

Bank of St. Vincent and the Grenadines  
Limited

Consolidated Financial Statements

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

**Bank of St. Vincent and the Grenadines Limited**  
Index to the Consolidated Financial Statements  
**For the Year ended 31 December 2016**

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## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE SHAREHOLDERS OF BANK OF ST.VINCENT AND THE GRENADINES LIMITED**

#### **Report on the Audit of the Consolidated Financial Statements**

##### **Opinion**

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

##### **Basis for Opinion**

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

##### **Key Audit Matters**

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

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

## INDEPENDENT AUDITOR'S REPORT (CONT'D)

### TO THE SHAREHOLDERS OF BANK OF ST.VINCENT AND THE GRENADINES LIMITED

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

Key Audit Matters	How our audit addressed the key audit matter
<p data-bbox="183 689 815 757"><b>Estimates used in the allowance for impairment on loans to customers</b></p> <p data-bbox="183 761 715 851"><b>Areas of focus</b> Refer to Notes 2, 8 and 31 to the consolidated financial statements.</p> <p data-bbox="183 891 775 1209">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.</p> <p data-bbox="183 1249 807 1662">The Group records both collective and specific allowances of loans and advances to customers. In accordance with IAS 39 Financial Instruments: Recognition and Measurement, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. The recoverable amount of impairment loans are assessed on an individual basis and is primarily based on the realization of the underlying collateral security. An assessment is made on the market value of the collateral and the time and cost to collect in determining the expected cash flows.</p> <p data-bbox="183 1702 815 1944">Management is continuously assessing the assumptions used in the allowance for loan losses process, and estimates are changed to account for current market and economic conditions, including the state of the real estate market and their historical experience in foreclosing and realizing the underlying collateral security.</p>	<p data-bbox="842 761 1455 824">We assessed and tested the design and operating effectiveness of controls over:</p> <ul data-bbox="842 828 1455 1048" style="list-style-type: none"><li>- Management's process for making lending decisions inclusive of the approval, disbursement and monitoring of the loan portfolio.</li><li>- 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.</li></ul> <p data-bbox="842 1052 1455 1303">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.</p> <p data-bbox="842 1308 1455 1406">We Involved our internal valuation specialists in the review of third party valuations of the underlying collateral security.</p> <p data-bbox="842 1411 1455 1608">-We reviewed the accounting for the allowance for loan impairment policy and assessed the reasonableness of the estimates based on the Group's historical experience of the realization of security, actual collection of cash flows and the current market conditions.</p> <p data-bbox="842 1612 1455 1675">We assessed the model and inputs and assumptions for the inherent risk provisions.</p> <p data-bbox="842 1680 1455 1742">In addition, we assessed the adequacy of the disclosures in the financial statements.</p>

**INDEPENDENT AUDITOR'S REPORT (CONT'D)**

**TO THE SHAREHOLDERS OF BANK OF ST.VINCENT AND THE GRENADINES LIMITED**

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

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

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE SHAREHOLDERS OF BANK OF ST.VINCENT AND THE GRENADINES LIMITED**

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

##### **Other information included in the Group's 2016 Annual Report**

Other information consists of the information included in the Group's 2016 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2016 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE SHAREHOLDERS OF BANK OF ST.VINCENT AND THE GRENADINES LIMITED**

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

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

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

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

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

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE SHAREHOLDERS OF BANK OF ST.VINCENT AND THE GRENADINES LIMITED**

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

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)**

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

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

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

The engagement executive in charge of the audit resulting in this independent auditor's report is Baldwin Alcindor.

Castries,  
St. Lucia:  
27 March 2017

# Bank of St. Vincent and the Grenadines Limited

## Consolidated Statement of Financial Position

As at 31 December 2016

(expressed in Eastern Caribbean dollars)

	2016	2015
	\$	\$
<b>Assets</b>		
<b>Cash and balances with Central Bank</b> (Note 5)	<b>124,258,997</b>	93,097,701
<b>Treasury bills</b> (Note 6)	<b>10,173,836</b>	10,167,671
<b>Deposits with other banks</b> (Note 7)	<b>140,704,027</b>	92,330,982
<b>Investment securities</b> (Note 11)	<b>42,715,267</b>	39,250,294
<b>Loans and receivables</b> - loans and advances to customers (Note 8)	<b>578,813,735</b>	586,006,095
-bonds (Note 10)	<b>10,033,904</b>	10,032,877
<b>Property and equipment</b> (Note 13)	<b>55,558,417</b>	56,741,507
<b>Investment properties</b> (Note 14)	<b>2,780,000</b>	2,565,000
<b>Other assets</b> (Note 15)	<b>5,653,131</b>	7,816,946
<b>Income tax recoverable</b>	<b>589,788</b>	1,179,575
<b>Total assets</b>	<b>971,281,102</b>	899,188,648
<b>Liabilities</b>		
<b>Deferred tax Liability</b> (Note 16)	<b>297,527</b>	433,585
<b>Deposits from banks</b> (Note 17)	<b>40,040,805</b>	38,841,463
<b>Due to customers</b> (Note 18)	<b>715,812,152</b>	655,935,277
<b>Borrowings</b> (Note 19)	<b>46,350,975</b>	51,064,175
<b>Other liabilities</b> (Note 20)	<b>62,947,985</b>	49,015,269
<b>Total liabilities</b>	<b>865,449,444</b>	795,289,769
<b>Equity</b>		
<b>Share capital</b> (Note 21)	<b>14,753,306</b>	14,753,306
<b>Reserves</b> (Note 22)	<b>14,753,306</b>	14,753,306
<b>Unrealised gain on investments</b>	<b>1,529,887</b>	1,633,479
<b>Retained earnings</b>	<b>74,795,159</b>	72,758,788
<b>Total equity</b>	<b>105,831,658</b>	103,898,879
<b>Total liabilities and equity</b>	<b>971,281,102</b>	899,188,648

