,911)	(22,239,694)	–	23,873,278	592,673
Transfer to reserves	20	–	–	4,774,656	–	–	–	(4,774,656)	–
Transaction with owners									
Dividends	27	–	–	–	–	–	–	(13,500,000)	(13,500,000)
Balance as of June 30, 2016		**135,000,000**	**3,877,424**	**116,449,012**	**180,819,188**	**(54,543,274)**	**15,912,813**	**13,976,306**	**411,491,469**

The notes on pages 1 to 76 are an integral part of these separate financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Cash Flows

For the year ended June 30, 2016

(expressed in Eastern Caribbean dollars)

	Notes	**2016** $	2015 $
Cash flows from operating activities			
Income before tax		**23,443,410**	17,395,367
Adjustments for:			
Interest expense	21	**66,422,880**	74,089,484
Depreciation and amortisation	13 & 14	**2,046,699**	2,195,763
Reclassification of projects ongoing to expense	13	**389,835**	–
Provision for impairment	24	**278,594**	2,566,941
Property revaluation expense		**–**	60,873
Gain on disposal of intangible assets and equipment		**–**	(1,048,071)
Retirement period recovery	32	**(38,032)**	(13,858)
Dividend income		**(3,760,287)**	(2,290,988)
Interest income	21	**(92,039,509)**	(93,988,303)
Operating loss before changes in operating assets and liabilities		**(3,256,410)**	(1,032,792)
(Increase)/decrease in operating assets:			
Loans and advances to customers		**(57,042,601)**	30,986,303
Mandatory deposits with the Central Bank		**(3,318,966)**	(25,943,826)
Financial asset		**–**	(230,950,666)
Other assets		**478,691**	4,785,480
Increase/(decrease) in operating liabilities:			
Customers' deposits		**60,110,343**	498,254,502
Due to other financial institutions		**(468,162)**	46,076
Accumulated provisions, creditors, and accruals		**1,157,677**	(8,634,240)
Cash (used in)/ generated from operations		**(2,339,428)**	267,510,837
Interest received		**72,109,995**	78,847,086
Interest paid		**(69,549,313)**	(76,896,623)
Net cash generated from operating activities		**221,254**	269,461,300
Cash flows from investing activities			
Proceeds from sale of investment securities		**930,609,890**	779,244,609
Interest received from investment		**19,841,632**	23,134,153
Dividends received		**3,760,287**	2,290,988
Proceeds from disposal of equipment		–	1,070,010
Purchase of equipment and intangible assets		**(1,729,353)**	(2,875,250)
Decrease/(increase) in special term deposits		–	34,995,004
Decrease in restricted term deposits and treasury bills		**8,057,461**	18,524,565
Increase in investment securities and originated debt		**(1,199,474,798)**	(691,421,718)
Net cash (used in)/ generated from investing activities		**(238,934,881)**	164,962,361
Cash flows from financing activities			
Other borrowed funds		–	(2,709)
Dividend paid	27	**(13,500,000)**	(13,500,000)
Net cash used in financing activities		**(13,500,000)**	(13,502,709)
Net (decrease)/increase in cash and cash equivalents		**(252,213,627)**	420,920,952
Cash and cash equivalents, beginning of year		**1,182,080,830**	761,159,878
Cash and cash equivalents, end of year	31	**929,867,203**	1,182,080,830

The notes on pages 1 to 76 are an integral part of these separate financial statements.

(expressed in Eastern Caribbean dollars)

1 Incorporation and principal activity

St. Kitts-Nevis-Anguilla National Bank Limited (the "Bank") was incorporated as a private limited company on February 15, 1971 under the Companies Act Chapter 335, and was reregistered under the new Companies Act No. 22 of 1996 on April 14, 1999. The Bank operates in both St. Kitts and Nevis and is subject to the provisions of the Banking Act of 1991. The Bank is a public company listed on the Eastern Caribbean Securities Exchange.

The principal activity of the Bank is the provision of financial services, and its registered office is at Central Street, Basseterre, St. Kitts.

2 Significant accounting policies

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

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The financial statements have been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments.

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

2.2 Changes in accounting policy

New and revised standards that are effective for annual periods beginning on or after July 1, 2015

There were no new and revised IFRSs or IFRIC interpretations which are effective for annual periods beginning on or after July 1, 2015 that had a material impact on the Bank.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Bank. Information on those expected to be relevant to the Bank's financial statements is provided below. Management anticipates that all relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Bank's financial statements.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.2 Changes in accounting policy *...continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank *...continued*

Amendments to International Accounting Standards (IAS) 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for property and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. The presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The Bank uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively. The directors believe that the straight-line method is the most appropriate method to the consumption of economic benefits inherent in the respective assets and accordingly. The directors do not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the financial statements. The amendment is required to be applied for annual reporting periods beginning on or after January 1, 2016.

Amendments to IAS 27 *Equity Method in Separate Financial Statements*

The amendments allow the use of the equity method in the separate financial statements, and apply to the accounting not only for associates and joint ventures, but also for subsidiaries.

The amendment has no impact on the disclosures or amounts recognised in the financial statements. Amendment is required to be applied for annual reporting periods beginning on or after January 1, 2016.

Amendments to IAS 1 *Presentation of Financial Statements*

The amendments to IAS 1, Presentation of Financial Statements, address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

- Clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;

- Clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.2 Changes in accounting policy *...continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank *...continued*

aggregate as single line items based on whether or not it will subsequently be reclassified to statement of income; and

- Additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

The directors do not anticipate that the application of these amendments will have a material impact on the financial statements. The amendment is required to be applied for annual reporting periods beginning on or after January 1, 2016.

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expect to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition.

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and the disclosures made in the financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Bank performs a detailed review. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2016.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.2 Changes in accounting policy *...continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank *...continued*

IFRS 9, *Financial Instruments* (2014)

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be substantially at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are sole payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

  Under IAS 39, the entire amount of the change in the fair value in the financial liability designated as fair value through profit or loss is presented in profit or loss.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.2 Changes in accounting policy *...continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank *...continued*

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transaction eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the type of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the application of IFRS 9 in the future may have a material impact on the disclosures or on the amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Bank undertakes a detail review. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

2.3 Cash and cash equivalents

Cash comprises cash on hand and demand and call deposits with banks. Cash equivalents are short–term, highly liquid investments with original maturities of 90 days or less that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short–term cash commitments rather than for investment or other purposes.

2.4 Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – are recognised in the statement of financial position and measured in accordance with their assigned category.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.4 Financial assets and liabilities *…continued*

Financial assets

The Bank allocates its financial assets to the IAS 39 category of: loans and receivables and available–for–sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market other than: (a) those that the Bank intends to sell immediately or in the short term, which are classified or held for trading and those that the entity upon initial recognition designates at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available–for– sale; (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivable are recognised when cash or the right to cash is advanced to a borrower and are carried at amortised cost using the effective interest method. The Bank's loans and receivables include cash in banks and deposits with other financial institution, treasury bills, financial asset, loans and advances to customers, originated debts and other receivables.

(ii) Available–for–sale financial assets

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

Purchases and sales of financial assets at fair value through profit or loss and available-for-sale are recognised on settlement date – the date that an asset is delivered to or by the Bank.

Available-for-sale financial assets are initially recognised at fair value being the transaction price less transaction cost. Available-for-sale financial assets subsequently measured at fair value based on the current bid prices of quoted investments in active market If the market for available-for-sale financial assets is not active (such as investments in unlisted entities) and the fair value cannot be reliably measured, they are measured at cost. Gains and losses arising from the fair value of available-for-sale financial assets are recognised though other comprehensive income until the financial assets are derecognised or impaired, at which time, the cumulative gain or loss previously recognised through other comprehensive income is removed and recognised in the statement of income.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.4 Financial assets and liabilities *...continued*

Interest calculated using the effective interest method, dividend income and foreign currency gains and losses on financial 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 right to receive payment is established.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

The Bank’s available–for–sale financial assets are separately presented in the statement of financial position.

Financial liabilities

Financial liabilities are classified as ‘other liabilities’ and are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. Other liabilities include customers’ deposits, due to other financial institutions, other borrowed funds and accumulated provisions, creditors and accruals.

Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. That is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Reclassification of financial assets

The Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held–for–trading or available–for–sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held–to–maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.5 Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information disclosed and take into account the characteristics of those financial instruments. The classification hierarchy can be seen in the table below:

Financial assets	Loans and receivables	Cash and cash equivalents and deposit with other financial institutions	Bank accounts
		Treasury bills and originated debts	Government fixed rated bonds and long term note
		Loans and advances to customers	Primary lenders
	Available–for–sale financial assets	Investment securities – available-for-sale	Equity and debt securities
Financial liabilities	Financial liabilities at amortised cost	Customers' deposits and borrowings	
		Accumulated provisions, creditors and accruals	

2.6 Impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at the end of each reporting period 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 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 evidence of an impairment loss include:

- Cash flow difficulties experienced by the borrower;
- Delinquency in contractual payments of principal and interest;
- Breach of loan covenants or conditions;
- Deterioration in the value of collateral;
- Deterioration of the borrower's competitive position; and
- Initiation of bankruptcy proceedings.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.6 Impairment of financial assets *…continued*

(a) Assets carried at amortised cost …continued

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of 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 has a variable interest rate, the discounted rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may or may not result from foreclosure less cost for obtaining and selling the collateral, whether or not 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 are credited to the "Bad Debt Recovered" income account which is then used to 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 loss is 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 Significant accounting policies *…continued*

2.6 Impairment of financial assets *…continued*

(b) Assets classified as available-for-sale

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of income. 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.

(c) Renegotiated loans

Loans and advances that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Management continuously reviews these accounts to ensure that all criteria are met and that future payments are likely to occur.

2.7 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.

2.8 Employee benefits

(a) Gratuity

The Bank provides a gratuity plan to its employees after 15 years of employment. The amount of the gratuity payment to eligible employees at retirement is computed with reference to final salary and calibrated percentage rates based on the number of years of service. Provisions for these amounts are included in the statement of financial position.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.8 Employee benefit *...continued*

(b) Pension plan

The Bank operates a defined benefit plan. The administration of the plan is conducted by National Caribbean Insurance Company Limited, a subsidiary of the Bank. The plan is funded through payments to trustee-administered deposit funds determined by periodic actuarial calculations. A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement based on factors such as age, year of service and final salary. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period.

The asset figure recognised in the statement of financial position in respect of net defined benefit assets is the fair value of the plan assets less the present value of the defined benefit obligation at the reporting period. The retirement benefit asset recognised in the statement of financial position represents the actual surplus in the defined benefit plan. Re-measurements comprising of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognised immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Re-measurement recorded in other comprehensive income is not recycled. However, the Bank may transfer those amounts recognised in other comprehensive income within equity.

2.9 Property and equipment

Land and buildings held for rendering of services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity, usually every five years, such that the carrying amount does not differ materially from that which would be determined using fair values at the year end.

Any revaluation increase arising on the revaluation of such land and buildings is credited in equity to revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in income, in which case the increase is credited to income to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to income to the extent that it exceeds the balance, if any, held in the fixed asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the statement of income. On the subsequent sale or retirement of a revalued property, any revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the fixed asset revaluation reserve to retained earnings except when an asset is derecognised.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.9 Property and equipment *...continued*

Projects on going represents structures under construction and project development not yet completed and is stated at cost. This includes the costs of construction and other direct costs. Projects on going is not depreciated until such time that the relevant assets are ready for use.

