East Caribbean Financial Holding Company Limited

Consolidated Financial Statements

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

East Caribbean Financial Holding Company Limited

Index to the Consolidated Financial Statements
For the year ended 31 December 2017

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of East Caribbean Financial Holding Company Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

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

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

Key Audit Matters	**How our audit addressed the key audit matter**
Estimates used in the allowance for impairment on loans to customers	
Areas of focus Refer to Notes 2(h), 11 and 12 to the consolidated financial statements. The allowance for impairment losses on loans and advances to customers is considered to be a significant matter as it requires the application of judgement and use of subjective assumptions by management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty and the timing and amount of expected future cash flows. The Group records both collective and specific allowances of loans and advances to customers. In accordance with IAS 39 Financial Instruments: Recognition and Measurement, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. The recoverable amount of impaired loans are assessed on an individual basis and is primarily based on the realization of the underlying collateral security. An assessment is made on the market value of the collateral and the time and cost to collect in determining the expected cash flows. Management is continuously assessing the assumptions used in the allowance for loan losses process, and estimates are changed to account for current market and economic conditions, including the state of the real estate market.	We assessed and tested the design and operating effectiveness of controls over: - Management's process for making lending decisions inclusive of the approval, disbursement and monitoring of the loan portfolio. - Data used to determine the provisions for loan impairment, including transactional data captured at loan origination, internal credit quality assessments, storage of data and computations. In addition, we assessed the adequacy of the provision for loan losses by testing the key assumptions used in the Bank's specific and collective loan loss allowance calculations, including the identification of impairment and forecast of future cash flows, valuation of underlying collateral and estimates of recovery on default. -We involved our internal valuation specialists in the review of third party valuations of the underlying collateral security. -We reviewed the accounting for the allowance for loan loss impairment and assessed the reasonableness of the change in estimates based on the Group's historical experience of the realization of security, actual collection of cash flows and the current market conditions. We assessed the model, inputs, and assumptions for the inherent risk provisions. In addition, we assessed the adequacy of the disclosures in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT….CONTINUED

TO THE SHAREHOLDERS OF EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

Report on the Audit of the Consolidated Financial Statements

Key Audit Matters	**How our audit addressed the key audit matter**
Fair Value of Investments	
Refer to Notes 2(d), 3 and 14 to the consolidated financial statements. The Group invests in various investment securities for which no published prices in active markets are available and have been classified as Level 2 and Level 3 assets within the IFRS fair value hierarchy. Valuation techniques for these investments can be subjective in nature and involve various assumptions regarding pricing factors. Associated risk management disclosure is complex and dependent on high quality data. A specific area of audit focus includes the determination of fair value Level 2 assets and Level 3 assets where valuation techniques are applied in which unobservable inputs are used. For Level 2 assets, these techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analyses making maximum use of market inputs, such as the market risk free yield curve. Included in the Level 3 category are financial assets that are not quoted as there are no active markets to determine a price.	We reviewed the reasonableness of the methods and assumptions used in determining the fair value of investment securities. We considered whether the methodology remains appropriate given current market conditions. We independently assessed the fair value of investments by performing independent valuations on the investment portfolio as well as recalculating the unrealized gain (loss) recognized. We verified that the required IFRS disclosures have been included in the consolidated financial statements at year end. We also reviewed management's assessments of whether there are any indicators of impairment including those securities that are not actively traded.

INDEPENDENT AUDITOR'S REPORT….CONTINUED

TO THE SHAREHOLDERS OF EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

Report on the Audit of the Consolidated Financial Statements

Other information included in the Group's 2017 Annual Report

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT ….CONTINUED

TO THE SHAREHOLDERS OF EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

Report on the Audit of the Consolidated Financial Statements

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

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

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

INDEPENDENT AUDITOR'S REPORT ….CONTINUED

TO THE SHAREHOLDERS OF EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

Report on the Audit of the Consolidated Financial Statements

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

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

Ernst & Young

CHARTERED ACCOUNTANTS
Castries
St. Lucia
22 March 2018

East Caribbean Financial Holding Company Limited

Consolidated Statement of Financial Position

As at 31 December 2017

(in thousands of Eastern Caribbean dollars)

	2017 $'000	2016 $'000
Assets		
Cash and balances with Central Bank (Note 6)	**347,950**	366,874
Treasury bills (Note 7)	**23,811**	33,828
Deposits with other banks (Note 8)	**96,632**	227,992
Financial assets held for trading (Note 9)	**19,642**	18,600
Deposits with non-bank financial institutions (Note 10)	**5,412**	8,730
Investment securities (Note 14)	**530,444**	503,055
Financial instruments - pledged assets (Note 15)	**10,710**	21,367
Loans and receivables - loans and advances to customers (Note 11)	**874,051**	1,474,613
- bonds (Note 13)	**-**	10,033
Investment in associates (Note 16)	**49,781**	17,704
Property and equipment (Note 17)	**45,885**	133,386
Investment properties (Note 18)	**37,455**	9,328
Intangible assets (Note 19)	**1,093**	4,893
Other assets (Note 20)	**55,336**	63,258
Retirement benefit asset (Note 22)	**13,615**	10,627
Deferred tax asset (Note 27)	**820**	-
Income tax recoverable	**5,353**	4,179
Assets of disposal group held for sale (Note 40)	**-**	740,644
Total assets	**2,117,990**	3,649,111
Liabilities		
Deposits from banks (Note 23)	**43,298**	85,901
Due to customers (Note 24)	**1,799,588**	2,441,886
Repurchase agreements (Note 15)	**13,703**	13,839
Dividends payable	**291**	566
Borrowings (Note 25)	**79,181**	139,710
Preference shares (Note 46)	**4,150**	4,150
Other liabilities (Note 26)	**29,206**	93,112
Deferred tax liability (Note 27)	**-**	298
Liabilities of disposal group held for sale (Note 40)	**-**	724,067
Total liabilities	**1,969,417**	3,503,529

East Caribbean Financial Holding Company Limited
Consolidated Statement of Financial Position (continued)
As at 31 December 2017

(in thousands of Eastern Caribbean dollars)

	2017 $'000	2016 $'000
Equity		
Share capital (Note 28)	**170,081**	170,081
Contributed capital (Note 29)	**4,118**	1,118
Reserves (Note 31)	**184,420**	163,567
Revaluation surplus	**13,855**	13,855
Unrealized gain/(loss) on available-for-sale investments	**7,017**	(793)
Accumulated deficit	**(230,918)**	(254,104)
Attributable to the Company's equity holders	**148,573**	93,724
Non – controlling interests (Note 30)	**-**	51,858
Total equity	**148,573**	145,582
Total liabilities and equity	**2,117,990**	3,649,111

The accompanying notes form part of these financial statements.

Approved by the Board of Directors on 22nd March 2018.

____________________Director ____________________Director

East Caribbean Financial Holding Company Limited

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

(in thousands of Eastern Caribbean dollars)

	Share Capital $'000	Con-tributed capital $'000	Reserves $'000	Revalua-tion surplus $'000	Unrealised Gain/(loss) on Available for sale investments $'000	Retained earnings $'000	Total $'000	Non-con-trolling interests $'000	Total equity $'000
Balance at 1 January 2016	170,081	1,118	158,710	13,855	(7,596)	(135,404)	200,764	50,910	251,674
Total comprehensive loss for the year	-	-	-	-	6,803	(113,467)	(106,664)	2,369	(104,295)
Transfers to reserves	-	-	5,233	-	-	(5,233)	-	-	-
Dividends paid by subsidiaries	-	-	-	-	-	-	-	(1,421)	(1,421)
Contributions withdrawn	-	-	(376)	-	-	-	(376)	-	(376)
Balance at 31 December 2016	170,081	1,118	163,567	13,855	(793)	(254,104)	93,724	51,858	145,582
Balance at 1 January 2017	**170,081**	**1,118**	**163,567**	**13,855**	**(793)**	**(254,104)**	**93,724**	**51,858**	**145,582**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**7,810**	**37,510**	**45,320**	**-**	**45,320**
Transfers to reserves	**-**	**-**	**14,324**	**-**	**-**	**(14,324)**	**-**	**-**	**-**
Contributions to student loan guarantee fund	**-**	**3,000**	**6,529**	**-**	**-**	**-**	**9,529**	**-**	**9,529**
Disposal of subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(51,858)**	**(51,858)**
Balance at 31 December 2017	**170,081**	**4,118**	**184,420**	**13,855**	**7,017**	**(230,918)**	**148,573**	**-**	**148,573**

The accompanying notes form part of these financial statements.

East Caribbean Financial Holding Company Limited

Consolidated Statement of Income

For the year ended 31 December 2017

(in thousands of Eastern Caribbean dollars)

	2017 $'000	2016 Restated $'000
Continuing operations		
Interest income (Note 33)	**80,503**	76,981
Interest expense (Note 33)	**(32,145)**	(35,490)
Net interest income	**48,358**	41,491
Other operating income (Notes 34,35,36,37)	**56,842**	47,105
Impairment losses - loans (Note 12)	**(15,696)**	(128,782)
Impairment losses – investments (Note 14)	**(735)**	-
Operating expenses (Note 38)	**(62,524)**	(66,935)
Operating profit/(loss)	**26,245**	(107,121)
Share of profit in associates (Note 16)	**3,074**	3,915
Profit/(loss) for the year before income tax and dividends	**29,319**	(103,206)
Dividends on preference shares	**(291)**	(291)
Profit/(loss) for the year before income tax	**29,028**	(103,497)
Income tax recovery/(expense) (Note 41)	**2,806**	(5,726)
Net profit/(loss) for the year from continuing operations	**31,834**	(109,223)
Discontinued operations		
Profit for the year from discontinued operations (Note 40)	**683**	12,882
Gain on disposal of controlling interest of subsidiary (Note 40)	**4,472**	-
Provision for loss on disposal of subsidiary (Note 40)	**-**	(15,453)
Net profit/(loss) for the year	**36,989**	(111,794)
Attributable to:		
-Equity holders of the Company	**36,989**	(114,213)
-Non-controlling interests (Note 30)	**-**	2,419
Profit/(loss) for the year	**36,989**	(111,794)
Loss per share from continuing operations for earnings attributable to the equity holders of the Company during the year (Note 42)		
- basic	**1.30**	(4.46)
- diluted	**1.27**	(4.31)

East Caribbean Financial Holding Company Limited

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

(in thousands of Eastern Caribbean dollars)

	2017 $'000	**2016 Restated $'000**
Net profit/(loss) for the year	**36,989**	(111,794)
Other comprehensive income/(loss)		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Unrealised gain on available-for-sale investments	**5,665**	6,931
Realised gain transferred from statement of income	**(401)**	(178)
Reclassification of fair value gains on disposal of subsidiaries	**(3,221)**	-
	2,043	6,753
Share of fair value gains on available for sale assets of associated companies	**5,767**	152
Other comprehensive gain not to be reclassified to profit or loss in subsequent period:		
Re-measurement gains on defined benefit pension scheme (Note 22)	**744**	849
Income tax effect	**(223)**	(255)
	521	594
Net other comprehensive income	**8,331**	7,499
Total comprehensive income/(loss) for the year	**45,320**	(104,295)
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	**45,320**	(106,664)
Non-controlling interests (Note 30)	**-**	2,369
	45,320	(104,295)

The accompanying notes form part of these financial statements.