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Director

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Director

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

# Bank of St. Vincent and the Grenadines Limited

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

	Share Capital (Note 21) \$	Other Reserves (Note 22) \$	Unrealised loss (gain) on investments \$	Retained Earnings \$	Total \$
<b>Balance at January 1, 2015</b>	14,753,306	14,753,306	1,560,610	68,399,834	99,467,056
Total comprehensive income	-	-	72,869	5,858,954	5,931,823
Dividend Paid	-	-	-	(1,500,000)	(1,500,000)
<b>At December 31, 2015</b>	14,753,306	14,753,306	1,633,479	72,758,788	103,898,879
<b>Balance at January 1, 2016</b>	<b>14,753,306</b>	<b>14,753,306</b>	<b>1,633,479</b>	<b>72,758,788</b>	<b>103,898,879</b>
Total comprehensive income	-	-	(103,592)	4,936,371	4,832,779
Dividend Paid	-	-	-	(2,900,000)	(2,900,000)
<b>At December 31, 2016</b>	<b>14,753,306</b>	<b>14,753,306</b>	<b>1,529,887</b>	<b>74,795,159</b>	<b>105,831,658</b>

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

# Bank of St. Vincent and the Grenadines Limited

## Consolidated Statement of Income For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Interest income</b> (Note 24)	<b>49,887,423</b>	50,068,147
<b>Interest expense</b> (Note 24)	<b>(17,642,436)</b>	(19,412,837)
<b>Net interest income</b>	<b>32,244,987</b>	30,655,310
<b>Fee and commission income</b> (Note 25,27,28)	<b>12,422,596</b>	12,215,449
<b>Dividend income</b> (Note 26)	<b>117,954</b>	74,604
<b>Impairment losses on investment securities</b>	<b>-</b>	(410,408)
<b>Impairment losses on loans and advances, net</b> (Note 31)	<b>(6,159,722)</b>	(3,607,851)
<b>Operating expenses</b> (Note 29)	<b>(30,990,513)</b>	(30,861,766)
<b>Profit before income tax</b>	<b>7,635,302</b>	8,065,338
<b>Income tax expense</b> (Note 32)	<b>(2,698,931)</b>	(2,206,384)
<b>Profit for the year</b>	<b>4,936,371</b>	5,858,954
<b>Earnings per share</b> (Note 33)	<b>0.49</b>	0.58

The accompanying notes form an integral part of these financial statements

# Bank of St. Vincent and the Grenadines Limited

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

	2016	2015
	\$	\$
<b>Profit for the year</b>	<b>4,936,371</b>	<b>5,858,954</b>
<b>Other comprehensive (loss) income that will be reclassified to the income statement:</b>		
Unrealised( loss) gain on available for sale investments	<u>(103,592)</u>	<u>72,869</u>
<b>Other comprehensive (loss) income for the year, net of tax</b>	<u><b>(103,592)</b></u>	<u><b>72,869</b></u>
<b>Total comprehensive income for the year, net of tax</b>	<u><b>4,832,779</b></u>	<u><b>5,931,823</b></u>

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

# Bank of St. Vincent and the Grenadines Limited

## Consolidated Statement of Cash Flows

For the year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

	2016	2015
	\$	\$
<b>Cash flows from operating activities</b>		
Profit before income tax	7,635,302	8,065,338
Adjustments to reconcile net profit before tax to net cash flows:		
Interest income – investment securities & deposits	(3,090,255)	(3,123,790)
Interest expense - borrowings	1,906,703	2,068,405
Impairment on loans and advances	6,918,280	3,599,630
Impairment on investment	-	410,408
Depreciation	2,851,220	2,941,254
Dividend income	(117,954)	(74,604)
Foreign exchange translation loss	292,998	57,814
Fair value gain on investment property	(215,000)	-
Loss on disposal of investment property	-	45,010
Gain on disposal of property and equipment	(43,261)	(14,837)
Net cash flows from operating income before changes in operating assets and liabilities	<b>16,138,033</b>	13,974,628
Changes in operating Assets and Liabilities		
Increase in mandatory deposits with Central Bank	(3,592,613)	(275,612)
Decrease in loans and advances to customers	(307,515)	(14,409,746)
Decrease (increase) in other assets	2,163,815	(1,548,556)
Increase in due to customers	59,876,875	4,593,542
Increase/(Decrease) in deposits from banks	1,199,342	(1,370,603)
Increase in other liabilities	13,796,370	3,236,810
Net cash generated from operations	<b>89,274,307</b>	4,200,463
Dividends received	117,954	74,604
Interest received	3,090,255	3,123,791
Interest paid	(1,939,605)	(2,089,978)
Income tax paid	(2,108,855)	(2,190,079)
Net cash generated from operating activities	<b>88,434,056</b>	3,118,801
<b>Cash flows from investing activities</b>		
Movement in short term investments and fixed deposits	(59,759)	814,217
Proceeds from sale of investment property	-	1,720,990
Proceeds from disposal and redemption of investment securities	9,113,403	10,045,474
Purchase of investment securities	(12,682,995)	(6,555,726)
Purchase of property and equipment	(1,688,869)	(1,685,199)
Proceeds from disposal of property and equipment	64,000	20,000
Net cash (used in)/generated from investing activities	<b>(5,254,220)</b>	4,359,756