Freehold land is not depreciated. Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on the following basis:

Building:	25 – 45 years
Leasehold improvements:	25 years, or over the period of lease if less than 25 years
Equipment, fixtures and motor vehicles:	3 – 10 years

Depreciation is charged so as to write off the cost or valuation of assets, other than freehold land, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

All repairs and maintenance are charged to income during the financial period in which they are incurred.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in statement of comprehensive income.

2.10 Intangible assets

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and to bring into use the specific software. These costs are amortized on the basis of the expected useful life of such software which is three to five years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

2.11 Impairment of non–financial assets

Non–financial assets that are subject to depreciation and 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). Non–financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.12 Investment in subsidiaries

The investment in subsidiaries is accounted for using the cost method and therefore the assets, liabilities and results of operations of the entities have not been reflected in these accounts. A subsidiary is an entity in which the Bank holds controlling interest (50% plus 1 share or more) of the voting shares of that entity. Income from subsidiaries' operations is recognised only to the extent of dividends received.

The Bank has also prepared consolidated financial statements in accordance with IFRS for the Bank and its subsidiaries. Users of these separate financial statements should read them together with the Bank's consolidated financial statements as of and for the year ended June 30, 2016 in order to obtain full information on the financial position, results of operations and changes in financial position of the Bank and its subsidiaries as a whole.

2.13 Borrowings

Borrowings are recognised initially at fair value (which is their issue proceeds and fair value of the considerations received), net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the 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.

2.14 Guarantees and letters of credit

Guarantees and letters of credit comprise undertaking 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.

2.15 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

2.16 Leases – Bank as a Lessee

The leases entered into by the Bank are primarily operating leases. The total payments made under the operating leases are charged to 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 Significant accounting policies *…continued*

2.17 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the statement of income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, estimates of cash flows that consider all contractual terms of the financial instrument are included (for example, repayment options), except future credit losses. The calculation includes all fees and points 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 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.

2.18 Fees 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. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. 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 business – are recognised on completion of the underlying transaction.

2.19 Dividend income

Dividends are recognised in the statement of income when the right to receive payment is established.

2.20 Operating expenses and fees expenses

Operating expenses and fees expenses are recognised in statement of income upon utilisation of the service or as incurred.

2.21 Foreign currency translation

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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.21 Foreign currency translation *...continued*

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re–measured. 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.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'Other income'.

2.22 Equity, reserves and dividend payments

(a) Issued share capital and share premiums
Share capital represents the nominal (par) value of shares that have been issued. Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are paid by the Board of Directors and or approved by the Bank's shareholders.

(c) Other components of equity
Other components of equity include the following:

- Statutory reserves – comprises of reserve fund for regulatory requirement;
- Property revaluation reserve – comprises gains and losses from the revaluation of land;
- Available-for-sale revaluation reserves – comprises gains and losses relating to these types of financial instruments; and
- Other reserves – comprises the defined benefit plan reserve, reserve for interest accrued on non-performing loans and general reserve.

2.23 Current and deferred income tax

Income tax payable on profits, based on applicable tax law is recognised as an expense in the period in which profits arise, except to the extent that it relates to items recognised directly in equity. In such cases, the tax is recognised in a deferred tax liability account. The tax expense for the period comprises current and deferred tax.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.23 Current and deferred income tax *...continued*

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

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

Deferred tax asset is recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3 Financial risk management

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 commercial banking 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 minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse risks, to set appropriate levels 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 Credit Division and Comptroller Division under policies approved by the Board of Directors. Management identifies and evaluates financial risks in close co-operation with the Bank operating units. The Board provides principles for overall risk management, as well as approved policies covering specific areas, such as foreign exchange, interest rate and credit risks. In addition, internal audit 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, interest rate risk and other price risk.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparties will cause financial losses for the Bank by failing to discharge their obligations. 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 such credit risks. Credit exposure arises principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio.

There is also credit risk in off-statement of financial position financial instruments, such as loan commitments. The credit risk management and control are centralised and reported to the Board of Directors.

The Bank's exposure to credit risk is managed through regular analysis of the ability of its borrowers and potential borrowers to meet interest and capital repayment obligations. Credit risk is managed also in part by the taking of collateral and corporate and personal guarantees as securities on advances.

(a) Loans and advances

The prudential guidelines of the Bank's regulators are included in the daily credit operational management of the Bank. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the reporting date (the 'incurred loss model').

The Bank assesses the probability of default of individual borrowers using internal rating tools tailored to the various categories of borrowers. These rating tools are fashioned from the guidelines of the Bank regulators. Advances made by the Bank are segmented into five rating classes that reflect the range of default probabilities for each rating class. The rating tools are kept under review and upgraded as necessary.

Bank rating	Description of the classifications
1	Pass
2	Special mention
3	Sub-standard
4	Doubtful
5	Loss

(b) Debt securities and other bills

For debt securities and other bills, external rating such as Standard & Poor's rating or their equivalents are used by the Bank Treasury/Fund Managers 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 requirement at the same time.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.1 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 and countries.

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

The exposure to any one borrower, including banks and other financial institutions, is further restricted by sub-limits covering on-statement of financial position and off-statement of financial position exposures. Actual exposures against limits are monitored. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Other specific controls and mitigation measures are outlined below:

(a) Collateral

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

Longer-term finance and lending to corporate entities and individual credit facilities are generally secured. In addition, in order to minimize 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*

3.1 Credit risk *...continued*

3.1.1 Risk limit control and mitigation policies *...continued*

(b) 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 and advances, guarantees or letters of credit. With respect to credit risk, 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 of maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.2 Impairment and provisioning

The impairment provision shown in the statement of financial position at year-end is derived from each of the five internal rating grades. The table below shows the percentage of the Bank's on-statement of financial position and off-statement of financial position items relating to loans and advances and associated impairment provision for each of the Bank internal categories:

		2016		**2015**	
		Loans and advances (%)	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
	Bank rating				
1	Pass	**53.41**	–	56.88	–
2	Special mention	**16.10**	**0.01**	17.74	–
3	Substandard	**22.70**	**31.87**	22.52	41.64
4	Doubtful	**3.50**	**26.51**	2.76	53.15
5	Loss	**4.29**	**41.61**	0.10	5.21
		100.00	**100.00**	100.00	100.00

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

The rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria:

(i) Loans

- Cash flow difficulties experienced by the borrower;
- Delinquency in contractual payments of principal and interest;
- Breach of loan covenants or conditions; and
- Deterioration in the value of collateral.

(ii) Advances (overdrafts)

- Approval limit has been exceeded for three months;
- Interest charges for three months or more have not been covered by deposits; and
- Account has developed a hardcode which was not converted.

The Bank requires the review of individual financial assets that are above materiality thresholds on an annual basis 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 where necessary. Assessments take into account collateral held and anticipated cash receipts for individually assessed accounts.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *…continued*

3.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposure relating to on/off statement of financial position assets is as follows:

	Maximum exposure	
	2016	**2015**
	$	**$**
Cash and balances with Central Bank*	**62,847,233**	40,796,084
Treasury bills	**135,370,549**	143,796,220
Deposits with other financial institutions	**895,478,694**	1,173,713,941
Financial asset	**798,480,221**	798,396,748
Loans and receivables:		
Overdrafts	**175,071,988**	164,213,975
Corporate customers	**289,386,864**	258,804,850
Term loans	**101,893,887**	98,936,121
Mortgages (personal)	**148,757,334**	134,813,954
Originated debts	**114,164,002**	108,555,815
Investment securities –available-for-sale	**150,348,429**	163,075,881
Other assets	**11,180,715**	12,836,479
Customers' liability under acceptances, guarantees and letters of credit	**7,743,745**	6,802,840
Loan commitments and financial guarantees	**54,073,166**	34,015,031
	2,944,796,827	3,138,757,939

**Excluding cash on hand and mandatory deposits with Central Bank.*

The above table represents a worst case scenario of credit risk exposure at the reporting dates, without taking account of any collateral held or other credit enhancements attached. For on-statement of financial position assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position. As shown above, 25% (2015: 21%) of the total maximum exposure is derived from loans and advances to customers.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the bank resulting from both its loans and advances portfolio and debt securities based on the following:

- 70% (2015: 75%) of the loans and advances portfolio are categorized in the top two grades of the internal rating system;
- Term loans are backed by security – cash and real estate collateral and/or guarantees;
- 64% (2015: 52%) of the loans and advances portfolio are considered to be neither past due nor impaired;
- The Bank continues to grant loans and advances in accordance with its lending policies and guidelines; and
- A number of issuers and debt instruments in the region are not rated; consequently 41% (2015: 35%) of these investments are not rated (Government securities – treasury bills, etc.).

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1.4 Loans and advances

Loans and advances are summarized as follows:

	2016 $	2015 $
Loans and advances to customers		
Neither past nor impaired	**490,146,415**	371,267,495
Past due not impaired	**78,769,260**	144,297,117
Impaired	**199,660,029**	197,003,129
	768,575,704	712,567,741
Other interest receivable	**1,372,096**	1,325,975
Less allowance for impairment	**(54,837,727)**	(57,124,816)
Net	**715,110,073**	656,768,900

The total allowance for impairment losses on loans and advances is $54,837,727 (2015: $57,124,816). Further information of the allowance for impairment losses on loans and advances to customers is provided in note 8.

(a) 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 rating system utilised by the Bank.

As of June 30, 2016

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total $
Classifications:					
1. Pass	26,730,037	21,951,704	99,880,225	186,444,884	335,066,850
2. Special mention	79,783,509	37,928,475	2,262,530	2,759,632	122,734,146
3. Substandard	159,885	31,363,090	882,444	–	32,405,419
Gross	**106,673,431**	**91,243,269**	**103,025,199**	**189,204,516**	**490,146,415**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *…continued*

3.1.4 Loans and advances *…continued*

(a) Loans and advances to customers neither past due nor impaired *…continued*

As of June 30, 2015

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total $
Classifications:					
1. Pass	24,929,469	23,314,760	85,401,484	89,895,333	223,541,046
2. Special mention	71,843,449	67,223,962	2,129,681	2,956,016	144,153,108
3. Substandard	151,287	–	537,021	2,885,033	3,573,341
Gross	**96,924,205**	**90,538,722**	**88,068,186**	**95,736,382**	**371,267,495**

(b) 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. Loans and advances 90 days past due but not impaired are those with special arrangements.

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Term loans $	Mortgages $	Corporate customers $	Total $
As of June 30, 2016				
Past due up to 30 days	1,832,475	10,473,019	61,999,146	74,304,640
Past due 31 – 60 days	511,019	2,503,404	–	3,014,423
Past due 61 – 90 days	139,341	1,245,020	–	1,384,361
Over 90 days	65,836	–	–	65,836
Gross	**2,548,671**	**14,221,443**	**61,999,146**	**78,769,260**
Fair value of collateral	**11,160,815**	**27,958,231**	**119,835,675**	**158,954,721**

	Term loans $	Mortgages $	Corporate customers $	Total $
As of June 30, 2015				
Past due up to 30 days	1,578,399	11,484,506	56,508,565	69,571,470
Past due 31 – 60 days	882,231	1,518,552	–	2,400,783
Past due 61 – 90 days	211,529	1,407,663	67,898,652	69,517,844
Over 90 days	651,050	2,155,970	–	2,807,020
Gross	**3,323,209**	**16,566,691**	**124,407,217**	**144,297,117**
Fair value of collateral	**13,869,371**	**30,365,411**	**143,777,375**	**188,012,157**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1.4 Loans and advances *...continued*

(b) Loans and advances to customers past due but not impaired *...continued*

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets sales in the same geographical area.

(c) Loans and advances to customers individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $199,660,029 (2015: $197,003,129).