East Caribbean Financial Holding Company Limited
Consolidated Statement of Cashflows
For the year ended 31 December 2017

(in thousands of Eastern Caribbean dollars)

	2017 $'000	2016 $'000
Cash flows from operating activities		
Profit/(loss) before preference dividends and tax	**34,474**	(103,078)
Adjustments to reconcile loss before tax to net cash flows:		
Interest income on investments	**(19,329)**	(29,490)
Depreciation	**3,848**	7,774
Impairment losses on loans, advances and investment securities	**15,696**	135,400
Impairment loss on investment securities	**735**	-
Amortisation of intangible assets	**661**	2,018
Unrealised gain/(loss) on investments held for trading	**25**	(17)
Retirement benefit expense	**809**	530
Provision for loss on disposal of subsidiary	**-**	15,453
Gain/(loss) on disposal of property and equipment	**(52)**	6
Gain on disposal of investment properties	**(813)**	-
Fair value loss on investment property	**-**	1,315
Fair value gains reclassified	**(25)**	-
Share of profit of associate	**(3,074)**	(3,915)
Gain on disposal of controlling interest	**(4,472)**	-
Net (gains)/losses on disposal of investments	**(2,152)**	(1,118)
Amortisation premium on investments	**(520)**	(368)
Retirement benefit contributions paid	**(3,053)**	(2,411)
Cash flows before changes in operating assets and liabilities	**22,758**	22,099
Increase in mandatory deposits with Central Bank	**(30,358)**	(5,155)
Decrease in loans and advances to customers	**(15,203)**	43,349
Increase in other assets	**(9,416)**	(21,467)
Increase/(decrease) in due to customers	**100,474**	(69,365)
Decrease in repurchase agreements	**(136)**	(6,097)
(Decrease)/increase in deposits from banks	**25,420**	8,322
Decrease/(increase) in other liabilities	**(3,802)**	25,200
Decrease/(increase) in financial instruments - pledged assets	**10,509**	(3,818)
Increase in trading assets	**(3,063)**	(3,608)
Decrease in treasury bills	**1,777**	2,121
Cash generated from/(used in) operations	**98,960**	(8,419)
Income tax paid	**-**	(2,063)
Interest received	**17,379**	29,708
Net cash generated from operating activities	**116,339**	19,226

East Caribbean Financial Holding Company Limited

Consolidated Statement of Cashflows (continued)

For the year ended 31 December 2017

(in thousands of Eastern Caribbean dollars)

	2017 $'000	2016 $'000
Cash flows from investing activities		
Purchase of investment securities	**(231,621)**	(383,411)
Proceeds from disposal and redemption of investment securities	**167,247**	248,423
Dividend from associates	**264**	-
Purchase of property and equipment	**(1,941)**	(3,386)
Purchase of investment properties	**(65)**	-
Purchase of intangible assets	**(800)**	(398)
Proceeds from disposal of property and equipment	**50**	126
Proceeds from sale of subsidiary	**67,747**	-
Disposal of subsidiary-net cash outflow	**(601,149)**	-
Net cash used in investing activities	**(600,268)**	(138,646)
Cash flows from financing activities		
Dividends paid to minority shareholders	**-**	(1,421)
Dividends paid to preference shareholders	**(581)**	-
Reserve reduction	**-**	(376)
Proceeds from capital contributions	**9,529**	-
Proceeds from borrowings	**-**	55,357
Repayments of borrowings	**(14,448)**	(32,293)
Net cash (used in)/ generated from financing activities	**(5,500)**	21,267
Decrease in cash and cash equivalents	**(489,429)**	(98,153)
Net foreign exchange movement in investments	**-**	4,454
Cash and cash equivalents at beginning of year	**840,474**	934,173
Cash and cash equivalents at end of year (Note 43)	**351,045**	840,474

The accompanying notes form part of these financial statements.

(in thousands of Eastern Caribbean dollars)

1 General information

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

Bank of Saint Lucia Limited, and ECFH are in compliance with the Companies Acts and Banking Acts and the provisions of the Insurance Act, 1995.

The principal activity of the company and its subsidiaries (the "Group") is the provision of financial services. The registered office and principal place of business of the Company is located at No.1 Bridge Street, Castries, Saint Lucia.

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

The Company is listed on the Eastern Caribbean Securities Exchange.

2 Summary of significant accounting policies

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

Statement of compliance
East Caribbean Financial Holding Company Limited's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as at 31 December 2017 (the reporting date).

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

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Basis of preparation…*continued*

(a) Changes in accounting policies and disclosures:

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

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

IAS 7 Disclosure Initiative – Amendments to IAS 7
The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. This amendment is effective for annual periods beginning on or after January 1, 2017 and did not have a significant impact on the Group.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profits may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. This amendment is effective for annual periods beginning on or after January 1, 2017 and did not have a significant impact on the Group.

IFRS 12 – Disclosure of Interests in Other Entities - Amendments resulting from Annual Improvements 2014-2016 Cycle (Clarifying Scope)
The amendments clarify that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, joint venture or an associate that is classified as held for sale. This amendment is effective for annual periods beginning on or after January 1, 2017 and did not have a significant impact on the Group.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Basis of preparation…*continued*

(b) Standards issued but not yet effective

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

IFRS 9 ***Financial Instruments***

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that will replace IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted. In 2015 the Group set up a multidisciplinary implementation team ('the Team') with members from its various subsidiaries, Risk, Finance, Information Technology and Operations to prepare for IFRS 9 implementation ('the Project'). The Project is sponsored by the Chief Financial Officer, who regularly report to the Group's Supervisory Board. The Project's Expected Credit Loss Model is expected to run parallel with the IAS 39 by the first quarter of 2018 and thereafter fully implemented before the end of the second quarter.

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: Fair Value through profit or loss (FVPL), Fair Value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

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

The Group does not expect an adverse impact from application of the impairment requirements of IFRS 9.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Basis of preparation*…continued*

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

IFRS 15 ***Revenue from Contracts with Customers***

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

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

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

IFRS 16 Leases

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

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

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

IFRS 2 Classification and Measurement of Share-based Payment Transactions Amendments to IFRS 2 (effective January 1, 2018).

These amendments are in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:
- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Basis of preparation*…continued*

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

IAS 40 Investment Property*: *Transfers of Investment Properties *– Amendments to IAS 40 (effective January 1, 2018)*

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

(c) Consolidation

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

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

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

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

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies *…continued*

(c) Consolidation*…continued*

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

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

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

- Derecognises the assets and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

(c) Consolidation*…continued*

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

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

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

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

(a) Transactions with non-controlling interests and associates

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

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

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

(c) Consolidation*…continued*

(b) Associates

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

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

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

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

(d) Fair value measurement

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

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

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(d) Fair value measurement…*continued*

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

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

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

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

(e) Cash and cash equivalents

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

(f) Financial assets

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

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

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

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

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(f) Financial asset …*continued*

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, or those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available-for-sale.

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

(c) Held-to-maturity

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

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(f) Financial assets…*continued*

(d) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to- maturity investments or financial assets at fair value through profit or loss.

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

(g) Recognition/Derecognition

The Group uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the consolidated statement of financial position as 'Assets pledged as collateral.'

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(h) Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

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

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

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

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(h) Impairment of financial assets …*continued*

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If a loan or held-to-maturity investment has variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the loan provision in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income.

Assets classified as available-for-sale

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

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for sale financial assets, the cumulative loss – measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(h) Impairment of financial assets …*continued*

Assets classified as available-for-sale…continued

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

Renegotiated loans

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

(i) Offsetting financial instruments

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

(j) Sale and repurchase agreements

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

(k) Property and equipment

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

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

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(k) Property and equipment…*continued*

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use.

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

(l) Investment properties

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

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

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(l) Investment properties …*continued*

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

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

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

(m) Intangible assets

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

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

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

(a) Computer software licences

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(m) Intangible assets…*continued*

(b) Other intangible assets

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

(n) Impairment of other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(o) Income tax

(a) Current tax

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

Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the consolidated statement of financial position.

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

(in thousands of Eastern Caribbean dollars)

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

(o) Income tax...*continued*

(b) Deferred tax

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

The principal temporary differences arise from depreciation of property and equipment, amortisation of intangible assets and their tax base, unutilised tax losses and pension gains. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting, nor taxable profit or loss.

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

(p) Financial liabilities

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

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

(q) Borrowings

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

(r) Provisions

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

(s) Redeemable preference shares

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

(t) Employee benefits

Pension obligations

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

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

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

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

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

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

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(t) Employee benefits….*continued*

Termination benefits

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

(u) Guarantees and letters of credit

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

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

(v) Fiduciary activities

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

(w) Share capital

(i) Share issue costs

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

(ii) Dividends on ordinary shares

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(x) Interest income and expense

Interest income and expense are recognised in the consolidated statement of income for all financial instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial assets or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(y) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of a business, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time apportioned basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for financial planning and custody services that are continuously provided over an extended period of time.

(z) Dividend income

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

(zi) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(zi) Foreign currency translation…*continued*

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

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

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income. Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in the other comprehensive income.

<u>Group companies</u>

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

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

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

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

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

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(zii) Leases

A Group company is the lessee

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

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

A Group company is the lessor

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

(ziii) Financial instruments

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

(ziv) Segment reporting

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

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

In accordance with IFRS 8, the Group had the following reportable segments: Bank of St. Lucia Limited, Bank of St. Vincent and the Grenadines Limited until the disposal date of June 30th 2017, Bank of St. Lucia International Limited until the disposal date of March 10, 12017, and other. During the reporting period the Group disposed of its majority holding in Bank of St. Vincent and the Grenadines Limited and Bank of St. Lucia International.

(in thousands of Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

(zv) Non-current assets held for sale and disposal groups

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

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

In the consolidated statement of comprehensive income for the reporting period, and the comparable period in the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Bank retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised. See Note 40 (Disposal Group Classified as held for sale) for further discussion.