# Bank of St. Vincent and the Grenadines Limited

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

	2016	2015
	\$	\$
<b>Cash flows from financing activities</b>		
Dividends paid	(2,900,000)	(1,500,000)
Repayment of borrowings	(8,355,808)	(21,002,816)
Proceeds from borrowings	4,257,105	3,240,000
	<hr/>	<hr/>
Net cash used in financing activities	(6,998,703)	(19,262,816)
	<hr/>	<hr/>
<b>Effects of exchange rate changes on cash and cash equivalents</b>	(292,998)	(57,814)
	<hr/>	<hr/>
<b>Net increase (decrease) in cash and cash equivalents</b>	76,181,133	(11,842,073)
<b>Cash and cash equivalents at beginning of year</b>	153,850,081	165,692,154
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of year (Note 35)</b>	229,738,216	153,850,081
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The accompanying notes form an integral part of these financial statements.

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 1 General information

Bank of St. Vincent and the Grenadines Limited (the Bank), (the Parent Company or “Group”) (formerly the National Commercial Bank (SVG) Ltd.) was incorporated in St. Vincent and the Grenadines on 1 June 1977. On 19 June 2009, the Bank and the St. Vincent and the Grenadines Development Bank Inc. were amalgamated and continued under the name of the National Commercial Bank (SVG) Ltd. The Bank’s name was changed to Bank of St. Vincent and the Grenadines Limited on 26 November 2012. In addition to the Company’s Act of 1994, the Bank is subject to the provisions of the Banking Act 2006.

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

The Bank and the Subsidiary together “the Group” is a 51% subsidiary of Eastern Caribbean Financial Holding Company (ECFH) Ltd. Of the remaining 49%, 12.13% is owned by the Government, 20% owned by the National Insurance Services and 16.87% owned by the public as at 31 December 2015.

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

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

## 2 Summary of significant accounting policies

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

### Statement of compliance

Bank of St. Vincent and the Grenadines Limited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) as at 31 December 2016 (the reporting date).

### Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets held at fair value through profit or loss, classified in the consolidated statement of financial position as trading financial assets and 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 financial statements are disclosed in Note 4.

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

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

### Basis of preparation...continued

#### (a) New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments applied for the first time in 2016, 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 1 Disclosure Initiative (Amendments) (effective January 1, 2016)*

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify the following:

- The materiality requirements in IAS 1
- That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated.
- That entities have flexibility as to the order in which they present the notes to financial statements.
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to the statement of income.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of income and other comprehensive income.

#### *IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments) (effective January 1, 2016)*

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively.

#### *IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (Amendments) (effective January 1, 2016)*

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

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

### **Basis of preparation...continued**

#### ***IFRS 10 and IAS 28 –Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments) (effective January 1, 2016)***

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3 Business Combinations, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

#### ***IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (effective January 1, 2016)***

The amendments require an entity acquiring an interest in a joint operation in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3, and other IFRSs, that do not conflict with the requirements of IFRS 11. Furthermore, entities are required to disclose the information required in those IFRSs in relation to business combinations.

The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by the entity to the joint operation on its formation. Furthermore, the amendments clarify that for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business; previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

#### ***IFRS 14 Regulatory Deferral Accounts (effective January 1, 2016)***

The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate regulation on its financial statements. IFRS 14 allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Existing IFRS preparers are prohibited from applying this standard. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS.

### **(b) Standards issued but not yet effective**

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

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

### Basis of preparation...continued

#### **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 Bank set up a multidisciplinary implementation team ('the Team') with members from its Global Risk, Finance and Operations teams to prepare for IFRS 9 implementation ('the Project'). The Project is sponsored by the Chief Risk and Financial officers, who regularly report to the Bank's Supervisory Board and is managed within the Bank's transformation framework. Training session on IFRS 9 and its implications have been held with team members and work has commenced on strategies to gather the relevant information. The Project timeline will become clearer by the end of the first quarter in 2017 when the analysis phase will be completed. Therefore the design, build, testing and parallel run will be completed before the end of 2017 and go live in 2018.

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

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

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

#### **Impairment**

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

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

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

**Basis of preparation...continued**

**Standards issued but not yet effective...continued**

**IFRS 9 Financial instruments ...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 recognizing revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

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

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

### ***IFRS 16 Leases***

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

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

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

### ***Amendments to IAS 12 Income Taxes***

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

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

### Basis of preparation...continued

#### *Amendments to IAS 7 Statement of Cash Flows*

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

#### **Consolidation**

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

The consolidated financial statements of the Group comprise the financial statements of the parent entity and all subsidiaries as of 31 December 2016.

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

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

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

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.

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

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

### Basis of preparation...continued

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.

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.