The breakdown of the gross amount of individually impaired loans and advances by class is as follows:

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total $
As of June 30, 2016					
Individually impaired	78,271,138	4,794,834	26,095,103	20,683,619	129,844,694
Interest receivable	12,030,650	4,266,374	16,471,022	37,047,289	69,815,335
Gross	**90,301,788**	**9,061,208**	**42,566,125**	**57,730,908**	**199,660,029**
Fair value of collateral	**66,095,514**	**13,142,412**	**41,809,039**	**59,712,190**	**180,759,155**
As of June 30, 2015					
Individually impaired	78,402,221	5,070,126	25,610,875	19,269,460	128,352,682
Interest receivable	12,176,430	3,493,151	16,460,949	36,519,917	68,650,447
Gross	**90,578,651**	**8,563,277**	**42,071,824**	**55,789,377**	**197,003,129**
Fair value of collateral	**66,095,514**	**13,142,412**	**41,809,039**	**59,712,190**	**180,759,155**

(d) Loans and advances to customers renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans at the reporting date stood at $6,829,662 (2015: $4,234,399).

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1.5 Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at the reporting date and based on Standard & Poor's ratings or equivalent:

As of June 30, 2016	Treasury bills $	Investment securities (AFS) $	Loans ad receivables-originated debts $	Total $
AA- to AA+	–	10,768,334	–	10,768,334
A- to A+	–	12,575,952	–	12,575,952
Lower than A-	–	48,959,398	–	48,959,398
Unrated/internally rated	135,370,549	78,044,745	114,164,002	327,579,296
	135,370,549	**150,348,429**	**114,164,002**	**399,882,980**

As of June 30, 2015	Treasury bills $	Investment securities (AFS) $	Loans ad receivables-originated debts $	Total $
AA- to AA+	–	17,900,811	–	17,900,811
A- to A+	–	23,959,002	–	23,959,002
Lower than A-	–	34,895,532	–	34,895,532
Unrated/internally rated	143,796,220	86,320,536	108,555,815	337,667,512
	143,796,220	**163,075,881**	**108,555,815**	**415,427,916**

As at June 30, 2016 the loans and receivables – originated debts includes long term notes, which were past due amounting to $30,637,831. Refer to note 9.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1.6 Geographical concentrations of on-statement of financial position and off-statement of financial position assets with credit risk exposure

The Bank operates only one business segment (commercial and retail banking) which is predominantly localised to St. Kitts and Nevis. Commercial banking activities, however, account for a significant portion of credit risk exposure.

The credit risk exposure is, therefore, spread geographically and over a diversity of personal and commercial customers.

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean States $	Total $
As of June 30, 2016					
Cash and balances with Central Bank	62,847,233	–	–	–	62,847,233
Treasury bills	88,881,733	–	–	46,488,816	135,370,549
Deposits with financial institutions	14,443,072	808,093,825	48,525,954	24,415,843	895,478,694
Financial asset	798,480,221	–	–	–	798,480,221
Loans and receivables:					
Loans and advances to customers	614,739,342	88,937,532	2,222,570	9,210,629	715,110,073
Originated debts	19,385,644	11,183,159	–	83,595,199	114,164,002
Customers' liability under acceptances, guarantees and letters of credit	7,743,745	–	–	–	7,743,745
Investment securities (AFS)	2,286,003	148,062,426	–	–	150,348,429
Other assets	3,758,497	7,422,218	–	–	11,180,715
	1,612,565,490	**1,063,699,160**	**50,748,524**	**163,710,487**	**2,890,723,660**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1.6 Geographical concentrations of on statement of financial position and off statement of financial position assets with credit risk exposure *...continued*

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean States $	Total $
As of June 30, 2015					
Cash and balances with Central Bank*	40,796,084	–	–	–	40,796,084
Treasury bills	88,064,174	–	–	55,732,046	143,796,220
Deposits with financial institutions	6,349,492	1,095,823,090	44,623,953	26,917,406	1,173,713,941
Financial asset	798,396,748	–	–	–	798,396,748
Loans and receivables:					
Loans and advances to customers	561,084,592	82,582,843	2,721,979	10,379,486	656,768,900
Originated debts	21,454,258	–	–	87,101,557	108,555,815
Customers' liability under acceptances, guarantees and letters of credit	7,743,745	–	–	–	7,743,745
Investment securities (AFS)	1,280,943	161,794,938	–	–	163,075,881
Other assets	4,624,682	8,211,797	–	–	12,836,479
	1,529,794,718	**1,348,412,668**	**47,345,932**	**180,130,495**	**3,105,683,813**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1.7 Concentration of risks of financial assets with credit exposure

The following tables break down the Bank main credit exposure at their carrying amounts, as categorised by industry sectors of our counterparties:

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2016							
Cash and balances with Central Bank*	–	–	–	62,847,233	–	–	62,847,233
Treasury bills	135,370,549	–	–	–	–	–	135,370,549
Deposits with financial institutions	–	–	–	895,313,191	165,503	–	895,478,694
Financial asset	798,480,221	–	–	–	–	–	798,480,221
Loans and receivables:							
Originated debts	102,678,377	–	–	11,485,625	–	–	114,164,002
Loans and advances	147,781,194	124,113,741	159,938,847	16,559,934	168,311,370	98,404,987	715,110,073
Investment securities (AFS)	2,417,348	–	697,265	82,568,225	–	64,665,591	150,348,429
Customers' liability under acceptances, guarantees and letters of credit	–	–	–	–	–	7,743,745	7,743,745
Other assets	–	–	–	1,309,223	226,456	9,645,036	11,180,715
	1,186,727,689	**124,113,741**	**160,636,112**	**1,070,083,431**	**168,703,329**	**180,459,359**	**2,890,723,661**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1.7 Concentration of risks of financial assets with credit exposure

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2015							
Cash and balances with Central Bank*	–	–	–	40,796,084	–	–	40,796,084
Treasury bills	143,796,220	–	–	–	–	–	143,796,220
Deposits with financial institutions	–	–	–	1,173,227,220	230,230	256,491	1,173,713,941
Financial asset	798,396,748	–	–	–	–	–	798,396,748
Loans and receivables:							
Loans and advances	106,067,802	151,023,670	133,056,606	30,391,821	156,736,985	79,492,016	656,768,900
Originated debts	102,900,369	–	–	2,950,268	–	2,705,178	108,555,815
Investment securities (AFS)	2,093,911	–	692,798	44,052,744	–	116,236,428	163,075,881
Customers' liability under acceptances, guarantees and letters of credit	–	–	–	–	–	6,802,840	6,802,840
Other assets	–	–	–	2,775,741	26,691	10,034,047	12,836,479
	1,153,255,050	**151,023,670**	**133,749,404**	**1,294,193,878**	**156,993,906**	**215,527,000**	**3,104,742,908**

The Government of St. Kitts and Nevis accounts for $1,612,565,490 (2015: $1,528,853,813) or 56% (2015: 49%) of the total credit exposure, which represents a significant concentration of credit risk. The amounts due from the Government are included in the Public Sector category.

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(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.2 Market risk

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

The Bank's exposures to market risks primarily arise from the interest rate management of the Bank retail and commercial banking assets and liabilities and equity risks arising from its available-for-sale investments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Overall authority for market risk is vested in the Board of Directors. The Board of Directors is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

3.2.1 Price risk

The Bank is exposed to equities price risk because of investments held by the Bank and classified on the statement of financial position as available-for-sale. To manage this price risk arising from investments in equity securities, the Bank diversifies its investment portfolio.

3.2.2 Foreign exchange risk

The Bank is exposed to foreign exchange risk through fluctuation in certain prevailing foreign exchange rates on its financial position and cash flows. The Board of Directors limits the level of exposure by currency and in total 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 Bank uses the mid-rate of exchange ruling on that day to convert all assets and liabilities in foreign currencies to Eastern Caribbean dollars (EC$).

The following table summarises the Bank's exposure to foreign currency exchange rate risk at reporting date. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.2.2 Foreign exchange risk *...continued*

Concentration of currency risk

As of June 30, 2016	ECD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	263,519,998	5,535,723	32,796	29,618	20,197	13,481	–	269,151,813
Treasury bills	135,370,549	–	–	–	–	–	–	135,370,549
Deposits with financial institutions	17,145,792	873,004,729	1,393,344	1,742,590	1,779,659	388,578	24,002	895,478,694
Financial asset	798,480,221	–	–	–	–	–	–	798,480,221
Loans and receivables:								
Loans and advances to customers	491,731,179	223,378,894	–	–	–	–	–	715,110,073
Originated debts	61,935,957	52,228,045	–	–	–	–	–	114,164,002
Investment securities (AFS)	10,384,801	603,571,207	–	–	–	–	–	613,956,008
Customers' liability under acceptances, guarantees and letters of credit	7,743,745	–	–	–	–	–	–	7,743,745
Other assets	1,904,947	9,275,768	–	–	–	–	–	11,180,715
Total financial assets	**1,788,217,189**	**1,766,994,366**	**1,426,140**	**1,772,208**	**1,799,856**	**402,059**	**24,002**	**3,560,635,820**
Liabilities								
Customers’ deposits	2,530,858,081	699,627,891	154,714	2,363	1,928,289	–	–	3,232,571,338
Due to other financial institutions	–	224,753	–	–	–	–	–	224,753
Other liabilities	12,594,467	8,601,914	42,225	478,100	42,779	119,312	–	21,878,797
Total financial liabilities	**2,543,452,548**	**708,454,558**	**196,939**	**480,463**	**1,971,068**	**119,312**	–	**3,254,674,888**
Net on-statement of financial position positions	**(755,235,359)**	**1,058,539,808**	**1,229,201**	**1,291,745**	**(171,212)**	**282,747**	**24,002**	**305,960,932**
Credit commitment	**70,506,728**	–	–	–	–	–	–	**70,506,728**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *…continued*

3.2.2 Foreign exchange risk *…continued*

Concentration of currency risk *…continued*

As of June 30, 2015	ECD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	234,435,818	5,059,631	46,763	100,458	31,832	21,839	–	239,696,341
Treasury bills	143,796,220	–	–	–	–	–	–	143,796,220
Deposits with financial institutions	8,666,445	1,160,100,436	1,356,187	2,154,988	743,135	663,232	29,518	1,173,713,941
Financial asset	798,396,748	–	–	–	–	–	–	798,396,748
Loans and receivables:								
Loans and advances to customers	475,706,767	181,062,133	–	–	–	–	–	656,768,900
Originated debts	67,172,578	41,383,237	–	–	–	–	–	108,555,815
Customers' liability under acceptances, guarantees and letters of credit	6,802,840	–	–	–	–	–	–	6,802,840
Investment securities (AFS)	10,729,801	373,482,493	–	–	–	–	–	384,212,294
Other assets	4,624,682	8,211,797	–	–	–	–	–	12,836,479
Total financial assets	**1,750,331,899**	**1,769,299,727**	**1,402,950**	**2,255,446**	**774,967**	**685,071**	**29,518**	**3,524,779,578**
Liabilities								
Customers’ deposits	2,542,273,291	631,094,757	314,968	2,771	1,901,641	–	–	3,175,587,428
Due to other financial institutions	–	689,625	–	3,290	–	–	–	692,915
Other liabilities	12,858,367	7,196,104	42,225	476,430	29,068	118,926	–	20,721,120
Total financial liabilities	**2,555,131,658**	**638,980,486**	**357,193**	**482,491**	**1,930,709**	**118,926**	**–**	**3,197,001,463**
Net on-statement of financial position positions	**(804,799,759)**	**1,130,319,241**	**1,045,757**	**1,772,955**	**(1,155,742)**	**566,145**	**29,518**	**327,778,115**
Credit commitment	**40,817,871**	**–**	**–**	**–**	**–**	**–**	**–**	**40,817,871**