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(in thousands of Eastern Caribbean dollars)

3 Financial risk management

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

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

Risk management is carried out by the Management Committee under policies approved by the Board of Directors. The Group's Management Committee identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and non-derivative financial instruments. In addition, the Internal Audit Department is responsible for the independent review of risk management and the control environment.

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

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

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

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Debt securities and other bills

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

Cash and balances with Central Bank

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

Risk limit control and mitigation policies

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

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

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Credit risk*…continued*

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

Longer-term finance and lending to corporate entities are secured; individual credit facilities are generally secured. In addition, in order to minimize the credit loss, the Group will seek additional credit collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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

Credit-related commitments
The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment and provisioning policies
The internal rating systems focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Impairment and provisioning policies…*continued*
Management determines whether objective evidence of impairment exists based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (eg equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Maximum exposure to credit risk

	Maximum exposure	
	2017	**2016**
	$'000	**$'000**
Credit risk exposures relating to the financial assets in the statement of financial position :		
Balances with central bank	**315,534**	319,475
Treasury bills	**23,811**	33,828
Deposits with other banks	**96,632**	227,992
Deposits with non-bank financial institutions	**5,412**	8,730
Loans and advances to customers:		
Large corporate loans	**280,565**	415,434
Term loans	**208,447**	292,765
Mortgages	**355,747**	650,399
Overdrafts	**29,292**	116,015
Bonds	**-**	10,033
Financial assets held for trading	**19,642**	18,600
Investment securities	**517,280**	485,265
Financial instruments - pledged assets	**10,710**	21,367
Other assets	**52,580**	59,630
	1,915,652	2,659,533
Credit risk exposures relating to the financial assets off the statement of financial position:		
Loan commitments	**69,838**	84,356
Guarantees, letters of credit and other credit obligations	**23,765**	27,182
	93,603	111,538
	2,009,255	2,771,071

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2017 and 2016 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as at the reporting date.

As shown above 46% (2016 – 53%) of the total maximum exposure is derived from loans and advances to customers and 27% (2016 – 18%) represents investments in debt securities.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management *…continued*

Credit risk*…continued*

Loans and advances are summarised as follows:

	2017 $'000	**2016 $'000**
Loans and advances to customers		
Neither past due nor impaired	**523,199**	990,385
Past due but not impaired	**104,238**	187,695
Impaired	**342,229**	409,205
Gross	**969,666**	1,587,285
Less allowance for impairment losses on loans and advances	**(95,615)**	(112,672)
Net	**874,051**	1,474,613

The total allowance for impairment losses on loans and advances is $95,615 (2016 – $112,672) of which $71,524 (2016 – $74,443) represents the individually impaired loans and the remaining amount of $24,091 (2016 – $38,229) represents the collective provision. Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 11 and 12.

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

Loans and advances to customers

	Overdrafts $'000	**Term Loans $'000**	**Mortgages $'000**	**Large Corporate loans $'000**	**Total $'000**
31 December 2017	**24,623**	**125,549**	**264,708**	**108,319**	**523,199**
31 December 2016	104,633	186,403	502,019	197,330	990,385

(in thousands of Eastern Caribbean dollars)

3 Financial risk management *…continued*

Credit risk…*continued*

Loans and advances…*continued*

Loans and advances past due but not impaired

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

	Term Loans $'000	Mortgages $'000	Large Corporate loans $'000	Overdrafts $'000	Total $'000
At 31 December 2017					
Past due up to 30 days	**19,557**	**33,100**	**18,897**	**-**	**71,554**
Past due 30 – 60 days	**4,778**	**5,641**	**10,577**	**-**	**20,996**
Past due 60 – 90 days	**4,422**	**2,803**	**4,463**	**-**	**11,688**
	28,757	**41,544**	**33,937**	**-**	**104,238**

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Credit risk*…continued*

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

	Overdrafts $'000	Term Loans $'000	Mortgages $'000	Large Corporate Loans $'000	Total $'000
31 December 2017	**9,655**	**70,933**	**61,151**	**200,490**	**342,229**
31 December 2016	13,940	83,131	71,511	240,623	409,205

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Credit risk*…continued*

Debt securities, treasury bills and other eligible bills
The table below presents an analysis of debt securities and treasury bills by rating agency designation at **31 December 2017 and 2016**, based on Standard & Poor's and Moody's ratings:

	Financial assets held for trading $'000	Investment Securities $'000	Pledged Assets $'000	Loans and Receivables -bonds $'000	Treasury Bills $'000	Total $'000
At 31 December 2017						
A- to A+	**-**	**126,059**	**-**	**-**	**-**	**126,059**
Lower than A-	**-**	**251,516**	**-**	**-**	**-**	**251,516**
Unrated	**19,642**	**139,705**	**10,710**	**-**	**23,811**	**193,868**
	19,642	**517,280**	**10,710**	**-**	**23,811**	**571,443**
At 31 December 2016						
AA- to AA+						
A- to A+	-	100,981	-	10,033	23,006	134,020
Lower than A-	586	247,721	-	-	10,822	259,129
Unrated	18,014	136,563	21,367	-	-	175,944
	18,600	485,265	21,367	10,033	33,828	569,093

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

Concentrations of risks of financial assets with credit exposure

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

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Concentration of risks of financial assets with credit exposure

	Financial institutions $'000	Manufacturing $'000	Tourism $'000	Government $'000	Professional and other services $'000	Personal $'000	*Other industries $'000	Total $'000
At 31 December 2017								
Balances with central bank	**315,534**	**-**	**-**	**-**	**-**	**-**	**-**	**315,534**
Treasury bills	**-**	**-**	**-**	**23,811**	**-**	**-**	**-**	**23,811**
Deposits with other banks	**96,632**	**-**	**-**	**-**	**-**	**-**	**-**	**96,632**
Deposits with non-bank financial institutions	**5,412**	**-**	**-**	**-**	**-**	**-**	**-**	**5,412**
Loans and receivables to customers								
Overdrafts	**81**	**381**	**4,390**	**80**	**2,259**	**6,839**	**15,261**	**29,291**
Term loans	**187**	**2,029**	**2,718**	**54**	**18,018**	**161,163**	**24,278**	**208,447**
Large corporate loans	**2,232**	**3,206**	**61,494**	**41,145**	**56,808**	**9,847**	**105,833**	**280,565**
Mortgages	**-**	**-**	**-**	**-**	**-**	**355,748**	**-**	**355,748**
Loans and receivables:-Bonds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial assets held for trading	**-**	**-**	**-**	**19,642**	**-**	**-**	**-**	**19,642**
Investment securities	**199,187**	**-**	**-**	**119,634**	**-**	**-**	**198,459**	**517,280**
Financial instruments - pledged assets	**-**	**-**	**-**	**10,710**	**-**	**-**	**-**	**10,710**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**52,580**	**52,580**
	619,265	**5,616**	**68,602**	**215,076**	**77,085**	**533,597**	**396,411**	**1,915,652**
Loan commitments, letters of credit guarantees and other credit obligations	**1,050**	**4,789**	**2,412**	**30,032**	**1,105**	**19,233**	**34,982**	**93,603**

*Other industries include construction and land development.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Credit risk*…continued*

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

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

*Other industries include construction and land development

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group's exposure to market risks arises from its non-trading and trading portfolios. Senior management of the Group monitors and manages market risk through the Asset Liability Committee which advises on financial risks and assigns risk limits for the Group.

Non-trading portfolios primarily arise from the interest rate management of the Group's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of equity risks arising from the Group's available-for-sale investments (Note 14).

Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) has been formally pegged at EC$2.70 = US$1.00 since 1974. The following table summarises the Group's exposure to foreign currency exchange rate risk at 31 December.

(in thousands of Eastern Caribbean dollars)

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

	ECD $'000	USD $'000	BDS$ $'000	Euro $'000	GBP $'000	CAD $'000	Other $'000	Total $'000
At 31 December 2017								
Cash and balances with Central Bank	342,755	4,090	151	472	269	213	-	347,950
Treasury bills	23,811	-	-	-	-	-	-	23,811
Deposits with other banks	57,934	20,006	1,760	14,562	754	211	1,405	96,632
Financial assets held for trading	19,642	-	-	-	-	-	-	19,642
Deposits with non-bank financial institution	-	5,388	-	-	24	-	-	5,412
Loans and receivables:								
Loans and advances to customers	836,408	37,643	-	-	-	-	-	874,051
Bonds	-	-	-	-	-	-	-	-
Investment securities:								
Held to maturity	4,916	115,133	-	-	-	-	-	120,049
Available-for-sale	92,838	317,557	-	-	-	-	-	410,395
Financial instruments - pledged assets	10,710	-	-	-	-	-	-	10,710
Other assets	52,580	-	-	-	-	-	-	52,580
Total financial assets	1,441,594	499,817	1,911	15,034	1047	424	1,405	1,961,232

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Currency risk…*continued*

	ECD $'000	USD $'000	BDS$ $'000	Euro $'000	GBP $'000	CAD $'000	Other $'000	Total $'000
At 31 December 2017								
Liabilities								
Deposits from banks	43,298	-	-	-	-	-	-	43,298
Due to customers	1,656,570	133,708	-	9,310	-	-	-	1,799,588
Repurchase agreements	10,485	3,218	-	-	-	-	-	13,703
Borrowings	51,231	27,950	-	-	-	-	-	79,181
Preference shares	4,150	-	-	-	-	-	-	4,150
Other liabilities	29,206	-	-	-	-	-	-	29,206
Total financial liabilities	1,794,940	164,876	-	9,310	-	-	-	1,969,126
Net assets/(liabilities)	(353,346)	334,941	1,911	5,724	1,047	424	1,405	(7,894)
Loan commitments, letters of credit, guarantees and other credit obligations	93,603	-	-	-	-	-	-	93,603

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Currency risk*…continued*

	ECD $'000	USD $'000	BDS$ $'000	Euro $'000	GBP $'000	CAD $'000	Other $'000	Total $'000
At 31 December 2016								
Cash and balances with Central Bank	357,956	6,456	472	919	375	696	–	366,874
Treasury bills	33,828	–	–	–	–	–	–	33,828
Deposits with other banks	98,623	121,345	2,292	4,081	881	354	416	227,992
Financial assets held for trading	18,014	586	–	–	–	–	–	18,600
Deposits with non-bank financial institution	–	8,730	–	–	–	–	–	8,730
Loans and receivables:								
Loans and advances to customers	1,435,382	39,231	–	–	–	–	–	1,474,613
Bonds	10,033	–	–	–	–	–	–	10,033
Investment securities:								
Held to maturity	40,684	90,775	–	–	–	–	–	131,459
Available-for-sale	71,196	299,691	709	–	–	–	–	371,596
Financial instruments - pledged assets	21,367	–	–	–	–	–	–	21,367
Other assets	59,630	–	–	–	–	–	–	59,630
Total financial assets	2,146,713	566,814	3,473	5,000	1,256	1,050	416	2,724,722