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

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

### Consolidation... *continued*

#### (a) Transactions with non-controlling interests

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

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

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

### Fair value measurement

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

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

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

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

### **Fair value measurement... *continued***

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

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

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

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

### **Cash and cash equivalents**

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

### **Financial assets**

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

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

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

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

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(expressed in Eastern Caribbean dollars)

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

### Financial assets...continued

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

#### (b) Loans and receivables

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

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

#### (c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than:

- (i) those that the Group upon initial recognition designates as at fair value through profit or loss.
- (ii) those that the Group designates as available for sale; and
- (iii) those that meet the definition of loans and receivables. These are initially recognised at fair value including direct and incremental transaction costs are measured subsequently at amortised cost, using the effective interest method less impairment. Interest on held-to-maturity investments is included in the consolidated statement of income. The losses arising from impairment are recognised in the consolidated statement of income as impairment losses on investments.

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

#### (d) Available-for-sale financial assets

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

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(expressed in Eastern Caribbean dollars)

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

### Available for Sale Financial Assets....continued

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

### Recognition/Derecognition

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

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

### Impairment of financial assets

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

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

- significant financial difficulty of the issuer or obligor;

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

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(expressed in Eastern Caribbean dollars)

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

### Impairment of Financial Assets...continued

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

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

### Assets carried at amortised cost

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

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(expressed in Eastern Caribbean dollars)

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

### Impairment of Financial Assets....continued

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

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

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

### Assets classified as available-for-sale and held for trading

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

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

If in subsequent 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 statement of income.

### Renegotiated loans

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

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

### Impairment of Financial Assets...continued

#### Offsetting financial instruments

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

#### Impairment of other non-financial assets

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

#### Property and equipment

All property and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

Leasehold improvements	20%
Motor vehicles	25%
Property	2%
Computer Software	20%

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

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

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

### Investment properties

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

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

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

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

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

### Income tax

#### (a) Current tax

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

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

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

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(expressed in Eastern Caribbean dollars)

## 2 Summary of significant accounting policies...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. The rates enacted or substantively enacted at the reporting date are used to determine deferred income tax. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting, nor taxable profit or loss.

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

### **Financial liabilities**

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

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

### **Borrowings**

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

### **Provisions**

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

### **Employee benefits**

#### Pension

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

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

### Employee benefits...*continued*

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

### Guarantees and letters of credit

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

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

### Share capital

#### (i) *Share issue costs*

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

#### (ii) *Dividends on ordinary shares*

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

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

### *Interest income and expense*

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts 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.

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

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

### Fee and commission income

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

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

### Dividend income

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

### Foreign currency translation

#### *Functional and presentation currency*

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

#### *Transactions and balances*

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

Monetary items denominated in foreign currency are translated 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 comprehensive income.

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

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

### Foreign currency translation...continued

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

### Leases

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

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

### Financial instruments

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

### Comparatives

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

## 3 Financial risk management

### Strategy in using financial instruments

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

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

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

### 3. Financial risk management.....continued

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

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

#### **Credit risk**

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

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

#### Loans and advances

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.

#### Debt securities and other bills

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

#### Cash and balances with Central Bank

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

#### Risk limit control and mitigation policies

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

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

### 3. Financial risk management.....*continued*

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

Some other specific control and mitigation measures are outlined below.

#### Collateral

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

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

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

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

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

#### Credit-related commitments

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

### 3. Financial Risk Management.....*continued*

#### Consolidation...*continued*

##### Impairment and provisioning policies

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

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

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

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Credit risk...continued

#### Maximum exposure to credit risk

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

	<b>Maximum exposure</b>	
	<b>2016</b>	<b>2015</b>
	\$	\$
Cash and balances with Central Bank	<b>124,258,997</b>	93,097,701
Treasury bills	<b>10,173,836</b>	10,167,671
Deposits with other banks	<b>140,704,027</b>	92,330,982
Loans and advances to customers:		
– Overdrafts	<b>72,561,345</b>	79,779,110
– Term loans	<b>87,983,004</b>	88,522,737
– Large Corporate loans	<b>125,438,011</b>	138,110,017
– Mortgage loans	<b>290,074,557</b>	276,819,452
– Credit Cards	<b>2,756,818</b>	2,774,779
– Bonds	<b>10,033,904</b>	10,032,877
Investment Securities	<b>37,804,601</b>	34,236,036
Other assets	<b>4,432,579</b>	6,166,622
	<b>906,221,679</b>	832,037,984
Credit risk exposures relating to off-statement of financial position items		
Guarantees and letters of credit	<b>40,000</b>	140,500
Loan commitments	<b>11,900,700</b>	11,624,068
	<b>11,940,700</b>	11,764,568
	<b>918,162,379</b>	843,802,552

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2016 and December 2015, without taking account of any collateral held or other credit enhancements attached. For assets included “on” statement of financial position, the exposures set out above are based on net amounts.

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Credit risk...continued

As shown above 63% (2015 – 69%) of the total maximum exposure is derived from loans and advances to customers; 5% (2015 – 5%) represents investments in debt securities.

Loans and advances to customers are summarised as follows:

	2016 \$	2015 \$
Neither past due nor impaired	453,995,302	470,645,970
Past due but not impaired	91,331,631	84,676,624
Impaired	45,995,529	37,702,505
<b>Gross</b>	<b>591,322,462</b>	<b>593,025,099</b>
Less allowance for impairment losses on loans and advances to customers	(12,508,727)	(7,019,004)
<b>Net</b>	<b>578,813,735</b>	<b>586,006,095</b>

The total impairment provision for loans and advances to customers is \$12,508,727 (2015 - \$7,019,004) of which \$6,980,274 (2015 - \$5,080,856) represents the individually impaired loans and the remaining amount of \$5,528,453 (2015 - \$1,938,148) represents the collective provision. Further information on the allowance for impairment losses on loans and advances to customers is provided in Notes 8 and 9.