(expressed in Eastern Caribbean dollars)

3 Financial risk management*...continued*

3.2.3 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 losses in the event that unexpected movements arise. The Board of Directors limits the level of mismatch of interest rates repricing that may be undertaken.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *…continued*

3.2.3 Interest rate risk *…continued*

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates:

As of June 30, 2016	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
Assets							
Cash and balances with Central Bank	–	–	–	–	–	269,151,813	269,151,813
Treasury bills	19,832,261	–	113,600,757	–	–	1,937,531	135,370,549
Deposits with financial institutions	496,717,240	135,130,000	2,090,702	20,269,500	–	241,271,252	895,478,694
Financial asset	–	–	–	796,020,571	–	2,459,650	798,480,221
Loans and receivables:							
Loans and advances to customers	288,628,033	118,660,578	12,812,674	104,495,911	190,512,877	–	715,110,073
Originated debts	4,600	25,373,906	9,200	67,230,617	20,661,244	884,435	114,164,002
Customers' liability under acceptances, guarantees and letters of credit						7,743,745	7,743,745
Investment securities (AFS)	146,073,505	–	–	–	2,010,059	465,872,444	613,956,008
Other assets	–	–	2,074,157	–	–	9,106,558	11,180,715
Total financial assets	**951,255,639**	**279,164,484**	**130,587,490**	**988,016,599**	**213,184,180**	**998,427,428**	**3,560,635,820**
Liabilities							
Customers' deposits	1,026,096,786	239,045,542	1,036,436,007	455,019	–	930,537,984	3,232,571,338
Due to other financial institutions	224,753	–	–	–	–	–	224,753
Other liabilities	2,531	–	–	–	–	21,876,266	21,878,797
Total financial liabilities	**1,026,324,070**	**239,045,542**	**1,036,436,007**	**455,019**	**–**	**952,414,250**	**3,254,674,888**
Total interest repricing gap	**(75,068,431)**	**40,118,942**	**(905,848,517)**	**987,561,580**	**213,184,180**	**46,013,178**	**305,960,932**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.2.3 Interest rate risk *...continued*

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates:

As of June 30, 2015	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
Assets							
Cash and balances with Central Bank	–	–	–	–	–	239,696,341	239,696,341
Treasury bills	12,278,280	–	129,236,217	–	–	2,281,723	143,796,220
Deposits with financial institutions	396,100,101	202,695,000	–	21,065,239	–	553,853,601	1,173,713,941
Financial asset	–	–	–	796,020,571	–	2,376,177	798,396,748
Loans and receivables:							
Loans and advances to customers	422,837,560	1,358,474	5,403,339	36,990,778	190,178,749	–	656,768,900
Originated debts	16,117,600	274,600	819,200	69,613,155	20,115,788	1,615,472	108,555,815
Customers' liability under acceptances, guarantees and letters of credit	–	–	–	–	–	6,802,840	6,802,840
Investment securities (AFS)	159,743,607	–	–	–	1,005,000	223,463,687	384,212,294
Other assets	–	–	2,782,260	–	–	10,054,219	12,836,479
Total financial assets	**1,007,077,148**	**204,328,074**	**138,241,016**	**923,689,743**	**211,299,537**	**1,040,144,060**	**3,524,779,578**
Liabilities							
Customers' deposits	805,603,069	213,571,491	1,022,009,157	451,945	–	1,133,951,766	3,175,587,428
Due to other financial institutions	692,915	–	–	–	–	–	692,915
Other liabilities	–	–	–	–	–	20,721,120	20,721,120
Total financial liabilities	**806,295,984**	**213,571,491**	**1,022,009,157**	**451,945**	**–**	**1,154,672,886**	**3,197,001,463**
Total interest repricing gap	**200,781,164**	**(9,243,417)**	**(883,768,141)**	**923,237,798**	**211,299,537**	**(114,528,826)**	**327,778,115**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.2.3 Interest rate risk *...continued*

The Bank fair value interest rate risk arises from debt securities classified as available-for-sale. Had market interest rates at the reporting date been 100 basis points higher/lower with all variables held constant, equity for the year would have been $1,024,487 lower/higher as a result of the decrease/increase in fair value of available-for-sale debt securities.

Cash flow interest rate risk arises from loans and advances to customers at available rates. Had variable rates at the reporting date been 100 basis points higher/lower with all other variables held constant, profits for the year would have been $4,491,970 higher/lower, mainly as a result of higher/lower interest income from loans and advances (all loans and advances carry variable interest rates).

3.3 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 fulfil commitments to lend. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters.

3.3.1 Liquidity risk management

The Bank liquidity is managed and monitored by the Comptroller Division with guidance, where necessary, from the Board of Directors. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. This includes:

- Daily monitoring of the Bank liquidity position to ensure that requirements can be met. These include the replenishment of funds as they mature and/or are borrowed by customers;

- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against unforeseen liquidity problems. Additionally, the investment portfolio is diversified by geography, product, industry and term;

- Daily monitoring of the statement of financial position liquidity ratios against internal and regulatory requirements;

- Managing the concentration and profile of debt maturities; and

- Formalised arrangements with non-regional financial institutions to fund any liquidity needs that may arise.

(expressed in Eastern Caribbean dollars)

3 Financial risk management*...continued*

3.3.2 Funding approach

Sources of liquidity are regularly reviewed to maintain a wide diversification of geography, currency, providers, products and terms. The Bank holds a diversified portfolio of cash loans and investment securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk include the following:

- Cash and balances with the Central bank;
- Deposits with other financial institutions;
- Loans and advances to customers;
- Treasury bills; and
- Available-for-sale investment securities

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.3.3 Cash flows

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

As of June 30, 2016	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $
Liabilities						
Customers' deposits , including interest until maturity	1,941,126,739	243,389,038	1,076,470,127	455,300	–	3,261,441,204
Due to other financial institutions	224,753	–	–	–	–	224,753
Other liabilities	16,760,128	5,105,930	12,739	–	–	21,878,797
Total financial liabilities	**1,958,111,620**	**248,494,968**	**1,076,482,866**	**455,300**	**–**	**3,283,544,754**
Assets held to manage liquidity risk	**1,917,028,062**	**280,028,217**	**148,737,275**	**988,816,600**	**218,281,921**	**3,552,892,075**
As of June 30, 2015						
Liabilities						
Customers' deposits , including interest until maturity	1,921,802,727	218,750,897	1,068,228,587	–	–	3,208,782,211
Due to other financial institutions	692,915	–	–	–	–	692,915
Other liabilities	13,511,126	2,892,418	4,304,837	12,739	–	20,721,120
Total financial liabilities	**1,936,006,768**	**221,643,315**	**1,072,533,424**	**12,739**	**–**	**3,230,196,246**
Assets held to manage liquidity risk	**1,994,619,665**	**207,023,290**	**162,682,917**	**943,356,329**	**210,294,537**	**3,517,976,738**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.3.4 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:

As of June 30, 2016	**Up to 1 year $**	**1 to 3 years $**	**Over 3 years $**	**Total $**
Loan commitments	46,854,841	512,022	6,706,303	**54,073,166**
As of June 30, 2015				
Loan commitments	13,444,283	771,975	19,798,773	**34,015,031**

3.4 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, items in transit are assumed to approximate their carrying values due to their short term nature. The fair values of off statement of financial position commitments are also assumed to approximate the amount disclosed in note 30. Fair values of financial assets and financial liabilities are also determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with pricing models based on discounted cash flow analysis using prices from observable current market transactions.

(a) Treasury bills

Treasury bills are assumed to approximate their carrying value due to their short term nature.

(b) Deposits with other financial institutions

Deposits with other financial institutions include cash on operating accounts and interest and non-interest bearing fixed deposits both with original maturity periods under 90 days. These deposits are estimated to approximate their carrying values due to their short term nature.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

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

(c) Loans and advances to customers and originated debts
Loans and advances and originated debts are net of provisions for impairment. The estimated fair values of loans and advances represent the discounted amount of estimated future cash flow expected to be received. Expected cash flows are discounted at current market rate to determine fair value on impaired loans and advances. A conservative approach to the present value of such cash flows on performing loans and advances is taken due to the steady rise in values of property collateral. Therefore, initial values are taken as fair value and where observed values are different adjustments are made.

(d) Customers' deposits
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 and are at rates which reflect market conditions, are assumed to have fair values which approximate carrying values.

(e) Due to financial institutions
The estimated fair value of 'due to financial institutions' is the amount payable on demand which is the amount recorded.

(f) Other borrowed funds
Other borrowed funds are all interest bearing financial liabilities with amounts payable on demand and at a fixed maturity date. Fair value in this category is estimated to approximate carrying value.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

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

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

	Carrying value		Fair value	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with Central Bank	**269,151,813**	239,696,341	**269,151,813**	239,696,341
Treasury bills	**135,370,549**	143,796,220	**135,370,549**	143,796,220
Deposits with financial institutions	**895,478,694**	1,173,713,941	**895,478,694**	1,173,713,941
Financial asset	**798,480,221**	798,396,748	**798,480,221**	798,396,748
Loans and advances:				
Overdraft	**175,071,988**	164,213,975	**192,146,401**	191,925,573
Corporate	**289,386,864**	258,804,850	**431,860,729**	370,696,660
Mortgage	**101,893,887**	98,936,121	**277,217,246**	273,711,654
Term	**148,757,334**	134,813,954	**154,314,332**	160,902,502
Originated debts	**114,164,002**	108,555,815	**114,164,002**	108,555,815
Customers' liability under acceptances, guarantees and letters of credit	**7,743,745**	6,802,840	**7,743,745**	6,802,840
Other assets	**11,180,715**	12,836,479	**11,180,715**	12,836,479
	2,946,679,812	3,140,567,284	**3,287,108,447**	3,481,034,773
Financial liabilities				
Due to customer's	**3,232,571,338**	3,175,587,428	**3,232,571,338**	3,175,587,428
Due to other financial institutions	**224,753**	692,915	**224,753**	692,915
Other liabilities	**21,878,797**	20,721,120	**21,878,797**	20,721,120
	3,254,674,888	3,197,001,463	**3,254,674,888**	3,197,001,463

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.4.1 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observed.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair values measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Available-for-sale financial assets

As of June 30, 2016	Level 1 $	Level 2 $	Level 3 $	Total $
Debt securities	135,251,289	2,342,539	8,479,678	146,073,506
Equities	455,635,297	48,701	–	455,683,998
	590,886,586	**2,391,240**	**8,479,678**	**601,757,504**
As of June 30, 2015				
Debt securities	132,721,526	536,466	27,490,615	160,748,607
Equities	212,713,979	118,866	–	212,832,845
	345,435,505	**655,332**	**27,490,615**	**373,581,452**

3.5 Fair value measurement of non-financial assets

The following table shows the level within the hierarchy of non-financial assets measured at fair value:

	Level 1 $	Level 2 $	Level 3 $	Total $
As of June 30, 2016				
Land and property	–	23,561,502	–	**23,561,502**
As of June 30, 2015				
Land and property	–	23,964,311	–	**23,964,311**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.5 Fair value measurement of non-financial assets *...continued*

The fair value of the Bank's land and buildings is estimated based on appraisals performed by an independent property valuer. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the Board of Directors. The appraisal was carried out primarily using a market based approach that reflects the selling prices for similar properties and incorporates adjustments for factors specific to the properties in question, including square footage, location and current condition/use.

3.6 Capital management

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

- To comply with the capital requirement set by the Eastern Caribbean Central Bank (Central Bank);
- To safeguard the Bank 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 management, employing techniques based on the guidelines developed by the Central Bank for supervisory purposes. The required information is filed with the Central Bank on a quarterly basis.