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Currency risk…*continued*

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk…*continued*

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

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2017							
Financial assets							
Cash and balances with Central Bank	-	-	-	-	-	347,950	347,950
Treasury bills	11,677	10,403	1,731	-	-	-	23,811
Deposits with other banks	1,230	-	11,805	-	-	83,597	96,632
Financial assets held for trading	-	-	1,204	10,963	7,475	-	19,642
Deposits with non-bank financial institutions	-	-	-	-	-	5,412	5,412
Loans and receivables:							
– loans and advances to customers	36,768	11,931	14,428	169,447	641,477	-	874,051
Investment securities:							
– held-to-maturity	2,235	1,763	7,326	50,402	58,323	-	120,049
– available-for-sale	10,416	12,064	73,389	183,409	117,953	-	397,231
Financial instruments - pledged assets	-	-	659	1,985	8,066	-	10,710
Other assets	-	-	-	-	-	52,580	52,580
Total financial assets	**62,326**	**36,161**	**110,542**	**416,206**	**833,294**	**489,539**	**1,948,068**

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Interest rate risk*…continued*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2017							
Financial liabilities							
Deposits from banks	9,162	3,123	31,013	-	-	-	43,298
Due to customers	886,086	95,401	301,582	26,300	22,329	467,890	1,799,588
Repurchase agreements	-	-	13,703	-	-	-	13,703
Borrowings	2,197	1,231	5,695	22,383	47,675	-	79,181
Preference shares	-	-	-	-	4,150	-	4,150
Other liabilities	-	-	-	-	-	29,206	29,206
Total financial liabilities	897,445	99,755	351,993	48,683	74,154	497,096	1,969,126
Total interest repricing gap	(835,119)	(63,594)	(241,451)	367,523	759,140	(7,557)	(21,058)

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk…*continued*

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk…*continued*

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk…*continued*
Cash flow interest rate risk arises from loans and advances to customers at variable rates. At 31 December 2017 if variable interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year would have been $841 (2016 – $3,776) higher/lower, mainly as a result of higher/lower interest income on variable rate loans.

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

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

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

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

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

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Liquidity risk*…continued*

Non-derivative cashflows

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

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Financial liabilities						
At 31 December 2017						
Deposits from banks	**9,162**	**3,135**	**31,260**	**-**	**-**	**43,557**
Due to customers	**1,362,074**	**95,766**	**304,437**	**26,329**	**22,328**	**1,810,934**
Repurchase agreements	**-**	**-**	**13,810**	**-**	**-**	**13,810**
Borrowings	**1,946**	**1,827**	**8,246**	**49,610**	**43,397**	**105,026**
Preference shares	**-**	**-**	**-**	**-**	**4,150**	**4,150**
Other liabilities	**9,077**	**16,744**	**3,837**	**-**	**-**	**29,658**
Total financial liabilities	**1,382,259**	**117,472**	**361,590**	**75,939**	**69,875**	**2,007,135**

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Liquidity risk…*continued*

Assets held for managing liquidity risk

The Group holds a diversified portfolio of cash and investment securities to support payment obligations.

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

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

Off-statement of financial position items

(a) Loan commitments

The dates of the contractual amounts of the Group's off-statement of financial position financial instruments that commit it to extend credit to customers and other facilities (Note 44), are summarised in the table below.

(b) Financial guarantees and other financial facilities

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

	<1 Year $'000	Total $'000
As at 31 December 2017		
Loan commitments	**69,838**	**69,838**
Financial guarantees, letters of credit and other credit obligations	**23,765**	**23,765**
Total	**93,603**	**93,603**
At 31 December 2016		
Loan commitments	84,356	84,356
Financial guarantees, letters of credit and other credit obligations	27,182	27,182
Total	111,538	111,538

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

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

Due to customers
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. Deposits payable on a fixed date at rates which reflect market conditions and are assumed to have fair values which approximate carrying value.

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

Pledged assets
The estimated fair value of pledged assets are derived from market prices or broker/dealer quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

Loans and advances
Loans and advances are net of provisions for impairment. The estimated fair values of loans and advances represent the discounted amount of estimated future cashflows expected to be received. Expected cashflows are discounted at current market rates to determine fair value.

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

	Carrying value		**Fair value**	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
Loans and receivables				
− Large Corporate loans	**280,565**	415,434	**406,844**	431,812
− Term loans	**208,447**	292,765	**214,664**	308,194
− Mortgages	**355,748**	650,399	**366,179**	581,041
− Overdrafts	**29,291**	116,015	**29,291**	114,764
− Bonds	**-**	10,033	**-**	9,795
Held to maturity	**120,049**	131,459	**113,548**	119,603
Financial liabilities				
Borrowings	**79,181**	139,710	**73,748**	147,660

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

Fair values of financial assets and liabilities

Management assessed that cash and short term deposits, treasury bills, trade receivables, trade payables, repurchase agreements and other current liabilities approximate their carrying amounts largely due to the short term maturities of these instruments. The Group's interest-bearing borrowings and loans are determined by using Discounted Cash Flow method using the discount rate that reflects the average rates at the end of the period.

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges such as Luxembourg, New York and Trinidad and Tobago.

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

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

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

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

Fair value hierarchy*…continued*

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2017				
Assets measured at fair value:				
Investment properties	**-**	**37,455**	**-**	**32,790**
Land and buildings	**-**	**-**	**39,495**	**39,495**
Financial assets held for trading				
- debt securities	-	**19,642**	**-**	**19,642**
Financial assets available-for-sale				
- debt securities	**-**	**368,379**	**28,852**	**397,231**
- equity securities	**3,042**	**9,124**	**-**	**12,166**
Financial instruments –pledged assets	-	**10,710**	-	**10,710**
Total financial assets	**3,042**	**445,310**	**68,347**	**512,034**
31 December 2016				
Assets measured at fair value:				
Investment properties	-	9,328	-	9,328
Land and buildings	-	-	118,656	118,656
Financial assets held for trading				
- debt securities	-	18,600	-	18,600
- equity securities				
Financial assets available-for-sale				
- debt securities	2,636	341,700	9,470	353,806
- equity securities	5,803	7,091	-	12,894
Financial instruments –pledged assets	-	21,637	-	21,637
Total financial assets	8,439	398,356	128,126	534,921

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

Fair value hierarchy…*continued*

Assets for which fair values are disclosed

	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2017			
Loans and advances to customers	**-**	**1,016,978**	**1,016,978**
Held to maturity investments	**113,548**	**-**	**113,548**
Total financial assets	**113,548**	**1,016,978**	**1,130,526**
31 December 2016			
Loans and advances to customers	-	1,435,811	1,435,811
Bonds	9,795	-	9,795
Held to maturity investments	113,548	-	113,548
Total financial assets	129,398	1,435,811	2,261,052

Liabilities for which fair values are disclosed

	Level 3 $'000	Total $'000
31 December 2017		
Borrowings	**73,748**	**73,748**
31 December 2016		
Borrowings	147,760	147,760

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

Fair value hierarchy…*continued*

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily DAX, FTSE 100 and Dow Jones debt securities classified as trading securities or available-for-sale.

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

The following table presents the changes in level 3 instruments for the year ended 31 December 2017 and 2016.

(in thousands of Eastern Caribbean dollars)

3 Financial risk management*…continued*

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

Fair value hierarchy*…continued*

	Financial assets held for trading		
	Debt securities $'000	Debt securities $'000	Total $'000
31 December 2017			
At beginning of year	-	**9,470**	**9,470**
Transfer to disposal group held for sale	-	-	-
Purchases		**23,495**	**23,495**
Settlement	-	**(4,113)**	**(4,113)**
At end of year	-	**28,852**	**28,852**

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

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Capital management

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

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

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

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

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

- Tier 1 capital: share capital (net of any book values of the treasury shares), minority interests arising on consolidation from interests in permanent equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances, unrealised gains arising on the fair valuation of equity instruments held as available-for-sale and fixed asset revaluation reserves (limited to 20% on Tier 1 capital).

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

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

(in thousands of Eastern Caribbean dollars)

3 Financial risk management…*continued*

Capital management…*continued*

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

	2017 $'000	2016 $'000
Tier 1 capital		
Share capital	**170,081**	170,081
Reserves	**184,420**	163,567
Accumulated deficit	**(230,918)**	(254,104)
Non-controlling interest	**-**	51,858
Total qualifying Tier 1 capital	**123,583**	131,402
Tier 2 capital		
Revaluation reserve	**13,855**	13,855
Redeemable preference shares	**4,150**	4,150
Unrealised gain/(loss) on available-for-sale investments	**7,017**	(793)
Subordinated debt	**50,000**	50,000
Collective impairment allowance	**18,052**	38,229
Total qualifying Tier 2 capital	**93,074**	105,441
Total regulatory capital	**216,657**	219,139
Risk-weighted assets:		
On-statement of financial position	**1,315,238**	2,235,080
Off-statement of financial position	**18,720**	61,486
Total risk-weighted assets	**1,333,958**	2,296,566
Basel capital adequacy ratio	**16.24%**	9.54%

Fiduciary activities

The Group provides investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. At the statement of financial position date, the Group had financial assets under administration amounting to $94,690 (2016 – $67,160).

(in thousands of Eastern Caribbean dollars)

4 Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Impairment losses on loans and advances
The Group reviews its loan portfolio to assess impairment at least annually. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated at $3,540 (2016 – $4,445) $2,717 (2016 – $4,345) lower or higher.

Impairment of assets carried at fair value
The Group determines that available-for-sale and held for trading equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

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

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

(in thousands of Eastern Caribbean dollars)

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

Held-to-maturity investments
The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at carrying value not amortised cost. If the entire held-to-maturity investments are tainted, the carrying value would increase by $6,501 (2016 – $11,856) with a corresponding entry in the fair value reserve in equity.

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

Deferred taxes
In calculating the provision for deferred taxation, management uses judgment to determine the possibility that future taxable profits will be available to facilitate utilization of temporary tax differences which may arise.

Revaluation of land and buildings and investment property
The Group measures its land and buildings and investment property at revalued amounts with changes in fair value being recognized in other comprehensive income and in the statement of comprehensive income respectively. The Group engages independent valuation specialists to determine fair value of its land and buildings. The valuer uses judgment in the application of valuation techniques such as replacement cost, capitalization of potential rentals and the market price of comparable properties, as applicable in each case.