#### Loans and advances to customers neither past due nor impaired

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

	Overdrafts \$	Term Loans \$	Mortgage Loans \$	Large Corporate Loans \$	Credit Cards \$	Total \$
<b>31 December 2016</b>	<b>72,105,974</b>	<b>65,123,461</b>	<b>232,694,047</b>	<b>81,444,066</b>	<b>2,627,754</b>	<b>453,995,302</b>
<b>31 December 2015</b>	<b>79,530,513</b>	<b>67,318,120</b>	<b>226,908,306</b>	<b>94,825,905</b>	<b>2,063,126</b>	<b>470,645,970</b>

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### Credit risk...continued

##### Loans and advances to customers past due but not impaired

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

	Term Loans \$	Mortgage Loans \$	Large Corporate Loans \$	Credit Cards \$	Total \$
<b>At 31 December 2016</b>					
Past due up to 30 days	11,660,172	38,433,083	20,576,902	153,660	70,823,817
Past due 30 - 60 days	2,607,119	5,453,636	3,661,959	2,608	11,725,322
Past due 60 - 90 days	1,118,224	3,135,770	4,528,498	-	8,782,492
	<b>15,385,515</b>	<b>47,022,489</b>	<b>28,767,359</b>	<b>156,268</b>	<b>91,331,631</b>
<b>At 31 December 2015</b>					
Past due up to 30 days	10,487,653	24,251,984	14,467,215	572,134	49,778,986
Past due 30 - 60 days	2,218,780	9,311,858	8,828,038	119,009	20,477,685
Past due 60 - 90 days	1,167,492	3,745,923	9,467,419	39,119	14,419,953
	<b>13,873,925</b>	<b>37,309,765</b>	<b>32,762,672</b>	<b>730,262</b>	<b>84,676,624</b>

Loans and advances to customers individually impaired:

	Over -drafts \$	Term Loans \$	Mortgage Loans \$	Large Corporate Loans \$	Credit Cards \$	Total \$
<b>31 December 2016</b>	<b>1,529,246</b>	<b>10,180,466</b>	<b>15,031,377</b>	<b>19,128,680</b>	<b>125,764</b>	<b>45,995,529</b>
<b>31 December 2015</b>	<b>910,252</b>	<b>9,564,202</b>	<b>14,481,177</b>	<b>12,290,027</b>	<b>456,850</b>	<b>37,702,505</b>

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Credit risk...continued

#### Debt securities and other eligible bills

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

	Treasury Bills \$	Financial Assets held- to-maturity \$	Financial Assets Available- for- sale \$	Deposits with other banks \$	Loans and Receivables – Bonds \$	Total \$
<b>At 31 December 2016</b>						
Lower than A- Unrated	10,173,836 -	12,873,455 24,931,146	- 4,910,666	- 140,704,027	10,033,904 -	33,081,195 170,545,839
	<b>10,173,836</b>	<b>37,804,601</b>	<b>4,910,666</b>	<b>140,704,027</b>	<b>10,033,904</b>	<b>203,627,034</b>
<b>At 31 December 2015</b>						
Lower than A- Unrated	10,167,671 -	17,056,686 17,179,350	- 5,014,258	- 92,330,982	10,032,877 -	37,257,234 114,524,590
	<b>10,167,671</b>	<b>34,236,036</b>	<b>5,014,258</b>	<b>92,330,982</b>	<b>10,032,877</b>	<b>151,781,824</b>

### Concentrations of risks of financial assets with credit exposure

#### (a) Geographical sectors

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

#### (b) Industry sectors

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

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

	Financial Institutions \$	Manu- facturing \$	Tourism \$	Government \$	Professional and Other Services \$	Personal \$	Other Industries \$	Total \$
Cash and balances with Central Bank	124,258,997	-	-	-	-	-	-	124,258,997
Treasury Bills	-	-	-	10,173,836	-	-	-	10,173,836
Deposits with other banks	140,704,027	-	-	-	-	-	-	140,704,027
Investment securities:								
- Held to maturity	26,529,955	-	-	9,600,662	-	-	1,673,984	37,804,601
Loans and receivables:								
- Loans and advances to customers								
- Large Corporate Loans	-	2,354,748	14,008,217	27,493,341	11,788,551	7,873,408	61,919,746	125,438,011
- Term Loans	117,027	363,300	724,674	-	229,903	85,639,008	909,092	87,983,004
- Mortgages Loans	-	-	-	-	651,274	288,830,519	592,764	290,074,557
- Overdrafts	148,098	2,345,906	387,301	55,623,952	2,391,717	3,201,637	8,462,734	72,561,345
- Credit cards	62,294	-	8,389	1,012	1,702	2,644,472	38,949	2,756,818
- Bonds	-	-	-	10,033,904	-	-	-	10,033,904
Other assets	-	-	-	-	-	-	4,432,579	4,432,579
<b>At 31 December 2016</b>	<b>291,820,398</b>	<b>5,063,954</b>	<b>15,128,581</b>	<b>112,926,707</b>	<b>15,063,147</b>	<b>388,189,044</b>	<b>78,029,849</b>	<b>906,221,679</b>
Guarantees, letters of credit, loan commitments and other credit related obligations	-	850,000	2,432,000	-	40,000	8,528,700	90,000	11,940,700