The Central Bank requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of $5,000,000 and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the international agreed minimum of 8%.

The Bank regulatory capital as managed by management is divided into two tiers:

- Tier 1 Capital: share capital, retained earnings and reserves created by appropriation of retained earnings.
- Tier 2 Capital: qualifying subordinated loan capital, collective impairment allowance and unrealised gains arising on the fair valuation of security instruments held as available for sale.

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the two-year presentation. During those two years, the Bank complied with all of the externally imposed capital requirements to which it must comply.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.6 Capital management *...continued*

	2016 $	As Restated 2015 $
Tier 1 capital		
Share capital	**135,000,000**	135,000,000
Bonus shares from capitalisation of unrealised assets revaluation gain reserve	**(4,500,000)**	(4,500,000)
Reserves	**258,637,739**	277,143,688
Retained earnings	**13,976,306**	8,377,684
Total qualifying Tier 1 capital	**403,114,045**	416,021,372

	2016 $	As Restated 2015 $
Tier 2 capital		
Revaluation reserve – available-for-sale investments	**(54,543,274)**	(32,303,580)
Revaluation reserve – property and equipment	**15,912,813**	15,912,813
Bonus shares capitalisation	**4,500,000**	4,500,000
Accumulated impairment allowance	**54,837,727**	57,124,816
Total qualifying Tier 2 capital	**20,707,266**	45,234,049
Investment in subsidiaries	**(26,750,000)**	(26,750,000)
Total regulatory capital	**397,071,311**	434,505,421

	2016 $	As Restated 2015 $
Risk-weighted assets:		
On-statement of financial position	**1,365,866,984**	1,117,352,528
Off-statement of financial position	**70,379,714**	39,927,185
Total risk-weighted assets	**1,436,246,698**	1,157,279,713
Tier 1 capital ratio	**28%**	36%
Basel ratio	**28%**	38%

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates that have a significant risk of causing material adjustments to the carrying amounts of assets within the next financial year are discussed below:

(a) Impairment losses on investment securities

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in 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, 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.

(b) Impairment losses on loans and advances

The Bank reviews its loan portfolio of assets for impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, the Bank makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences in estimates and actual loss experienced. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated as $4,129,462 lower or $4,466,416 higher.

(c) Pension benefits

The present value of the defined benefit pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. 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 Bank considers the interest rates of high quality corporate bonds 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 obligation. Additional information is disclosed in note 32.

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements *…continued*

(d) Recognition of deferred tax assets

The extent to which deferred tax assets can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. The estimated deferred tax asset may vary from the actual amounts recovered in the future.

5 Cash and balances with Central Bank

	2016 $	2015 $
Cash on hand	**17,526,362**	13,441,005
Balances with Central Bank other than mandatory deposits	**62,847,233**	40,796,084
Included in cash and cash equivalents (note 31)	**80,373,595**	54,237,089
Mandatory deposits with Central Bank	**188,778,218**	185,459,252
	269,151,813	239,696,341

1) All banks in the Eastern Caribbean Currency Union are required to have a 3-day average daily gross Automated Clearing House (ACH) collateral amount with the Central Bank. The Bank's cash collateral amount stands at $5,496,330 (2015: $5,442,549) and form part of the mandatory deposits with the Central Bank.

2) Commercial banks are also required under Section 17 of the Banking Act, 1991 to maintain a reserve deposit with the Central Bank equivalent to 6 percent of their total customer deposits. The remaining mandatory deposits are being held to satisfy the requirements of this section of the Banking Act. This reserve deposit is not available to finance the Bank's day-to-day operations.

Cash and balances with Central Bank which include mandatory and ACH collateral deposits do not receive interest payments.

(expressed in Eastern Caribbean dollars)

6 Treasury bills

	2016 $	2015 $
Government of Antigua and Barbuda		
maturing October 8, 2016 at 5.95% interest	**6,878,817**	–
maturing July 1, 2016 at 5% interest	**9,525,000**	–
matured November 8, 2015 at 6% interest	–	6,310,582
matured October 9, 2015 at 6.5% interest	–	9,916,610
Government of St. Lucia		
maturing May 21, 2017 at 5% interest	**4,750,000**	–
maturing November 3, 2016 at 4.5% interest	**11,530,000**	–
maturing June 5, 2017 at 5% interest	**2,024,500**	–
matured May 22, 2016 at 4% interest	–	4,800,000
matured November 9, 2015 at 4% interest	–	11,530,000
matured June 5, 2016 at 5% interest	–	2,024,500
Government of Grenada		
maturing July 16, 2017 at 5% interest	**10,307,261**	–
matured July 18, 2015 at 6% interest	–	12,278,280
matured October 10, 2015 at 6% interest	–	7,158,100
Government of St. Kitts and Nevis		
maturing May 15, 2017 at 4% interest	**88,417,440**	–
matured May 15, 2015 at 5% interest	–	87,496,425
	133,433,018	141,514,497
Interest receivable	**1,937,531**	2,281,723
	135,370,549	143,796,220

(expressed in Eastern Caribbean dollars)

7 Deposits with other financial institutions

	2016 $	2015 $
Operating cash balances	**501,729,204**	915,972,587
Items in the course of collection	**7,848,702**	7,085,452
Interest bearing term deposits	**339,915,702**	204,785,702
Included in cash and cash equivalents (note 31)	**849,493,608**	1,127,843,741
Special term deposits	**21,065,239**	21,065,239
Restricted term deposits	**25,596,649**	25,572,631
	896,155,496	1,174,481,611
Provision for impairment	**(795,739)**	(795,739)
Interest receivable	**118,937**	28,069
	895,478,694	1,173,713,941
Current	**869,882,045**	1,148,141,310
Non-current	**25,596,649**	25,572,631
	895,478,694	1,173,713,941

Special term deposits are interest bearing fixed deposits with an original maturity period longer than 3 months.

Restricted term deposits are interest bearing fixed deposits collateral used in the Bank’s international business operations. These deposits are not available for use in the day-to-day operations of the Bank.

Interest earned on both ‘Special term deposits’ and ‘Restricted term deposits’ is credited to the statement of income. The effective interest rate on ‘Deposits with other financial institutions’ at June 30, 2016 is 0.0256% (2015: 0.0468%).

(expressed in Eastern Caribbean dollars)

8 Loans and advances to customers

	2016 $	2015 $
Demand	**305,072,994**	274,326,534
Overdrafts	**101,413,561**	91,291,091
Mortgages	**95,033,159**	81,461,827
Special term	**31,795,628**	29,891,343
Other secured	**23,772,003**	26,126,861
Consumer	**6,568,459**	6,833,842
Credit cards	**5,259,871**	5,633,114
Performing loans	**568,915,675**	515,564,612
Impaired loans and advances	**199,660,029**	197,003,129
Less: allowance for impairment	**(54,837,727)**	(57,124,816)
	713,737,977	655,442,925
Interest receivable	**1,372,096**	1,325,975
	715,110,073	656,768,900
Current	**420,101,285**	429,599,373
Non-current	**295,008,788**	227,169,527
	715,110,073	656,768,900

The weighted average effective interest rate on productive loans and advances at amortized cost at June 30, 2016 was 8.1% (2015: 8.2%) and productive overdraft stated at amortized cost was 10.1% (2015: 17.6%).

Allowance for loan impairment

The movement in allowance for loan impairment is as follows:

	2016 $	2015 $
Balance, beginning of year	**57,124,816**	55,888,363
Write off during the year	**(1,034,638)**	(534,749)
Current year impairment (recovery)/losses - net (note 24)	**(1,252,451)**	1,771,202
Balance, end of year	**54,837,727**	57,124,816

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to $50,985,879 (2015: $54,052,583). Where the ECCB loan loss provision is greater than the loan loss provision calculated under IAS 39, the difference is set aside as a specific reserve through equity. As of June 30, 2016, the loan loss provision calculated under IAS 39 was greater than the ECCB provision. Therefore, a specific reserve through equity was not required at the reporting date. The gross carrying value of impaired loans at the year end was $129,844,034 (2015: $128,352,682). Interest receivable on loans that would not be recognised under ECCB guidelines amounted to $46,239,725 (2015: $45,074,837) and is included in Other Reserves in equity (note 20).

(expressed in Eastern Caribbean dollars)

9 Originated debts

	2016 $	2015 $
Government of St. Lucia USD Fixed Rate Note maturing July 19, 2017 at 5.5% interest	**13,513,000**	13,513,000
Government of St. Lucia USD Fixed Rate Note maturing September 1, 2016 at 4.5% interest	**25,369,306**	25,369,306
Government of St. Kitts and Nevis bonds maturing April 18, 2057 at 1.5% interest	**19,051,408**	18,472,220
Eastern Caribbean Home Mortgage Bank long-term bond matured July 02, 2015 at 6% interest	**–**	2,600,000
Antigua Commercial Bank 9% interest rate Series A bond maturing September 30, 2025	**1,417,183**	1,450,915
Grenada Electricity Services Limited 10-year 7% bond maturing December 18, 2017	**–**	2,700,000
Government of Antigua and Barbuda 7-year long term notes at 6.7% interest	**37,534,902**	37,534,902
Government of St. Vincent & The Grenadines 10-year bond maturing December 17, 2019 at 7.5% interest	**5,000,000**	5,000,000
Wells Fargo Corporate Bonds maturing between January 1, 2018 and April 2019 at rates ranging from 1.5% to 6.3% interest	**11,093,768**	–
Caribbean Credit Card Corporation unsecured loan at 10 % interest with no specific terms of repayment	**300,000**	300,000
	113,279,567	106,940,343
Interest receivable	**884,435**	1,615,472
	114,164,002	108,555,815
Current	**33,150,812**	17,728,472
Non-current	**81,013,190**	90,827,343
	114,164,002	108,555,815

(expressed in Eastern Caribbean dollars)

9 Originated debts *...continued*

Government of Antigua and Barbuda 7-year long term notes

Commencing on May 7, 2010, the Bank purchased from ABI Bank Limited (ABIB) a series of certificates of participation in the cash flows from a long term notes issued by the Government of Antigua and Barbuda which had been securitized by ABIB. ABIB was placed in receivership on November 27, 2015. As of June 30, 2016, the Bank's interest in the long term notes amounted to $37,534,902 (2015: $37,534,902) of which $30,637,831 has matured and is now past due, whilst the remaining $6,897,071 is current and maturing in May 2017. No scheduled payments have been received during the current financial year in respect of the long term notes from the Paying Agent, ABIB (now in Receivership). As at the date of approval of these financial statements, the Bank has not been advised by the Receiver of any time frame for payment of the amount due. However, the Bank has received correspondence from the Receiver indicating that $6,897,071 of the amount due will be serviced from the scheduled monthly payments, as they are received from the Government of Antigua and Barbuda; whilst the remaining $30,637,831 is expected to be dealt with according to the priorities in payment of claims rules outlined in section 153 of the Banking Act 2015.

This matter was discussed at a meeting of the Monetary Council of the Eastern Caribbean Currency Union held on March 2, 2017. The Monetary Council decided that the Eastern Caribbean Central Bank would work in conjunction with the Government of Antigua and Barbuda towards finding a resolution of the matter in the best interest and mutual benefit of all parties involved, including the Bank. Further, all efforts would be made to ensure the Bank would not incur any impairment loss on the amount of the notes it holds. The Eastern Caribbean Central Bank advised that the Monetary Council deemed the resolution of this matter as a priority for all stakeholders and indicated its intention to ensure that the matter is resolved expeditiously.