Retirement benefits
The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The most sensitive assumptions used in determining the net cost (income) for pensions include the discount rate and future salary increases. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of Government that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. A sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is shown below:
2017:

Assumption	Sensitivity Level	Impact on defined benefit obligation	
		Increase	Decrease
Discount rate	**1%**	**$8,738**	**$5,923**
Future salary increases	**1%**	**$4,137**	**$3,376**
Increase in average life expectancy	**1 year**	**$297**	**-**

(in thousands of Eastern Caribbean dollars)

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

2016:

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

Corporate income taxes

Significant estimates are required in determining the provision for income taxes. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions. The deferred tax assets recognised at 31 December 2017 have been based on future profitability assumptions over a five year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

5 Segment analysis

In the financial years 2017 and 2016, segment reporting by the Group was prepared in accordance with IFRS 8, 'Operating segments'.

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

During the year, the Group had five operating segments, which meet the definition of reportable segment under IFRS 8.

(in thousands of Eastern Caribbean dollars)

5 Segment analysis*...continued*

- Bank of St. Lucia Limited (BOSL) –operating in St. Lucia and provides domestic banking services.
- Bank of St. Lucia Limited- Investment Banking Services (BOSL GINV)-incorporating Capital market activities and Merchant Banking.
- Bank of St. Vincent and the Grenadines Limited (BOSVG) –operating in St. Vincent and the Grenadines and provides domestic banking services. On June 30th 2017, the Group disposed of its majority holding in Bank of St. Vincent and the Grenadines and retained a 20% as an investment in associate.
- Bank of St. Lucia International Limited- incorporating International banking including International corporate and International personal banking, and a wide range of other services to International clients. On March 10th 2017 the Group disposed of its 100% holding in Bank of St. Lucia International Limited.
- Other comprises of the holding company of the Group.

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

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

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

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

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

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

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

(in thousands of Eastern Caribbean dollars)

5 Segment analysis…*continued*

	BOSL	BOSVG (Discontinued)	BOSLIL (Discontinued)	BOSL GINV	Other	Adjustments for Discontinued Operations	Total
	$	$	$	$	$	$	$
At 31 December 2017							
Net interest income	**47,848**	**8,159**	**1,648**	**254**	**256**	**(9,807)**	**48,358**
Net fee and commission income	**26,209**	**1,210**	**659**	**5,164**	**-**	**(1,869)**	**31,373**
Other income	**25,698**	**1,377**	**76**	**34**	**1,300**	**(1,453)**	**27,032**
Impairment charge loans	**(16,014)**	**(4,737)**	**-**	**-**	**(417)**	**4,737**	**(16,431)**
Depreciation and amortization	**(4,492)**	**(711)**	**(192)**	**(16)**	**-**	**903**	**(4,508)**
Operating expenses	**(57,268)**	**(6,538)**	**(1,399)**	**(743)**	**(972)**	**7,937**	**(58,983)**
Profit before taxation	**21,981**	**(1,240)**	**792**	**4,693**	**167**	**448**	**26,841**
Dividends on preference shares	**(291)**	**-**	**-**	**-**	**-**	**-**	**(291)**
Income tax	**2,020**	**-**	**-**	**-**	**786**	**-**	**2,806**
Profit for the year	**23,710**	**(1,240)**	**792**	**4,693**	**953**	**448**	**29,356**
Total assets	**2,130,395**	**1,032,529**	**810,003**	**18,886**	**297,908**	**(1,842,532)**	**2,447,189**
Total liabilities	**1,971,312**	**931,593**	**757,253**	**3,779**	**82,423**	**(1,688,846)**	**2,057,514**
At 31 December 2016							
Net interest income	41,193	32,245	9,770	–	298	(42,015)	41,491
Net fee and commission income	30,018	7,487	5,333	5,278	–	(12,820)	35,296
Other income	16,089	5,812	2,438	529	(69)	(8,250)	16,549
Impairment charge loans, investments	(128,782)	(6,918)	–	–	–	6,918	(128,782)
Depreciation and amortization	(5,154)	(2,852)	(1,146)	(17)	–	3,998	(5,171)
Operating expenses	(62,901)	(28,139)	(9,795)	(1,210)	(38)	37,934	(64,149)
Loss before taxation	(109,537)	7,635	6,600	4,580	191	(14,235)	(104,766)
Dividends on preference shares	(291)	–	–	–	–		(291)
Income tax	(5,726)	(2,699)	–	–	–	2,699	(5,726)
Loss for the year	(115,554)	4,936	6,600	4,480	191	(11,536)	(110,783)
Total assets	2,014,421	971,281	773,522	7,557	264,497	-	4,031,278
Total liabilities	1,939,826	865,449	724,067	5,714	92,203	-	3,627,259

(in thousands of Eastern Caribbean dollars)

5 Segment analysis*…continued*

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

	Total Management Reporting $'000	Consolidation entries $'000	Total $'000
At 31 December 2017			
Net interest income	**48,358**	**-**	**48,358**
Net fee and commission income	**31,373**	**(24)**	**31,349**
Other income	**27,032**	**(1,539)**	**25,493**
Impairment charge loans, investments and property	**(16,431)**	**-**	**(16,431)**
Depreciation and amortisation	**(4,508)**	**-**	**(4,508)**
Operating expenses	**(58,983)**	**967**	**(58,016)**
Profit before tax	**26,841**	**(596)**	**26,245**
Dividends on preference shares	**(291)**	**-**	**(291)**
Share profit of associates	**3,074**	**-**	**3,074**
Income tax expense	**2,806**	**-**	**2,806**
Net profit for the year from continuing operations	**32,430**	**(596)**	**31,834**
Assets	**2,447,189**	**(329,199)**	**2,117,990**
Liabilities	**2,057,514**	**(88,097)**	**1,969,417**
At 31 December 2016			
Net interest income	41,491	-	41,491
Net fee and commission income	35,296	(34)	35,262
Other income	16,549	(2,825)	13,724
Impairment charge loans, investments and property	(128,782)	–	(128,782)
Depreciation and amortisation	(5,171)	(624)	(5,795)
Operating expenses	(64,149)	1,128	(63,021)
Loss before tax	(104,766)	(2,355)	(107,121)
Dividends on preference shares	(291)	-	(291)
Share profit of associates	3,915	-	3,915
Income tax expense	(5,726)	-	(5,726)
Loss for the year from continuing operations	(106,868)	(2,355)	(109,223)
Assets	4,031,278	(382,167)	3,649,111
Liabilities	3,627,258	(123,729)	3,503,529

(in thousands of Eastern Caribbean dollars)

6 Cash and balances with Central Bank

	2017 $'000	2016 $'000
Cash in hand	**32,416**	47,399
Balances with Central Bank other than mandatory deposits	**194,505**	172,321
Included in cash and cash equivalents (Note 43)	**226,921**	219,720
Mandatory deposits with Central Bank	**121,029**	147,154
	347,950	366,874

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

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

7 Treasury bills

	2017 $'000	2016 $'000
Cash and cash equivalents (Note 43)	**22,080**	31,319
More than 90 days to maturity	**1,731**	2,509
	23,811	33,828

Treasury bills are debt securities issued by the Governments of Saint Lucia. The weighted average effective interest rate at 31 December 2017 was 4.5% (2016 – 4.1%).

8 Deposits with other banks

	2017 $'000	2016 $'000
Items in the course of collection	**8,152**	16,310
Placements with other banks	**75,965**	202,055
Interest bearing deposits	**12,515**	9,627
Included in cash and cash equivalents (Note 43)	**96,632**	227,992

The weighted average effective interest rate of interest-bearing deposits at 31 December 2017 is 1.25% (2016 – 1.14%).

(in thousands of Eastern Caribbean dollars)

9 Financial assets held for trading

	2017 $'000	2016 $'000
Debt securities – listed	**19,642**	18,600
	19,642	18,600

Trading financial assets were acquired for selling in the near term and would otherwise have been classified as held-to-maturity investments. The weighted average interest rate earned on held-for-trading investments debt securities was 6.98% (2016 – 7.1%).

10 Deposits with non-bank financial institutions

	2017 $'000	2016 $'000
Interest bearing deposits		
Included in cash and cash equivalents (Note 43)	**5,412**	8,730

Interest rate on deposits depends on the value of deposits held. There was no interest earned on deposits with non-bank financial institutions in the years 2017 and 2016.

11 Loans and advances to customers

	2017 $'000	2016 $'000
Large corporate loans	**342,746**	487,749
Term loans	**225,239**	312,490
Mortgage loans	**367,404**	668,317
Overdrafts	**34,277**	118,729
Gross	**969,666**	1,587,285
Less allowance for impairment losses on loans and advances to customers (Note 12)	**(95,615)**	(112,672)
Net	**874,051**	1,474,613

The weighted average effective interest rate on productive loans stated at amortised cost at 31 December 2017 was 7.6% (2016 – 7.61%) and productive overdrafts stated at amortised cost was 14.66% (2016 – 11.65%).

(in thousands of Eastern Caribbean dollars)

12 Allowance for impairment losses on loans and advances to customers

	Corporate loans $'000	Term loans $'000	Mortgage loans $'000	Overdrafts $'000	Total $'000
At 31 December 2017					
At beginning of year	**72,315**	**19,725**	**17,918**	**2,714**	**112,672**
Written off during the year	**(17,931)**	**(1,430)**	**(141)**	**(742)**	**(20,244)**
Individual impairment provisions made during the year	**20,263**	**1,202**	**(726)**	**3,568**	**24,307**
Collective impairment provisions made during the year	**(8,564)**	**1**	**(722)**	**674**	**(8,611)**
Disposal group	**(3,902)**	**(2,706)**	**(4,673)**	**(1,228)**	**(12,509)**
At end of year	**62,181**	**16,792**	**11,656**	**4,986**	**95,615**
At 31 December 2016					
At beginning of year	67,072	31,720	16,907	17,090	132,789
Written off during the year	(78,903)	(32,224)	(18,936)	(25,754)	(155,817)
Individual impairment provisions made during the year	78,338	19,490	15,956	12,960	126,744
Collective impairment provisions made during the year	5,808	739	3,991	(1,582)	8,956
At end of year	72,315	19,725	17,918	2,714	112,672

13 Loans and receivables – bonds

	2017 $'000	2016 $'000
Non- current		
Government bonds	**-**	**10,033**

Government bonds are purchased from and issued directly by the Government of St. Vincent and the Grenadines. The weighted average effective interest rate at 31 December 2017 in respect of Government bonds at amortised cost was NIL% (2016 – 7.5%).