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

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

	Financial Institutions \$	Manu- facturing \$	Tourism \$	Government \$	Professional and Other Services \$	Personal \$	Other Industries \$	Total \$
Cash and balances with Central Bank	93,097,701	-	-	-	-	-	-	93,097,701
Treasury Bills	-	-	-	10,167,671	-	-	-	10,167,671
Deposits with other banks	92,330,982	-	-	-	-	-	-	92,330,982
Investment securities:								
- Held to maturity	19,220,287	-	-	12,573,033	-	-	2,442,716	34,236,036
Loans and receivables:								
- Loans and advances to customers								
- Large Corporate Loans	-	2,272,918	14,838,936	33,631,410	12,836,217	5,975,852	68,554,684	138,110,017
- Term Loans	449,477	385,872	811,436	-	320,302	85,632,935	922,715	88,522,737
- Mortgages Loans	-	-	420,199	-	-	275,669,339	729,914	276,819,452
- Overdrafts	289,585	2,286,873	304,520	60,073,952	3,431,128	3,507,467	9,885,585	79,779,110
- Credit cards	11,892	-	664	1,963	7,195	2,731,311	21,754	2,774,779
- Bonds	-	-	-	10,032,877	-	-	-	10,032,877
Other assets	-	-	-	-	-	-	6,166,622	6,166,622
<b>At 31 December 2015</b>	<b>205,399,924</b>	<b>4,945,663</b>	<b>16,375,755</b>	<b>126,480,906</b>	<b>16,594,842</b>	<b>373,516,904</b>	<b>88,723,990</b>	<b>832,037,984</b>
Guarantees, letters of credit, loan commitments and other credit related obligations	-	850,000	-	-	-	8,044,068	2,870,500	11,764,568

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...*continued*

### Market risk

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

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

### Currency risk

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Currency risk...continued

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Currency risk...continued

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Currency risk...continued

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
<b>Concentrations of financial assets and financial liabilities</b>								
<b>As at 31 December 2015</b>								
<b>Financial assets</b>								
Cash and balances with Central Bank	90,552,400	1,568,619	193,252	455,471	152,135	175,550	274	93,097,701
Treasury bills	10,167,671	-	-	-	-	-	-	10,167,671
Deposit with other banks	18,448,009	70,849,286	168,548	1,024,469	563,309	1,186,036	91,325	92,330,982
Investment securities:								
– held-to-maturity	27,331,585	6,904,451	-	-	-	-	-	34,236,036
– available-for-sale	3,047,833	1,324,809	641,250	366	-	-	-	5,014,258
Loans and receivables:								
– loans and advances to customers	586,006,095	-	-	-	-	-	-	586,006,095
– bonds	10,032,877	-	-	-	-	-	-	10,032,877
Other assets	6,166,622	-	-	-	-	-	-	6,166,622
Total financial assets	<u>751,753,092</u>	<u>80,647,165</u>	<u>1,003,050</u>	<u>1,480,306</u>	<u>715,444</u>	<u>1,361,586</u>	<u>91,599</u>	<u>837,052,242</u>

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Currency risk...continued

	<b>ECD</b>	<b>USD</b>	<b>BDS</b>	<b>EURO</b>	<b>GBP</b>	<b>CAD</b>	<b>Other</b>	<b>Total</b>
<b>Concentrations of financial assets and financial liabilities</b>								
<b>As at 31 December 2015</b>								
<b>Financial liabilities</b>								
Deposits from banks	38,841,463	-	-	-	-	-	-	38,841,463
Due to customers	634,082,343	18,866,317	-	1,470,702	173,375	1,342,540	-	655,935,277
Borrowings	25,670,842	25,393,333	-	-	-	-	-	51,064,175
Other liabilities	49,015,269	-	-	-	-	-	-	49,015,269
<b>Total financial liabilities</b>	<b>747,609,917</b>	<b>44,259,650</b>	<b>-</b>	<b>1,470,702</b>	<b>173,375</b>	<b>1,342,540</b>	<b>-</b>	<b>794,856,184</b>
<b>Net assets</b>	<b>4,143,175</b>	<b>36,387,515</b>	<b>1,003,050</b>	<b>9,604</b>	<b>542,069</b>	<b>19,046</b>	<b>91,599</b>	<b>42,196,058</b>
<b>Guarantees, letters of credit, loan commitments and other credit related obligations</b>	<b>11,764,568</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,764,568</b>