The movement in originated debts during the year is as follows:

	2016 **$**	**2015** **$**
Balance, beginning of year	**108,555,815**	90,518,117
Additions	**11,672,956**	25,902,780
Disposals (sales/redemptions)	**(6,949,204)**	(9,480,554)
Interest receivable	**884,435**	1,615,472
Balance, end of year	**114,164,002**	108,555,815

(expressed in Eastern Caribbean dollars)

10 Investment securities

(A) Available-for-sale securities

	2016 $	2015 $
Listed securities at fair value	**593,229,125**	372,457,587
Unlisted securities	**23,467,540**	16,766,074
Total available-for-sale securities, gross	**616,696,665**	389,223,661
Less provision for impairment	**(5,005,521)**	(6,333,582)
	611,691,144	382,890,079
Interest receivable	**2,264,864**	1,322,215
Total available-for-sale securities, net	**613,956,008**	384,212,294

(B) The movement in available-for-sale during the year is as follows:

	2016 $	2015 $
Balance, beginning of year	**384,212,294**	525,426,711
Additions	**1,187,801,842**	665,518,938
Disposals (sales/redemptions)	**(926,598,373)**	(773,994,157)
Fair value losses	**(33,193,574)**	(34,061,413)
Impairment losses	**(531,045)**	–
Interest receivable	**2,264,864**	1,322,215
Balance, end of year	**613,956,008**	384,212,294

(C) Provision for impairment – available-for-sale investments include:

	2016 $	2015 $
Balance, beginning of year	**6,333,582**	6,333,582
Provision (note 24)	**531,045**	–
Reversal of allowance	**(151,059)**	–
Writedown	**(1,708,047)**	–
Balance, end of year	**5,005,521**	6,333,582

(expressed in Eastern Caribbean dollars)

10 Investment securities *…continued*

(C) Provision for impairment – available-for-sale investments include: *…continued*

Provision for impairment includes the following:

	2016 $	2015 $
Wireless Ventures (St. Kitts-Nevis) Limited	**1,636,674**	1,309,339
TCI Bank Limited	**1,351,300**	1,351,300
Cable Bay Hotel Development Co. Limited	**1,018,548**	814,838
Antigua- Barbuda Investment Bank	**998,999**	998,999
ECIC Holdings Limited	**–**	1,859,106
	5,005,521	6,333,582

(D) Available-for-sale financial assets are as follows:

	2016 $	2015 $
Listed securities:		
- Equity securities – US	**451,575,797**	208,309,480
- Debt securities – US	**137,593,828**	159,743,607
- Equity securities – Caribbean	**4,059,500**	4,404,500
Total listed securities	**593,229,125**	372,457,587
Unlisted securities:		
- Equity securities – Caribbean	**12,929,102**	14,637,149
- Debt securities – Caribbean	**2,010,059**	2,010,059
- Equity securities – US	**48,701**	118,866
- Debt securities – US	**8,479,678**	–
Total unlisted securities	**23,467,540**	16,766,074

(expressed in Eastern Caribbean dollars)

10 Investment securities *...continued*

(D) Available-for-sale financial assets are as follows: *...continued*

	2016 $	2015 $
Total available-for-sale securities, gross	**616,696,665**	389,223,661
Provision for impairment	**(5,005,521)**	(6,333,582)
	611,691,144	382,890,079
Interest receivable	**2,264,864**	1,322,215
Total available-for-sale securities, net	**613,956,008**	384,212,294

(E) AFS securities are denominated in the following currencies:

	2016 $	2015 $
Listed:		
US dollars	**589,169,625**	368,053,087
EC dollars	**4,059,500**	4,404,500
Total listed securities	**593,229,125**	372,457,587
Unlisted:		
US dollars	**10,489,737**	9,441,774
EC dollars	**12,977,803**	7,324,300
Total unlisted securities	**23,467,540**	16,766,074
Total available-for-sale securities, gross	**616,696,665**	389,223,661
Less: Provision for impairment	**(5,005,521)**	(6,333,582)
	611,691,144	382,890,079
Interest receivable	**2,264,864**	1,322,215
Total available-for-sale securities, net	**613,956,008**	384,212,294

(expressed in Eastern Caribbean dollars)

11 Investment in subsidiaries

	2016 $	2015 $
National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited	**5,750,000**	5,750,000
National Caribbean Insurance Company Limited	**9,000,000**	9,000,000
St. Kits and Nevis Mortgage and Investment Company Limited	**12,000,000**	12,000,000
	26,750,000	26,750,000

All subsidiaries are wholly owned except for National Caribbean Insurance Company Limited (NCIC) which is 90 percent owned. National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited, which is a wholly owned subsidiary of the Bank owns the remaining 10 percent.

12 Customers' liability under acceptances, guarantees and letters of credit

	2016 $	2015 $
Letters of credit	**7,743,745**	6,802,840

(expressed in Eastern Caribbean dollars)

13 Property and equipment

	Land and property $	Equipment $	Furniture & fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
Year ended June 30, 2016							
Opening net book value	23,964,311	1,634,030	955,791	364,704	85	2,696,295	29,615,216
Additions	105,712	–	109,407	–	–	1,347,881	1,563,000
Transfers	–	2,915,738	–	–	–	(2,915,738)	–
Reclassification of projects ongoing to expense	–	–	–	–	–	(389,835)	(389,835)
Depreciation charge	(706,041)	(711,953)	(292,123)	(120,913)	–	–	(1,831,030)
Closing net book value	**23,363,982**	**3,837,815**	**773,075**	**243,791**	**85**	**738,603**	**28,957,351**
At June 30, 2016							
Cost or valuation	24,919,734	17,879,220	3,969,157	701,570	140,368	738,603	48,348,652
Accumulated depreciation	(1,555,752)	(14,041,405)	(3,196,082)	(457,779)	(140,283)	–	(19,391,301)
Net book value	**23,363,982**	**3,837,815**	**773,075**	**243,791**	**85**	**738,603**	**28,957,351**

(expressed in Eastern Caribbean dollars)

13 Property and equipment *...continued*

	Land and property $	Equipment $	Furniture & fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
Year ended June 30, 2015							
Opening net book value	16,459,457	1,665,779	1,164,573	379,225	540	1,369,493	21,039,067
Additions	–	790,294	89,438	102,960	–	1,326,802	2,309,494
Disposals	–	(119,604)	–	–	–	–	(119,604)
Depreciation charge	(626,465)	(800,114)	(298,220)	(117,481)	(455)	–	(1,842,735)
Write-back on disposals	–	97,675	–	–	–	–	97,675
Effect of elimination of accumulated depreciation against valuation:							
Valuation	(4,491,067)	–	–	–	–	–	(4,491,067)
Accumulated depreciation	4,491,067	–	–	–	–	–	4,491,067
Revaluation surplus	8,192,192	–	–	–	–	–	8,192,192
Revaluation loss	(60,873)	–	–	–	–	–	(60,873)
Closing net book value	**23,964,311**	**1,634,030**	**955,791**	**364,704**	**85**	**2,696,295**	**29,615,216**
At June 30, 2015							
Cost or valuation	24,814,022	14,963,482	3,859,750	701,570	140,368	2,696,295	47,175,487
Accumulated depreciation	(849,711)	(13,329,452)	(2,903,959)	(336,866)	(140,283)	–	(17,560,271)
Net book value	**23,964,311**	**1,634,030**	**955,791**	**364,704**	**85**	**2,696,295**	**29,615,216**

(expressed in Eastern Caribbean dollars)

13 Property and equipment *…continued*

Included in Property is land at a carrying value of $4,347,312. This is made-up as follows:

	2016 $	2015 $
Headquarters (Basseterre)	**2,206,260**	2,206,260
Nevis	**1,019,250**	1,019,250
West Independence Square	**809,589**	809,589
Rosemary Lane (#1)	**110,000**	110,000
Rosemary Lane (#2)	**102,975**	102,975
Sandy Point (#1)	**46,785**	46,785
Saddlers	**26,513**	26,513
Sandy Point (#2)	**26,040**	26,040
Total	**4,347,412**	4,347,412

In 2015, the Bank's land and buildings were revalued based on the appraisal made by an independent firm of appraisers. Valuations were made on the basis of comparative recent market transactions on arm's length terms. The revaluation surplus was credited to 'property revaluation reserve' in shareholders' equity.

The following is the historical cost carrying amount of land and buildings carried at revalued amounts.

	Land $	Buildings $	Total $
At June 30, 2016			
Cost	2,928,371	13,446,069	16,374,440
Accumulated depreciation	–	(2,989,121)	(2,989,121)
Net book value	**2,928,371**	**10,456,948**	**13,385,319**

	Land $	Buildings $	Total $
At June 30, 2015			
Cost	2,928,371	13,340,357	16,268,728
Accumulated depreciation	–	(2,654,731)	(2,654,731)
Net book value	**2,928,371**	**10,685,626**	**13,613,997**

(expressed in Eastern Caribbean dollars)

14 Intangible assets

	Computer software $
Year ended June 30, 2015	
Opening balance	260,522
Additions	565,756
Disposal	(2,374,778)
Amortisation charge	(353,028)
Write-back on disposals	2,374,768
Net book amount	**473,240**
At June 30, 2015	
Cost or valuation	6,159,191
Accumulated amortisation	(5,685,951)
Net book value	**473,240**
Year ended June 30, 2016	
Opening balance	473,240
Additions	166,353
Amortisation charge	(215,669)
Net book amount	**423,924**
At June 30, 2016	
Cost or valuation	6,325,544
Accumulated amortisation	(5,901,620)
Net book value	**423,924**

15 Other assets

	2016 $	2015 $
Net defined benefit asset (note 32)	**9,775,892**	11,291,459
ePassporte receivable	**8,107,800**	8,107,800
Prepayments	**2,144,876**	2,808,728
Other receivables	**2,522,066**	2,509,188
Stationery	**890,855**	718,572
	23,441,489	25,435,747
Less: Provision for impairment	**(1,000,000)**	–
	22,441,489	25,435,747
Current	**5,557,797**	6,036,488
Non-current	**16,883,692**	19,399,259
	22,441,489	25,435,747

(expressed in Eastern Caribbean dollars)

16 Customers' deposits

	2016 $	2015 $
Fixed deposit accounts	**1,612,194,987**	1,536,176,768
Direct demand accounts	**910,638,073**	1,124,432,267
Savings accounts	**418,448,491**	392,961,378
Call accounts	**271,389,876**	98,990,671
	3,212,671,427	3,152,561,084
Interest payable	**19,899,911**	23,026,344
	3,232,571,338	3,175,587,428
Current	**3,232,116,038**	3,175,135,437
Non-current	**455,300**	451,991
	3,232,571,338	3,175,587,428

Customers' deposits represent all types of deposit accounts held by the Bank on behalf of customers. The deposits include demand deposit accounts, call accounts, savings accounts and fixed deposits.

The Bank pays interest on all categories of customers' deposits except demand deposits. At the reporting date, total interest expense on deposit accounts for the year amounted to $66,422,880 (2015: $74,089,484). The average effective rate of interest paid on customers' deposits was 2.35% (2015: 2.35%).