(in thousands of Eastern Caribbean dollars)

14 Investment securities

	2017 $'000	2016 $'000
Securities held-to-maturity		
Debt securities at amortised cost		
- Listed	**120,939**	96,498
- Unlisted	**3,616**	41,575
	124,555	138,073
Less provision for impairment	**(4,506)**	(6,614)
Total securities – held to maturity	**120,049**	131,459
Securities available-for-sale		
Debt securities at fair value		
- Listed	**368,259**	315,263
- Unlisted	**29,915**	38,944
	398,174	354,207
Less provision for impairment on debt securities	**(943)**	(401)
	397,231	353,806
Equity securities		
- Listed	**12,166**	12,894
- Unlisted	**998**	4,896
Total securities – available-for-sale	**410,395**	371,596
Total investment securities	**530,444**	503,055

The weighted average effective interest rate on available-for-sale securities at fair value at 31 December 2017 was 3.54% (2016 – 3.15%).

(in thousands of Eastern Caribbean dollars)

14 Investment securities…*continued*

	Held to maturity $'000	Available-for-sale $'000	Held for trading $'000	Loans and receivables – bonds $'000	Total $'000
At 1 January 2017	**131,459**	**371,596**	**18,600**	**10,033**	**531,688**
Exchange differences on monetary assets	**-**	**-**	**-**	**-**	**-**
Additions	**48,573**	**183,048**	**1,786**	**-**	**233,407**
Movement in accrued interest	**312**	**646**	**4**	-	**962**
Disposals (sale and redemption)	**(23,086)**	**(144,161)**	**(723)**	-	**(167,970)**
Amortisation of discounts/premiums	**520**	**-**	**-**	-	**520**
Gains from changes in fair value	**-**	**2,718**	**(25)**	**-**	**2,693**
Increase in provision	**(194)**	**(541)**	**-**		**(735)**
Transfer on disposal of subsidiary	**(37,535)**	**(2,911)**	**-**	**(10,033)**	**(50,479)**
At 31 December 2017	**120,049**	**410,395**	**19,642**	**-**	**550,086**
At 1 January 2016	98,807	650,128	15,030	10,033	773,998
Exchange differences on monetary assets	-	(4,454)	-	-	(4,454)
Additions	136,064	247,347	6,490	-	389,901
Movement in accrued interest	290	(598)	177	-	(131)
Disposals (sale and redemption)	(17,576)	(229,037)	(3,058)	-	(249,671)
Amortisation of discounts/premiums	368	-	-	-	368
Gains from changes in fair value	-	6,753	17	-	6,770
Transfer to disposal group held for sale	(86,494)	(298,543)	(56)	-	(385,093)
At 31 December 2016	131,459	371,596	18,600	10,033	531,688

15 Financial instruments - pledged assets and repurchase agreements

The following assets are pledged against certain other funding instruments:

	Financial instruments - pledged assets	
	2017 $'000	**2016 $'000**
Pledged against repurchase agreements	**10,710**	10,823
Pledged against automated clearing house	**-**	10,544
	10,710	21,367

The value of repurchase agreements on the statement of financial position which are secured by pledged assets is $13,703 (2016 - $13,839). The variance between investment pledged against repurchase agreements and the value of repurchase agreement represents accrued interest.

(in thousands of Eastern Caribbean dollars)

16 Investment in associates

	2017 $'000	2016 $'000
Investment in associates	**49,781**	17,704

The investments in associates are as follows:

	2017 $'000	2016 $'000
Associate		
At beginning of year	**17,704**	14,292
Interest retained in BOSVG	**25,500**	-
Derecognition of BOSVG associate holding in ECAB	**(2,000)**	-
Dividends from associate	**(264)**	-
Transfer to available for sale investments	**-**	(655)
Share of other comprehensive income	**5,767**	152
Share of profit in associate	**3,074**	3,915
At end of year	**49,781**	17,704

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

East Caribbean Amalgamated Bank Limited of Antigua financial reporting period ends on 30 September. The Group's interest in its associate East Caribbean Amalgamated Bank Limited of Antigua, as at 31 December 2017 is as follows:

	2017 $'000	2016 $'000
Current assets	**69,633**	96,537
Non-current assets	**795,773**	723,687
Liabilities	**(715,092)**	(709,870)
Preference Shares	**(47,869)**	(47,869)
Equity	**102,445**	62,485
% ownership	**20%**	28%
Share of equity in associate	**20,489**	17,704
Previous share of profits from ECAB holding	**3,207**	-
Carrying amount of the investment	**23,696**	17,704

(in thousands of Eastern Caribbean dollars)

16 Investment in associates … *continued*

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

	2017 $'000	**2016 $'000**
Revenue	**45,521**	41,368
Administrative cost	**(24,324)**	(23,103)
Depreciation	**(1,826)**	(2,017)
Profit for the year	**19,371**	16,248
Tax expense	**(4,176)**	(2,733)
Other comprehensive income	**28,725**	537
Total comprehensive income	**43,920**	14,052

(in thousands of Eastern Caribbean dollars)

16 Investment in associates*…continued*

During the year, the bank disposed of its majority holding in Bank if St. Vincent and the Grenadines Limited and retained a 20% holding. The company is a listed company incorporated in St. Vincent.

The Group's interest in its associate Bank of St. Vincent and the Grenadines Limited, as at 31 December 2017 is as follows:

	2017 $'000	2016 $'000
Current assets	**118,625**	-
Non-current assets	**855,218**	-
Liabilities	**(869,983)**	-
Equity	**103,860**	-
% ownership	**20%**	-
Share of Equity in associate	**20,772**	-
Adjustment for fair value of associate interest at acquisition date	**5,313**	-
Carrying amount of the investment	**26,085**	-

Summarised statement of profit and loss of Bank of St. Vincent & the Grenadines Limited at December 2017:

	2017 $'000	2016 $'000
Revenue	**22,013**	-
Administrative cost	**(16,185)**	-
Depreciation	**(1,346)**	-
Profit for the year	**4,482**	-
Tax expense	**(1,667)**	-
Other comprehensive income	**109**	-
Total comprehensive income	**2,924**	-

The associate had no contingent liabilities or capital commitments as at 31 December 2017 or 2016.

(in thousands of Eastern Caribbean dollars)

17 Property and equipment

	Land and buildings $'000	Leasehold improvements $'000	Motor vehicles $'000	Office furniture and equipment $'000	Computer equipment $'000	Work-in-progress buildings $'000	Total $'000
Year ended 31 December 2016							
Opening net book amount	118,565	2,575	809	12,230	3,260	1,542	138,981
Additions	1,401	-	220	1,319	945	(499)	3,386
Disposals at cost	-	(1,115)	(701)	(653)	(12)	-	(2,481)
Accumulated depreciation on disposal	-	1,106	629	605	9	-	2,349
Depreciation charge	(2,191)	(728)	(367)	(2,995)	(1,493)	-	(7,774)
Transfer to disposal group	-	(62)	(77)	(439)	(497)	-	(1,075)
Closing net book amount	117,775	1,776	513	10,067	2,212	1,043	133,386
At 31 December 2016							
Cost or valuation	137,711	9,316	2,408	43,321	30,330	1,043	224,129
Accumulated depreciation	(19,936)	(7,540)	(1,895)	(33,254)	(28,118)	-	(90,743)
Net book amount	117,775	1,776	513	10,067	2,212	1,043	133,386
Year ended 31 December 2017							
Opening net book amount	**117,775**	**1,776**	**513**	**10,067**	**2,212**	**1,043**	**133,386**
Additions	**428**	**72**	**-**	**609**	**832**	**-**	**1,941**
Disposals at cost	**-**	**-**	**(246)**	**(8)**	**(4)**	**-**	**(258)**
Accumulated depreciation on disposal	**-**	**-**	**241**	**8**	**2**	**-**	**251**
Transfer to investment properties (Note 18)	**(30,029)**	**-**	**-**	**-**	**-**	**-**	**(30,029)**
Depreciation charge	**(1,126)**	**(602)**	**(117)**	**(1,476)**	**(527)**	**-**	**(3,848)**
Disposal of subsidiary	**(47,553)**	**-**	**(262)**	**(5,139)**	**(1,561)**	**(1,043)**	**(55,558)**
Closing net book amount	**39,495**	**1,246**	**129**	**4,061**	**954**	**-**	**45,885**
At 31 December 2017							
Cost or valuation	**56,956**	**9,388**	**1,223**	**27,593**	**20,907**	**-**	**116,067**
Accumulated depreciation	**(17,461)**	**(8,142)**	**(1,094)**	**(23,532)**	**(19,953)**	**-**	**(70,182)**
Net book amount	**39,495**	**1,246**	**129**	**4,061**	**954**	**-**	**45,885**

(in thousands of Eastern Caribbean dollars)

17 Property and equipment*…continued*

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

The historical cost of land and buildings is:

	2017 $'000	**2016 $'000**
Cost	**38,452**	68,143
Accumulated depreciation based on historical cost	**(20,345)**	(19,219)
Depreciated historical cost	**18,107**	48,924

18 Investment properties

	2017 $'000	**2016 $'000**
Land and buildings		
At beginning of year	**9,328**	10,643
Additions	**65**	-
Transfer from PPE (Note 17)	**30,029**	-
Disposal of subsidiary	**(2,780)**	-
Fair value adjustment	**813**	(1,315)
At end of year	**37,455**	9,328

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

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

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

	2017 $'000	**2016 $'000**
Rental income	**2,260**	1,787
Direct operating expenses arising from investment properties that generated rental income	**(736)**	(568)
Direct operating expenses that did not generate rental income	**-**	(100)
	1,524	1,119

(in thousands of Eastern Caribbean dollars)

19 Intangible assets

	Computer software $'000	Other intangibles $'000	Total $'000
Year ended 31 December 2016			
Opening net book amount	5,868	2,037	7,905
Additions	398	-	398
Amortisation charge for the year	(1,395)	(623)	(2,018)
Transfer to disposal group held for sale	(1,392)	-	(1,392)
Closing net book amount	3,479	1,414	4,893
At 31 December 2016			
Cost	13,481	7,793	21,274
Accumulated amortisation	(10,002)	(6,379)	(16,381)
Net book amount	3,479	1,414	4,893
Year ended 31 December 2017			
Opening net book amount	**3,479**	**1,414**	**4,893**
Additions	**800**	**-**	**800**
Accumulate amortisation on disposal	**9**	**-**	**9**
Amortisation on disposal of subsidiary	**(3,948)**		**(3,948)**
Amortisation charge for the year	**-**	**(661)**	**(661)**
Closing net book amount	**340**	**753**	**1,093**
At 31 December 2017			
Cost	**14,281**	**7,793**	**22,074**
Accumulated amortisation	**(13,941)**	**(7,040)**	**(20,981)**
Net book amount	**340**	**753**	**1,093**