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

(expressed in 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 assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	Up to 1 month \$	1 – 3 months \$	3 – 12 months \$	1 – 5 years \$	Over 5 years \$	Non-interest bearing \$	Total \$
<b>As at 31 December 2016</b>							
<b>Financial assets</b>							
Cash and balances with Central Bank	-	-	-	-	-	124,258,997	124,258,997
Treasury Bills	-	10,173,836	-	-	-	-	10,173,836
Deposits with other banks	35,158	-	2,449,915	-	-	138,218,954	140,704,027
Investment securities:							
– held-to-maturity	1,048,523	-	18,305,063	7,198,737	11,252,278	-	37,804,601
Loans and receivables:							
– loans and advances to customers	82,506,156	7,023,444	12,174,666	83,514,720	393,594,749	-	578,813,735
– bonds	-	-	-	10,033,904	-	-	10,033,904
Other assets	-	-	-	-	-	4,432,579	4,432,579
<b>Total financial assets</b>	<b>83,589,837</b>	<b>17,197,280</b>	<b>32,929,644</b>	<b>100,747,361</b>	<b>404,847,027</b>	<b>266,910,530</b>	<b>906,221,679</b>
<b>Financial liabilities</b>							
Deposits from banks	3,346,678	16,717,263	17,833,632	-	-	2,143,232	40,040,805
Due to customers	475,732,832	22,943,642	93,991,577	-	-	123,144,101	715,812,152
Borrowings	571,355	702,155	3,235,611	14,904,559	26,937,295	-	46,350,975
Other liabilities	49,362,619	-	-	-	-	13,585,366	62,947,985
<b>Total financial liabilities</b>	<b>529,013,484</b>	<b>40,363,060</b>	<b>115,060,820</b>	<b>14,904,559</b>	<b>26,937,295</b>	<b>138,872,699</b>	<b>865,151,917</b>
<b>Net interest re-pricing gap</b>	<b>(445,423,647)</b>	<b>(23,165,780)</b>	<b>(82,131,176)</b>	<b>85,842,802</b>	<b>377,909,732</b>	<b>128,037,831</b>	<b>41,069,762</b>

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Interest rate risk ...continued

	Up to 1 month \$	1 – 3 months \$	3 – 12 months \$	1 – 5 years \$	Over 5 years \$	Non-interest bearing \$	Total \$
<b>As at 31 December 2015</b>							
<b>Financial assets</b>							
Cash and balances with Central Bank	-	-	-	-	-	93,097,701	93,097,701
Treasury Bills	10,167,671	-	-	-	-	-	10,167,671
Deposits with other banks	36,311	-	2,390,157	-	-	89,904,514	92,330,982
Investment securities:							
– held-to-maturity	756,583	291,686	18,161,156	10,901,084	4,125,527	-	34,236,036
Loans and receivables:							
– loans and advances to customers	77,749,440	8,532,917	18,370,049	103,848,531	377,505,158	-	586,006,095
– bonds	-	-	-	10,032,877	-	-	10,032,877
Other assets	-	-	-	-	-	6,166,622	6,166,622
<b>Total financial assets</b>	<b>88,710,005</b>	<b>8,824,603</b>	<b>38,921,362</b>	<b>124,782,492</b>	<b>381,630,685</b>	<b>189,168,837</b>	<b>832,037,984</b>
<b>Financial liabilities</b>							
Deposits from banks	3,342,392	16,553,428	17,659,995	-	-	1,285,648	38,841,463
Due to customers	420,633,519	32,743,259	92,907,818	-	-	109,650,681	655,935,277
Borrowings	585,451	802,605	3,162,841	15,679,010	30,834,268	-	51,064,175
Other liabilities	32,352,807	-	-	-	-	16,662,462	49,015,269
<b>Total financial liabilities</b>	<b>456,914,169</b>	<b>50,099,292</b>	<b>113,730,654</b>	<b>15,679,010</b>	<b>30,834,268</b>	<b>127,598,791</b>	<b>794,856,184</b>
<b>Net interest re-pricing gap</b>	<b>(368,204,164)</b>	<b>(41,274,689)</b>	<b>(74,809,292)</b>	<b>109,103,482</b>	<b>350,796,417</b>	<b>61,570,046</b>	<b>37,181,800</b>

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Interest rate risk

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

Cash flow interest rate risk arises from loans and advances to customers and borrowings at variable rates. At 31 December 2016, if variable interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year would have been \$2,894,069 (2015 -\$2,935,030) higher/lower interest income on variable rate loans.

### Liquidity risk

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

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

### Liquidity risk management process

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

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

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

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

Non derivative cash flows: The table below presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

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

	Up to 1 Month \$	1 to 3 Months \$	3 to 12 Months \$	1 to 5 Years \$	Over 5 Years \$	Total \$
<b>As at 31 December 2015</b>						
<b>Financial liabilities</b>						
Deposits from banks	4,682,705	17,107,781	18,133,715	-	-	39,924,201
Due to customers	530,390,837	32,939,081	93,717,993	-	-	657,047,911
Borrowings	585,451	1,159,963	4,654,381	22,087,271	35,249,747	63,736,813
Other liabilities	49,015,269	-	-	-	-	49,015,269
<b>Total financial liabilities</b>	<b>584,674,262</b>	<b>51,206,825</b>	<b>116,506,089</b>	<b>22,087,271</b>	<b>35,249,747</b>	<b>809,724,194</b>

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Assets held for managing liquidity risk

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

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

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

### **Off-statement of financial position items**

#### *(a) Loan commitments*

The dates of the contractual amounts of the Group's off-statement of financial position financial instruments that commit it to extend credit to customers and other facilities (Note 24), are summarised in the table below.

#### *(b) Financial guarantees and other financial facilities*

Financial guarantees (Note 24) are also included below based on the earliest contractual maturity date.