17 Accumulated provisions, creditors and accruals

	2016 $	2015 $
Suspense liabilities	**8,365,430**	6,272,336
Employee related payables	**3,790,548**	4,082,348
Other payables	**4,857,793**	6,988,958
Managers' cheques and bankers' payments	**3,010,273**	1,700,983
Unpaid drafts on other banks	**1,854,753**	1,676,495
	21,878,797	20,721,120

(expressed in Eastern Caribbean dollars)

18 Taxation

	2016 $	2015 Restated $
18.1 Tax credit		
Income for the year before tax	**23,443,410**	17,395,367
Income tax at 33%	**7,736,325**	5,740,471
Non-deductible expenses	**4,069,902**	5,007,035
Unrecognized deferred tax asset	**1,376,058**	–
Income not subject to tax	**(13,612,153)**	(14,138,135)
Income tax credit	**(429,868)**	(3,390,629)
Represented as follows:		
Current tax expense	**–**	–
Deferred tax credit	**(429,868)**	(3,390,629)
	(429,868)	(3,390,629)

18.2 Deferred tax asset/(liability)

	2016 $	2015 Restated $
Items recognized in profit or loss		
Tax losses carried forward	**15,127,806**	15,127,806
Capital loss allowance carried forward	**2,055,559**	1,380,280
Accelerated depreciation	**642,316**	875,177
	17,825,681	17,383,263
Items recognized directly in other comprehensive income		
Unrealised losses on AFS securities	**26,864,598**	15,910,718
Net defined benefit asset	**(3,226,043)**	(3,726,181)
	23,638,555	12,184,537
	41,464,236	29,567,800

(expressed in Eastern Caribbean dollars)

18 Taxation *...continued*

18.2 Deferred tax asset/(liability) *...continued*

The movements on the deferred tax asset/liability are as follows:

	2016 $	2015 Restated $
Balance, beginning of year	**29,567,800**	15,043,703
Current year charge	**429,868**	3,390,629
Movement in unrealised losses on investment securities	**10,953,880**	11,240,266
Losses/(gains) on re-measurement of defined benefit asset	**512,688**	(106,798)
Balance, ending of year	**41,464,236**	29,567,800

18.3 Tax losses

As of June 30, 2016 the Bank had incurred income tax losses amounting to $50,011,712 (2015: $45,841,837) which may be carried forward and applied to reduce taxable income by an amount not exceeding one half of taxable income in any one year of assessment within 5 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. There were no losses utilised or expired during the year.

The losses expire as follows:

	$
2018	**26,834,479**
2019	**9,261,586**
2020	**9,745,772**
2021	**4,169,875**
	50,011,712

Tax losses arise primarily from interest and investment income earned, which is exempted from income taxes. The deferred tax asset with respect to the tax losses during the year amounting to $1,376,058 was not recognised since it is not probable that future taxable profit will be available against which the Bank can utilize the benefits there from. However management believes that the deferred tax asset arising from previous years tax losses amounting to $15,127,806 will likely be recovered from foreseeable taxable profits.

18.4 Income tax recoverable

Included in the statement of financial position is amount of $4,417,997 (2015: $4,417,997, as restated) that relate income tax credits/advance tax payments due from the Inland Revenue Department in respect of tax assessments that were finalised up to the year ended June 30, 2011. The amount may be applied against any future taxes payable by the Bank.

(expressed in Eastern Caribbean dollars)

19 Share capital

	2016 $	2015 $
Authorised		
270,000,000 Ordinary shares of $1 each	**270,000,000**	270,000,000
Issued and fully paid		
135,000,000 Ordinary shares of $1 each	**135,000,000**	135,000,000

20 Reserves

	2016 $	2015 $
Statutory reserve	**116,449,012**	111,674,356
Revaluation reserve	**(38,630,461)**	(16,390,767)
Other reserves	**180,819,188**	181,860,099
	258,637,739	277,143,688

a) Statutory reserves

	2016 $	2015 $
Balance, beginning of year	**111,674,356**	106,849,652
Addition	**4,774,656**	4,824,704
Balance, ending of year	**116,449,012**	111,674,356

In accordance with Section 14 (1) of Saint Christopher and Nevis Banking Act No. 6 of 1991, the Bank is required to maintain a reserve fund into which it shall transfer not less than 20% of its net income of each year whenever the reserve fund is less than the Bank’s paid-up capital.

(expressed in Eastern Caribbean dollars)

20 Reserves *...continued*

b) Revaluation reserve

	2016 $	2015 $
Balance, beginning of year	**(16,390,767)**	(1,761,811)
Movement in market value of investments, net	**(22,239,694)**	(22,821,148)
Increase in fair value of properties	**–**	8,192,192
Balance, ending of year	**(38,630,461)**	(16,390,767)
Revaluation reserve is represented by:		
Available-for-sale investment securities	**(54,543,274)**	(32,303,580)
Properties	**15,912,813**	15,912,813
Balance, ending of year	**(38,630,461)**	(16,390,767)

c) Other reserves

	2016 $	2015 $
Balance, beginning of year	**181,860,099**	181,643,268
Other comprehensive income	**(1,040,911)**	216,831
Balance, ending of year	**180,819,188**	181,860,099
Other reserves is represented by:		
Reserve for interest on non-performing loans	**46,239,725**	45,074,837
Defined benefit plan	**6,165,602**	7,206,513
General reserve	**128,413,861**	129,578,749
	180,819,188	181,860,099

Other reserves
Included in this reserves are the following individual reserves:

Defined benefit plan reserve
This reserve is used to record the actuarial re-measurement of the defined benefit pension asset in other comprehensive income.

Reserve for interest accrued on non-performing loans
This reserve is created to set aside interest accrued on non-performing loans where certain conditions are met in accordance with IAS 39. The prudential guidelines of the Eastern Caribbean Central Bank do not allow for the accrual of such interest. As a result, the interest is set aside in a reserve and it is not available for distribution to shareholders until collected.

(expressed in Eastern Caribbean dollars)

20 Reserves*...continued*

General reserve
General reserve is used from time to time to transfer profits from retained earnings at the discretion of the Board of Directors. There is no policy of regular transfer.

21 Net interest income

	2016 $	2015 $
Interest income		
Loans and advances to customers	**43,936,926**	45,376,879
Financial asset (note 30)	**27,863,502**	26,461,949
AFS securities	**8,041,899**	7,320,407
Treasury bills	**7,167,848**	9,838,850
Originated debts	**4,499,305**	4,108,371
Deposits with other financial institutions	**530,029**	881,847
Interest income for the year	**92,039,509**	93,988,303
Interest expense		
Fixed deposits	**56,793,954**	60,567,575
Savings accounts	**9,299,319**	11,981,935
Call accounts	**329,607**	1,350,785
Current and other deposit accounts	–	189,174
Debt and other related accounts	–	15
Interest expense for the year	**66,422,880**	74,089,484
Net interest income	**25,616,629**	19,898,819

(expressed in Eastern Caribbean dollars)

22 Net fees and commission income

	2016 $	2015 $
Fees and commission income		
International business and foreign exchange	**8,603,654**	9,200,219
Credit related fees and commission	**3,886,674**	3,137,490
Brokerage and other fees and commission	**3,028,312**	2,536,539
Fees and commission income for year	**15,518,640**	14,874,248
Fee expenses		
International business and foreign exchange	**7,045,630**	9,889,577
Other fee expenses	**1,454,734**	1,091,999
Brokerage and other related fee expenses	**83,113**	161,640
Fee expenses for year	**8,583,477**	11,143,216
Net fees and commission income	**6,935,163**	3,731,032

23 Net realised gains and losses from investments

	2016 $	2015 $
Gains on AFS investments	**20,656,282**	25,802,680
Losses on AFS investments	**(8,763,846)**	(1,082,612)
	11,892,436	24,720,068

24 Impairment charges – net

	2016 $	2015 $
Other assets (note 15)	**1,000,000**	–
Equity investments (note 10)	**531,045**	–
Special term deposits (note 7)	**–**	795,739
Loans and advances to customers (note 8)	**(1,252,451)**	1,771,202
	278,594	2,566,941

(expressed in Eastern Caribbean dollars)

25 Administrative and general expenses

	2016 $	2015 $
Employee benefits	**16,756,148**	17,597,030
Repairs and maintenance	**3,089,917**	3,612,469
Communication	**926,256**	903,941
Utilities	**701,980**	1,081,481
Stationery and supplies	**697,721**	625,211
Rent and occupancy expenses	**600,742**	718,441
Insurance	**589,463**	561,217
Advertisement and marketing	**529,647**	876,474
Sundry losses	**499,568**	6,798,443
Legal fees and expenses	**324,448**	550,942
Security services	**300,628**	286,315
Shareholders' expenses	**196,194**	225,339
Taxes and licences	**111,462**	79,159
Premises upkeep	**29,880**	31,751
Other general expenses	**1,409,982**	1,557,251
	26,764,036	35,505,464

25.1 *Employee benefit expense*

	2016 $	2015 $
Salaries and wages	**11,608,767**	10,933,468
Other staff cost	**3,450,057**	4,734,787
Insurance and other benefits	**1,735,356**	1,942,633
Pension credits (note 32)	**(38,032)**	(13,858)
	16,756,148	17,597,030

(expressed in Eastern Caribbean dollars)

26 Earnings per share

'Earnings per share' is calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2016 $	2015 $
Net income attributable to shareholders	**23,873,278**	20,785,996
Weighted average number of ordinary shares in issue	**135,000,000**	135,000,000
Basic and diluted earnings per share	**0.18**	0.15

27 Dividends

The financial statements reflect dividend payment of $13,500,000 or $0.10 per share for the financial year ended June 30, 2016 (2015: $13,500,000 or $0.10 per share) on December 17, 2015 and January 21, 2016 of $6,750,000 or $0.05 per share each payment. Approval of these payments was given at the Forty-Fifth Annual General Meeting held on January 21, 2016.

28 Related parties balances and transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making operational or financial decisions. A number of banking transactions are entered into with our subsidiaries and directors in the normal course of business. These transactions, which include deposits, loans and other transactions, are carried out on commercial terms and conditions, at market rates.

Government of St. Kitts and Nevis

The Government of St. Kitts and Nevis holds 51% of the Bank's issued share capital. The remaining 49% of the issued share capital is held by individuals and other institutions (approximately 5,200 shareholders). The Government is also a customer of the Bank and, as such, all transactions executed by the Bank on behalf of the Government are performed on strict commercial banking terms at existing market rates.

(expressed in Eastern Caribbean dollars)

28 Related parties balances and transactions *...continued*

	2016 $	2015 $
Central Government and statutory bodies (public sector)		
Net surplus position (loans and advances less deposits)	**1,335,253,803**	1,194,157,336
Interest on deposits	**42,256,833**	48,828,719
Interest on loans and advances	**11,025,727**	12,599,271
Interest on financial asset	**27,863,502**	26,461,949
Subsidiaries		
Deposits	**219,760,500**	252,230,768
Interest on deposits	**8,782,405**	10,228,266
Loans and advances	**10,636,285**	10,149,360
Interest from loans and advances	**575,955**	605,314
Associated companies		
Deposits	**11,401,807**	11,168,329
Interest on deposits	**87,290**	146,168
Loans and advances	**70,294,661**	70,612,675
Interest from loans and advances	**30,397**	4,434,018
Directors and associates		
Deposits	**366,906**	462,028
Interest on deposits	**6,168**	4,672
Loans and advances	**1,100,708**	33,945
Interest from loans and advances	**58,021**	2,029
Bank shares held	**160,700**	176,983
Key management		
Total remuneration	**1,980,515**	2,096,014
Deposits	**1,052,026**	1,643,192
Interest on deposits	**54,570**	50,611
Loans and advances	**4,022,987**	4,132,472
Interest from loans and advances	**281,373**	300,403
Number of Bank shares held	**46,429**	50,427

Loans advanced to directors and key management during the year are repayable on a monthly basis at a weighted average effective interest rate of 6.0% (2015: 6.0%). Secured loans are collaterised by cash and mortgages over residential properties.

A provision of $12,258,402 (2015: $13,553,670) has been recognised in respect to advances made to a related party (associated company).