(in thousands of Eastern Caribbean dollars)

20 Other assets

	2017 $'000	2016 $'000
Receivable accounts	**13,149**	26,680
Receivable accounts- credit card	**38,587**	33,821
Prepaid expenses	**2,229**	2,781
Stationery and supplies	**527**	847
Accounts receivable	**2,070**	851
Accrued income	**122**	152
	56,684	65,132
Less provision for impairment on other assets (Note 21)	**(1,348)**	(1,874)
	55,336	63,258

21 Provision for impairment on other assets

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

	2017 $'000	2016 $'000
At beginning of year	**1,874**	3,989
Provisions made during the year	**494**	827
Receipts	**(154)**	(2,633)
Write offs during the year	**(866)**	(309)
At end of year	**1,348**	1,874

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset

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

	2017 $'000	2016 $'000
Fair value of plan assets	**62,217**	56,424
Present value of funded obligation	**(48,602)**	(45,797)
Asset in the statement of financial position	**13,615**	10,627

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

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

	2017 $'000	2016 $'000
Beginning of year	**45,797**	44,312
Current service cost	**1,382**	915
Interest cost	**3,549**	3,406
Employee contribution	**862**	960
Actuarial loss/gains	**(1,557)**	(2,242)
Benefits paid	**(1,431)**	(1,554)
End of year	**48,602**	45,797

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

	2017 $'000	2016 $'000
Beginning of year	**56,424**	52,209
Actual return on plan assets	**3,504**	2,584
Employer contributions	**3,053**	2,411
Employee contributions	**862**	960
Benefits paid	**(1,431)**	(1,554)
Administrative expenses	**(195)**	(186)
End of year	**62,217**	56,424

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset...*continued*

	2017 $'000	2016 $'000
Net asset at beginning of year	**10,627**	7,897
Net periodic cost	**(809)**	(530)
Contributions paid	**3,053**	2,411
Effect on statement of comprehensive income	**744**	849
Net asset at end of year	**13,615**	10,627

Benefit Cost

	2017 $'000	2016 $'000
Current service cost	**1,382**	915
Net interest on net defined benefit asset	**3,549**	3,406
Expected return on plan assets	**(4,317)**	(3,977)
Administration expenses	**195**	186
Net periodic cost at end of year	**809**	530

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

	2017 $'000	2016 $'000
Gain from experience	**(1,557)**	(2,242)
Expected return on plan assets	**4,317**	3,977
Actual return on plan assets	**(3,504)**	(2,584)
	(744)	(849)

The principal actuarial assumptions used were as follows:

	2017 %	2016 %
Discount rate	**7.50**	7.50
Future promotional salary increases	**3.00-4.52**	3.00-4.52
Future inflationary salary increases	**2.00**	2.00

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

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset...*continued*

Plan assets allocation is as follows:

	2017 %	2016 %
Debt securities	**87**	90
Equity securities	**10**	6
Other	**3**	4
	100	100

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

Mortality rate

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

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

	2017	2016
Male	**24.69**	24.60
Female	**26.86**	26.81

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

(in thousands of Eastern Caribbean dollars)

22 Retirement benefit asset...*continued*

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

	2017 $'000	2016 $'000
Investments quoted in active markets:		
Quoted equity investments:		
- Energy	**27**	27
- Consumer staples	**2,155**	1,959
- Other	**3,882**	1,403
Quoted Debt securities		
- Sovereign bonds	**20,700**	17,925
- Energy	**1,617**	2,283
- Industrial	**679**	276
- Consumer staples	**-**	-
- Other	**15,532**	12,417
Cash and cash equivalents	**1,816**	2,419
Unquoted investments		
Unquoted Debt securities		
- Sovereign bonds	**15,759**	13,053
- Other	**-**	4,662
Unquoted equity securities		
- Other	**50**	-
Total	**62,217**	56,424

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

	2017 $'000	2016 $'000
Within the next 12 months	**784**	619
Between 2 and 5 years	**3,959**	3,266
Between 5 and 10 years	**9,005**	9,072
Total expected payments	**13,748**	12,957

The average duration of the defined benefit plan obligation at the end of the reporting period is years 17 (2016 – 16 years).

(in thousands of Eastern Caribbean dollars)

23 Deposits from banks

	2017 $'000	2016 $'000
Deposits from banks	**43,298**	85,901

The weighted average effective interest rate on deposits from banks was 1.59% (2016 – 2.44%).

24 Due to customers

	2017 $'000	2016 $'000
Term deposits	**415,861**	623,566
Savings deposits	**630,748**	963,976
Call deposits	**282,324**	270,208
Demand deposits	**470,655**	584,136
	1,799,588	2,441,886

The weighted average effective interest rate of customers' deposits at 31 December 2017 was 1.43% (2016 – 2.03%).

(in thousands of Eastern Caribbean dollars)

25 Borrowings

	Due	Interest rate %	2017 $'000	Interest rate %	2016 $'000
Other borrowed funds					
Caribbean Development Bank	2017-2020	**3.8**	**27,949**	3.0%	63,489
National Insurance Corporation (Saint Lucia)	2017-2026	**7.25**	**51,232**	7.5%	53,145
National Insurance Corporation (St. Vincent)	2017-2025	-	**-**	6.12%	19,492
Prodev bond	2016-2017	-	**-**	7.5%	3,584
			79,181		139,710

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

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

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

The Group had undrawn facilities at the end of the financial reporting period of $24,913 (2016 – $27,007) with the Caribbean Development Bank.

(in thousands of Eastern Caribbean dollars)

26 Other liabilities

	2017 $'000	2016 $'000
Trade and other payables	**26,151**	84,370
Managers' cheques outstanding	**2,899**	8,605
Agency loans	**156**	137
	29,206	93,112

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

27 Deferred tax

The movements on the deferred tax asset are as follows:

	2017 $'000	2016 $'000
Net deferred tax position at beginning of year	**298**	(4,032)
Deferred tax charge Income Statement (Note 41):		
Arising from retirement benefit plan	**674**	563
Arising from other timing differences	**(277)**	(364)
Arising from tax losses utilised	**(1,738)**	3,876
Arising from disposal of subsidiary	**298**	-
Deferred tax charge for the year	**(1,043)**	4,075
Deferred tax charge to other comprehensive income		
Deferred tax arising from retirement benefit plan	**223**	255
Net deferred tax position at end of year	**(820)**	298

(in thousands of Eastern Caribbean dollars)

27 Deferred tax *...continued*

The deferred tax account is detailed as follows:

	2017 $'000	2016 $'000
Accelerated capital allowances	**1,943**	2,220
Fair value of pension assets	**4,084**	3,187
Unutilised tax losses	**(6,847)**	(5,109)
Net deferred tax (asset)/liability	**(820)**	298
Reflected in the statement of financial position as follows:		
Deferred tax asset	**820**	-
Deferred tax liability	**-**	(298)
Deferred tax asset, net	**820**	(298)

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

28 Share capital

	No. of Shares	2017 $'000	No. of Shares	2016 $'000
Ordinary shares				
Authorised:				
50,000,000 ordinary shares of no par value				
Issued and fully paid				
At beginning and end of year	**24,465,589**	**170,081**	24,465,589	170,081

29 Contributed capital

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

	2017 $'000	2016 $'000
Productive Sector Equity Fund Incorporated	**1,118**	1,118
Student Loan Guarantee Fund	**3,000**	-
	4,118	1,118

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

(in thousands of Eastern Caribbean dollars)

30 Non-controlling interests

	2017 $'000	2016 $'000
At beginning of year	**51,858**	50,910
Share of profit of subsidiaries	**-**	2,419
Share of unrealised loss on investments	**-**	(50)
Dividends paid	**-**	(1,421)
Disposal group	**(51,858)**	-
At end of year	**-**	51,858

31 Reserves

	2017 $'000	2016 $'000
(a) General reserve	**62,957**	62,957
(b) Statutory reserve	**93,652**	87,971
(c) Student loan guarantee fund reserve	**7,627**	(22)
(d) Special reserve	**2,034**	2,034
(e) Retirement benefit reserve	**13,615**	10,627
(f) Contingency reserve	**4,535**	-
Total reserves at 31 December	**184,420**	163,567

Movements in reserves were as follows:

	2017 $'000	2016 $'000
(a) General		
At beginning of year	**62,957**	60,647
Transferred from retained earnings	**-**	2,310
At end of year	**62,957**	62,957

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

(in thousands of Eastern Caribbean dollars)

31 Reserves...continued

	2017 $'000	**2016 $'000**
(b) Statutory		
At beginning of year	**87,971**	87,971
Transferred from retained earnings	**5,681**	-
At end of year	**93,652**	87,971

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

	2017 $'000	**2016 $'000**
(c) Student loan guarantee fund		
At beginning of year	**(22)**	161
Transferred from retained earnings	**1,120**	193
Contributions	**6,529**	-
Capital Drawing	**-**	(376)
	7,627	(22)

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

	2017 $'000	**2016 $'000**
(d) Special		
At beginning of year	**2,034**	2,034
At end of year	**2,034**	2,034

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

(in thousands of Eastern Caribbean dollars)

31 Reserves…*continued*

	2017 $'000	2016 $'000
(e) Retirement benefit		
At beginning of year	**10,627**	7,897
Transferred from retained earnings	**2,988**	2,730
At end of year	**13,615**	10,627

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

	2017 $'000	2016 $'000
(f) Contingency reserve		
At beginning of year	**-**	**-**
Transferred from retained earnings	**4,535**	**-**
At end of year	**4,535**	**-**

The contingency reserve fund is created as an appropriation from retained earnings to set aside a portion of profits against loan loss provisions. This reserve will be funded annually until the total loan loss provisions and the contingency reserve equates to non-performing loans.

(in thousands of Eastern Caribbean dollars)

32 Related party transactions and balances

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

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

	2017		**2016**	
	Income $'000	**Expense $'000**	**Income $'000**	**Expense $'000**
Government of Saint Lucia	**1**	**729**	2	729
Government of St. Vincent and the Grenadines	**-**	**-**	8,564	1,245
Statutory bodies – Saint Lucia	**966**	**6,156**	1,306	7,619
Statutory bodies – St. Vincent and the Grenadines	**-**	**-**	343	2,005
Directors and key management	**661**	**99**	691	125

(in thousands of Eastern Caribbean dollars)

32 Related party transactions and balances *…continued*

Related party balances with the Group were as follows:

	2017		2016	
	Loans $'000	**Deposits $'000**	**Loans $'000**	**Deposits $'000**
Government of Saint Lucia	**25,043**	**183,742**	5	115,661
Government of St. Vincent and the Grenadines	**-**	**-**	84,551	38,464
Statutory bodies – Saint Lucia	**17,710**	**469,742**	17,242	406,010
Statutory bodies – St. Vincent and the Grenadines	**-**	**-**	3,630	86,051
Directors and key management	**14,362**	**5,551**	12,758	5,701

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

The loans issued to directors and other key management personnel during the year are repayable monthly over an average of 10 years and have a weighted average effective interest rate of 5.1% (2016 – 6.1%). The secured loans advanced to the directors during the year are collateralised by mortgages over residential properties.