(expressed in Eastern Caribbean dollars)

29 Contingent liability and commitments

Contingent tax liability

On January 29, 2016, the St. Kitts and Nevis Inland Revenue Department (IRD) assessed the Bank with additional corporate income taxes for the financial years 2012 to 2014. The Bank has accepted and accrued for additional income taxes payable relating to the disallowance of salaries in excess of the statutory limit for the year ended June 30, 2013. Refer to note 33. Further, the Bank is disputing the remaining assessment and responded on May 3, 2016 with a formal objection to the IRD. No provision has been recorded in these financial statements by the Bank for the disputed amounts as the outcome of the amounts claimed by the IRD cannot yet be reasonably determined.

Commitments

At the statement of financial position date the Bank had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

	2016 **$**	**2015** **$**
Loan commitments	**54,073,166**	34,015,031
	54,073,166	34,015,031

30 Financial asset

The financial asset of $798,480,221 (2015: $798,396,748) represents the Bank's right to that amount of cash flows from the sale of certain lands pursuant to a Shareholder's Agreement (Agreement) dated April 18, 2012 and September 4, 2014 between the Bank and its majority shareholder, the Government of St. Kitts & Nevis ("GOSKN"), and the Nevis Island Administration ("NIA") respectively. Under the terms of the Agreement, the secured debt obligations owed to the Bank by the GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer of certain land assets to the Bank. Further, the unsecured debt obligations owed to the Bank by GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer of certain unencumbered land assets to a specially created entity, Special Land Sales Company (St. Kitts) Limited

("SLSC") and the allocation of certain shares in SLSC to the Bank. SLSC was incorporated for the purpose of selling land assets in order to fulfill the terms of the Agreement of the contracting parties. Other lands would be transferred to the SLSC for sale, if necessary, in order to satisfy the agreement of the contracting parties.

By way of supplement agreements the effective date of the Agreement was amended to July 1, 2013. Accordingly, the first step in the 'Land for Debt' swap took place on July 1, 2013 in the amount of $565,069,905, which is the value of the 1200 acres of land in the first tranche based on an independent valuation. The second and third tranches were completed during 2015 and the amounts swapped amounted to $230,950,666 which is the value of 735 acres of land.

(expressed in Eastern Caribbean dollars)

30 Financial asset *…continued*

Based on the terms of the Agreement:

1. On the effective date, SLSC shall use all appropriate commercial efforts to sell the secured land assets that were vested to the Bank at the best price reasonably possible and as soon as reasonably practicable.

2. Commencing from the effective date of the Agreement, July 1, 2013, the Bank is entitled to receive interest payments at a rate of 3.5% per annum on the face value of the eligible secured debt that was exchanged for the secured land assets. The amount is to be paid by the GOSKN annually from the effective date.

3. Distribution of sales proceeds of the land assets Bank shall be applied as follows:

   a. First towards the payment of selling and operational costs of SLSC;

   b. Secondly to the Bank until the Bank has received the face amount of the eligible secured debt immediately prior to the effective date and the interest payments, less amounts paid to the Bank;

   c. Thirdly to the Bank in exchange for the redemption of its relative interest in SLSC which was allotted for the release of eligible unsecured debt that was owed to the Bank prior to the effective date; and

   d. Fourthly to the Government of St. Kitts and Nevis.

For the year ended June 30, 2016, the Bank's statement of income includes interest income amounting to $27,863,502 (2015: $26,461,949) of which $27,780,030 (2015: $25,711,316) was received and $2,459,650 (2015: $2,376,177) is a receivable.

Based on the terms of the Agreement, all of the risks and rewards of ownership of the secured land assets have not been transferred to the Bank. The Bank is only entitled to receive cash flows from the sales of said lands up to the face value of the eligible secured debt that was exchanged and any interest payments as noted above. Additionally, if the lands are sold for less than the value that was transferred, the GOSKN and NIA is obligated to transfer additional lands to make up for the shortfall. The Bank's interest in the land assets in not subject to variation of returns as there is no risk of loss for the Bank, and also the Bank does not stand to benefit should the lands be sold for more than the value. Therefore, the Bank has not classified the amounts received in exchange for the loans as inventory, but as a loan and receivable financial asset based on its rights to the cash flows from the sales of the land assets under the Agreement.

The Bank has not included in these financial statements any investment in SLSC. As of June 30, 2016 SLSC is currently operational, however no unsecured land assets have been vested in the Company. Further the Bank has not invested any funds in SLSC and its interest in SLSC has no carrying value as of June 30, 2016.

(expressed in Eastern Caribbean dollars)

31 Cash and cash equivalents

	2016 $	2015 $
Cash and balances with Central Bank (note 5)	**80,373,595**	54,237,089
Deposits with other financial institutions (note 7)	**849,493,608**	1,127,843,741
	929,867,203	1,182,080,830

32 Defined benefit asset

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of June 30, 2016 by KPMG (Canada). The present value of the defined benefit obligation and related current service cost were measured using the Projected Unit Credit Method.

	2016 Per annum %	2015 Per annum %
Actuarial assumptions		
Discount rate	**4.0**	4.0
Expected return on plan assets	**6.0**	6.0
Future salary increases	**3.5**	3.5

Mortality table - (UP94 table projected to 2020 using Scale AA) in both years

The present value of the funded obligations amounts $29,665,229 (2015: $27,074,296) which is supported by investments in fixed deposits, treasury bills and equity security. The fair value of these investments amounts to $39,431,121 (2015: $38,365,755).

	2016 $	2015 $
Plan asset allocation		
Certificate of deposits	**92.01%**	91.08%
Shares and treasury bills	**7.99%**	8.92%
	100%	100.00%

(expressed in Eastern Caribbean dollars)

32 Defined benefit asset *...continued*

	2016 $	2015 $
Changes in the present value of defined benefit obligation		
Opening defined benefit obligation	**27,074,296**	26,105,402
Actuarial losses/(gains)	**781,399**	(889,830)
Current service cost	**1,180,941**	1,165,488
Interest cost	**1,082,972**	1,044,216
Benefits paid	**(464,379)**	(350,980)
Closing defined benefit obligation	**29,655,229**	27,074,296
Changes in the fair value of plan assets		
Opening fair value of plan assets	**38,365,755**	37,059,373
Interest income	**2,301,945**	2,223,562
Return on plan assets (other than net interest)	**(656,442)**	(389,487)
Benefits paid	**(464,379)**	(350,980)
Management expenses	**(115,758)**	(176,713)
Closing defined benefit assets	**39,431,121**	38,365,755
Benefit cost		
Current service cost	**1,180,941**	1,165,488
Interest cost on net benefit assets	**1,082,972**	1,044,216
Return on plan assets	**(2,301,945)**	(2,223,562)
Pension credits (note 25)	**(38,032)**	(13,858)
Amount recognised in other comprehensive income		
Actuarial losses/(gains)	**781,399**	(889,830)
Interest income on plan assets	**2,301,945**	2,223,562
Actual return on plan assets	**(1,529,745)**	(1,657,361)
Re-measurement of net defined benefit asset	**1,553,599**	(323,629)
Net defined benefit asset recognised in the statement of financial position		
Net defined benefit asset	**39,431,121**	38,365,755
Present value of funded	**(29,655,229)**	(27,074,296)
Net defined benefit asset	**9,775,892**	11,291,459

(expressed in Eastern Caribbean dollars)

32 Defined benefit asset *...continued*

	2016 $	2015 $
Reconciliation: Net defined benefit asset		
Opening net defined benefit asset	**11,291,459**	10,953,972
Period recovery	**38,032**	13,858
Effect of other comprehensive income	**(1,553,599)**	323,629
Closing balance	**9,775,892**	11,291,459

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and the average life expectancy. The calculation of the net defined benefit liability is sensitive to these assumptions. The following table summarises the effects of changes in these actuarial assumptions on the defined benefit obligation.

	Discount rate plus 50 basis points $	Discount rate minus 50 basis points $
Decrease in obligation	**(2,409,612)**	**(3,011,000)**

	Mortality plus 10%	Mortality minus 10%
Decrease in obligation	**(541,486)**	**(1,849,000)**

33 Restatement of prior period

Correction of prior period error for Corporate Income Tax

In fiscal year 2012 the Bank incorrectly assessed its tax liability on staff salaries over the statutory limit of $60,000 per year and failed to include in its accounts the effect of an amendment to Section 11 of the Income Tax Act "*deductions not allowed*" effective April 2012. The opening statement of financial position of the comparative period presented (July 01, 2014) has been restated to give effect to the amendment. The following table outlines the impact on the statement of financial position:

(expressed in Eastern Caribbean dollars)

33 Restatement of prior period *…continued*

Correction of prior period error for Corporate Income Tax …continued

	Income Tax Recoverable $	Deferred Tax Asset $	Retained Earnings $
Balance as previously reported at July 01, 2014	**6,004,006**	**22,551,710**	**440,618,941**
Prior period adjustments	(984,519)	–	(984,519)
Prior period adjustments (a)	18,736	–	18,736
Prior period adjustments (b)	(620,226)	–	(620,226)
Effect of Amendment to Income Tax Act (c)	–	(7,508,007)	(7,508,007)
Balance as restated at July 1, 2014	**4,417,997**	**15,043,703**	**431,524,925**
Balance as previously reported at June 30, 2015	**6,004,006**	**39,772,452**	**436,189,457**
Effect of amendment to Income Tax Act - brought forward	(1,586,009)	(7,508,007)	(9,094,016)
Prior period adjustments	–	(2,696,645)	(2,696,645)
Balance as restated at June 30, 2015	**4,417,997**	**29,567,800**	**424,398,796**

a. Over the period July 01, 2011 to June 30, 2015 the Bank has reported the income tax recoverable from the St. Kitts and Nevis Inland Revenue Department (IRD) as $6,004,006. However, the IRD assessment of the Bank's corporation income tax for June 30, 2011 amounted to $6,022,742 and therefore providing a difference of $18,736.

b. Correcting error made in Salaries in Excess of Statutory Limit not allowed in 2013 of $620,226. Payment of $1,712,436 in 2013 for Staff bonus was not included in amounts not allowed for tax deduction. The tax effect of that error which amounted to $620,226 was as follows:

Corrected salaries in excess of statutory limit	$5,512,160
Income tax at the rate of 34%	$1,874,135
Reported salaries in excess of statutory limit	$3,799,724
Income tax at the rate of 33%	$1,253,909

Income tax liability $620,226 ($1,874,135 less $1,253,909)

c. The April 2012 amendment to the Income Tax Act has led to decreases in the Bank's taxable losses and the income tax recoverable amount since 2013. As a result, the opening retained earnings at July 1, 2014 have been reduced by $7,508,007 relating to the overstatement of the deferred income tax asset and $984,519 relating to the overstatement of the income tax recoverable. These are the adjustments relating to periods prior to 2014.

(expressed in Eastern Caribbean dollars)

33 Restatement of prior period *…continued*

The effects of the restatements on the statement of financial position were as follows:

	2015 $	2014 $
Net decrease in income tax recoverable	**(1,586,009)**	(1,586,009)
Decrease in deferred tax asset	**(10,204,652)**	(7,508,007)
Net adjustment to total assets	**(11,790,661)**	(9,094,016)
Decrease in retained earnings	**(11,790,661)**	(9,094,016)
Net adjustment to total liabilities and shareholders' equity	**(11,790,661)**	(9,094,016)

The effect of the restatements on the statement of income for the year ended June 30, 2015 was as follows:

	2015 $
Net decrease in income tax credit	(2,696,645)
Decrease in consolidated statement of income	**(2,696,645)**

The correction of prior year period error for income taxes recoverable did not have a material impact on the statement of cash flows.