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

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

	2017 $'000	**2016 $'000**
Salaries and other short-term benefits	**6,143**	8,405
Pension costs	**495**	553
	6,638	8,958
Directors remuneration	**435**	571

(in thousands of Eastern Caribbean dollars)

33 Net interest income

	2017 $'000	2016 Restated $'000
Interest income		
Loans and advances	**60,984**	60,596
Treasury bills and investment securities	**19,329**	16,370
Cash and short-term funds	**190**	15
	80,503	76,981
Interest expense		
Time deposits	**12,774**	16,506
Borrowings	**4,933**	3,159
Savings deposits	**13,231**	14,214
Demand deposits	**387**	356
Correspondent banks	**820**	1,255
	32,145	35,490
Net interest income	**48,358**	41,491

34 Net fee and commission income

	2017 $'000	2016 Restated $'000
Fee and commission income		
Credit related fees and commissions	**31,016**	30,718
Asset management and related fees	**333**	239
	31,349	30,957

35 Net foreign exchange trading income

	2017 $'000	2016 Restated $'000
Foreign exchange		
Net realised gains	**10,108**	9,402
Net unrealised gains	**1,361**	595
	11,469	9,997

(in thousands of Eastern Caribbean dollars)

36 Other operating income

	2017 $'000	2016 Restated $'000
Rental income	**2,260**	1,787
Bad debt recovery income	**7,972**	4,305
Other	**792**	1,137
	11,024	7,229

37 Other gains, net

	2017 $'000	2016 Restated $'000
Gains on disposal of available-for-sale investment securities	**2,222**	423
(Losses)/gains on disposal of held to maturity investment securities	**(70)**	12
Gains on held for trading investment securities	**35**	17
Unrealised losses on held for trading investments	**(25)**	-
Fair value loss on investment property	**813**	(1,530)
Reclassification of fait value gains on disposal of subsidiaries	**25**	-
	3,000	(1,078)

(in thousands of Eastern Caribbean dollars)

38 Operating expenses

	2017 $'000	2016 Restated $'000
Employee benefit expense (Note 39)	**25,609**	29,217
Depreciation and amortisation	**4,508**	5,795
Utilities and telecommunications	**5,911**	3,426
Repairs and maintenance	**6,475**	5,875
Advertising and promotion	**469**	805
Bank and other licences	**217**	133
Security	**1,509**	1835
Printing and stationery	**760**	730
Legal and professional fees	**707**	930
Insurance	**366**	674
Credit card & IDC visa charges	**7,183**	6,060
Borrowing fees	**62**	420
Corporate responsibility	**148**	125
Broker fees	**-**	55
Bank charges	**951**	662
Travel and entertainment	**211**	80
Other expenses	**7,438**	10,113
	62,524	66,935

39 Employee benefit expense

	2017 $'000	2016 Restated $'000
Wages and salaries	**20,360**	23,834
Other staff cost	**4,440**	5,470
Pensions	**809**	(87)
	25,609	29,217

(in thousands of Eastern Caribbean dollars)

40 Disposal group classified as Held for Sale

During December 2017, the Group publicly announced the decision of the board of directors to dispose of the offshore banking subsidiary in order to divest from the inherent risks associated with this line of business. On March 10th 2018, the Group officially sold its holding in Bank of St. Lucia International to Proven Investments Limited.

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

	2017 $'000	2016 $'000
Assets		
Cash and balances with Central Bank	-	352,713
Investment Securities	-	369,603
Loans and advances to customers	-	14,216
Due from banks	-	-
Other current assets	-	1,645
Property & Equipment	-	2,467
Total	-	740,644
Liabilities		
Customer Deposits	-	717,376
Other liabilities	-	6,691
Total	-	724,067

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

(in thousands of Eastern Caribbean dollars)

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

The provision for loss on disposal of Bank of St. Lucia International is as follows:

	2017 $000	2016 $'000
Cash consideration	**35,383**	34,020
Less: Net assets carried at lower of cost and fair value less costs to sell	**(52,751)**	(49,473)
	(17,368)	
Provision for loss on disposal	**15,453**	(15,453)
Loss on disposal of controlling interest	**(1,915)**	-

On June 30th 2017, the Company disposed of 31% of its holding in Bank of Saint Vincent and the Grenadines Limited., retaining an effective interest of 20%.

The gain arising on the disposal is as follows:

	2017 $000	2016 $'000
Cash consideration	**32,364**	-
Retained share holding	**25,500**	-
Less: Net assets carried at lower of cost and fair value less costs to sell	**(51,477)**	-
Gain on disposal of controlling interest	**6,387**	-

(in thousands of Eastern Caribbean dollars)

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

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

	2017 $'000	**2016 Restated $'000**
Revenue	**16,324**	63,084
Impairment losses-loans	**(4,737)**	(6,918)
Administrative cost	**(8,881)**	(36,588)
Depreciation	**(2,023)**	(3,997)
Profit for the year	**683**	15,581
Income tax expense	**-**	(2,699)
Total comprehensive income	**683**	12,882

Cash flows from discontinued operations:

	2017 $'000	**2016 $'000**
Operating cash flows	**-**	(196,611)
Investing cash flows	**-**	(28)
Financing Cash flows	**-**	-
Total cash flows	**-**	196,639

(in thousands of Eastern Caribbean dollars)

41 Income tax expense/ (recovery)

	2017 $'000	2016 $'000
Current tax	**1,076**	-
(Over)/under provision of prior year tax	**(2,839)**	1,651
Deferred tax charge (Note 27)	**(1,043)**	4,075
	(2,806)	5,726
Deferred tax income in other comprehensive income:		
Deferred tax arising from defined benefit pension plan	**223**	255

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

	2017 $'000	2016 $'000
Profit/(loss) for the year before income tax and preference dividends	**29,319**	(103,206)
Tax calculated at the applicable tax rate of 30%	**8,796**	(30,962)
Tax effect of income not subject to tax	**(5,734)**	(2,231)
Deferred tax asset recognised/ unrecognised on tax losses	**(1,738)**	35,245
Tax effect of expenses not deductible for tax purposes	**(321)**	2,023
Tax effect of utilised losses	**(970)**	-
Under provision of income tax	**(2,839)**	1,651
	(2,806)	5,726

(in thousands of Eastern Caribbean dollars)

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

The Group has unutilised tax losses of $22,823 (2016 – $17,033) for which a deferred tax asset has been recognised due to the certainty of its recoverability. Unutilized tax losses may be carried forward and deducted against 50% of future taxable income within six years following the year in which the losses were incurred. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department. The Group also has unutilised tax losses of $225,464 (2016 – $242,710) for which no deferred tax asset has been recognized.

Tax losses expire as follows:

	2017 $'000	2016 $'000
2017	**-**	11,456
2018	**98,265**	98,265
2019	**24,957**	24,957
2020	**6,367**	6,367
2021	**13,619**	13,619
2022	**105,079**	105,079
	248,287	259,743

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

42 Earnings per share

Basic and Diluted

The calculation of basic earnings per share is based on the profit/(loss) from continuing operations attributable to ordinary shareholders of $31,834 (2016 – ($105,944)) and 24,465 (2016 – 24,465) shares, being the weighted average number of ordinary shares in issue in each year. For the purpose of calculating diluted earnings per share, the profit/(loss) for the year attributable to ordinary shareholders is adjusted by adding preference dividends of $291 (2016 – $291) and taking into consideration the dilutive effect of preference dividends on the weighted average number of ordinary shares.

(in thousands of Eastern Caribbean dollars)

43 Cash and cash equivalents

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

	2017 $'000	2016 $'000
Cash and balances with Central Bank (Note 6)	**226,921**	219,720
Deposits with other banks (Note 8)	**96,632**	227,992
Deposits with non-bank financial institutions (Note 10)	**5,412**	8,730
Treasury Bills (Note 7)	**22,080**	31,319
Cash of disposal group	**-**	352,713
	351,045	840,474

44 Contingent liabilities and commitments

Commitments

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

	2017 $'000	2016 $'000
Loan commitments	**69,838**	84,356
Guarantees, letters of credit and other credit obligations	**23,765**	27,182
	93,603	111,538

Contingent liabilities

Operating leases

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

	2017 $'000	2016 $'000
Not later than 1 year	**1,977**	1,535
Later than 1 year and not later than 5 years	**4,912**	1,028
	6,889	2,563

(in thousands of Eastern Caribbean dollars)

45 Principal subsidiary undertakings

	Holding 2017 %	Holding 2016 %
Bank of Saint Lucia Limited	**100**	100
Bank of Saint Lucia International Limited	**-**	100
Bank of Saint Vincent and the Grenadines Limited	**-**	51
Student Loan Guarantee Fund Limited **	**-**	-
Productive Sector Equity Fund Incorporated **	**-**	-

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

As part of its strategic objectives, the local companies of the ECFH Group namely; Bank of Saint Lucia Limited and ECFH Global Investment Solutions were amalgamated with ECFH holding company in October 2016, and this amalgamated entity continued as Bank of Saint Lucia Limited.

Another company named East Caribbean Financial Holding Company Limited was then incorporated at the same time to hold the shares of Bank of Saint Lucia Limited, and Bank of Saint Vincent and the Grenadines limited. On June 30th 2017, the group disposed of its majority holding in Bank of St. Vincent and the Grenadines Limited as part of its strategic objective to focus on its local share of Bank of St. Lucia Limited.

46 Cumulative preference shares

	No. of shares	2017 $’000	No. of Shares	2016 $’000
7% Cumulative preference shares				
Authorised:				
11,550,000 preference shares				
At beginning and end of year	**830,000**	**4,150**	830,000	4,150

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

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

Dividends declared and unpaid on the preference shares during the year amounted to $291 (2016 – $291).

(in thousands of Eastern Caribbean dollars)

47 Comparatives

As described in Note 40, the subsidiary investment in Bank of St. Vincent and the Grenadines Limited was disposed of during 2017. Therefore, the related 2016 profits from operations were reclassified to profit for the year from discontinued operations within the consolidated statement of income. In addition, certain balances were reclassified in the prior year to meet the current year presentation period. These changes had no impact on the total assets or total equity.