	<b>1 Year</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>
<b>At 31 December 2016</b>		
Loan commitments	<b>11,900,700</b>	<b>11,900,700</b>
Guarantees and letters of credit	<b>40,000</b>	<b>40,000</b>
	<hr/>	<hr/>
<b>Total</b>	<b>11,940,700</b>	<b>11,940,700</b>
	<hr/>	<hr/>
<b>At 31 December 2015</b>		
Loan commitments	11,624,068	11,624,068
Guarantees and letters of credit	140,500	140,500
	<hr/>	<hr/>
<b>Total</b>	<b>11,764,568</b>	<b>11,764,568</b>
	<hr/>	<hr/>

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management... *continued*

### Fair values of financial assets and liabilities

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

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

#### Due to customers

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

#### Investment securities

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

#### *Loans and advances*

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

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

	Carrying value		Fair value	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Financial assets</b>				
Loans and advances to customers:				
– Term loans	87,983,004	88,522,737	79,033,146	78,785,050
– Large corporate loans	125,438,011	138,110,017	100,960,666	112,731,358
– Mortgage loans	290,074,557	276,819,452	212,039,478	201,178,435
– Overdrafts	72,561,345	79,779,110	72,582,088	79,779,110
– Credit Cards	2,756,818	2,774,779	2,757,637	2,774,779
– Bonds	10,033,904	10,032,877	9,794,695	9,646,182
Investment securities:				
– Held-to-maturity	37,804,601	34,236,036	38,044,639	35,261,755
<b>Financial liabilities</b>				
Borrowings	46,350,975	51,064,175	46,199,923	50,452,563

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

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

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

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

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

#### Fair value hierarchy

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on actively traded exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

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

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

	Level 2 \$
<b>31 December 2015</b>	
Investment properties	
-Lands	2,565,000
Financial assets available for sale	
- Equity securities	<u>1,966,059</u>
<b>Total financial assets</b>	<u>4,531,059</u>

Assets for which fair values are disclosed

	Level 2 \$	Level 3 \$
<b>31 December 2016</b>		
Loans and Advances to customers	-	578,813,735
Bonds	10,033,904	-
Held to maturity investments	37,804,601	-
<b>Total financial assets</b>	<u>47,838,505</u>	<u>578,813,735</u>

#### 31 December 2015

Loans and Advances to customers	-	586,006,095
Bonds	10,032,877	-
Held to maturity investments	34,236,036	-
<b>Total financial assets</b>	<u>44,268,913</u>	<u>586,006,095</u>

Liabilities for which fair values are disclosed

	Level 2 \$
<b>31 December 2016</b>	
Borrowings	46,350,975
<b>31 December 2015</b>	
Borrowings	51,064,175

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...*continued*

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

The fair value of financial instruments that are not traded in an active market is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, 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 maximize the use of observable market data where it is available and rely as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

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

Specific valuation techniques used to value financial instruments include:

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

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

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Capital management

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

- To comply with the capital requirements of the Banking Act 2015.
- To comply with the capital requirements set by the regulators of the banking markets where the Group operates;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

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

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

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

- § Tier 1 capital: share capital (net of any book values of the treasury shares), minority interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
- § Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale and fixed asset revaluation reserves (limited to 50% of Tier 1 capital).

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

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

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Capital management...continued

#### Fair value hierarchy...continued

	2016	2015
	\$	\$
<b>Tier 1 capital</b>		
Share capital	14,753,306	14,753,306
Statutory reserve	14,753,306	14,753,306
Retained earnings	74,795,158	72,758,788
	<hr/>	<hr/>
<b>Total qualifying Tier 1 capital</b>	<b>104,301,770</b>	102,265,400
	<hr/>	
<b>Tier 2 capital</b>		
Revaluation reserve – available-for-sale investments	1,529,888	1,633,479
Collective impairment allowance	5,528,453	1,938,148
	<hr/>	<hr/>
<b>Total qualifying Tier 2 capital</b>	<b>7,058,341</b>	3,571,627
	<hr/>	
<b>Total regulatory capital</b>	<b>111,360,111</b>	105,837,027
	<hr/>	
<b>Risk-weighted assets:</b>		
On-statement of financial position	491,868,285	478,145,888
Off-statement of financial position	41,566,840	39,848,078
	<hr/>	<hr/>
<b>Total risk-weighted assets</b>	<b>533,435,125</b>	517,993,966
	<hr/>	
<b>Basel capital adequacy ratio</b>	<b>20.88%</b>	20.43%
	<hr/>	

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 4 Critical accounting estimates, and judgements in applying accounting policies

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

### Going Concern

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

### Impairment losses on loans and advances to customers

The Group reviews its loan portfolio to assess impairment at least annually. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated at \$801,084/\$969,885(2015 - \$305,219/\$389,485) lower/higher respectively.

### Impairment of available-for-sale equity investments

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

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

### Impairment of non-financial assets

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

### Held-to-maturity investments

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 4 Critical accounting estimates and judgements in applying accounting policies...continued

If the Group fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value not amortised cost. If the entire held-to-maturity investments are tainted, the carrying value would increase by \$240,038 (2015 - \$1,025,719) with a corresponding entry in the fair value reserve in equity.

### Fair value of financial instruments

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

### Deferred taxes

In calculating the 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 investment property

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

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

### Corporate income taxes

Significant estimates are required in determining the provision for income taxes. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions. The deferred tax assets recognised at 31 December 2016 have been based on future profitability assumptions over a five year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

# Bank of St. Vincent and the Grenadines Limited

## Notes to the Consolidated Financial Statements

### For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

#### 5 Cash and balances with Central Bank

	2016 \$	2015 \$
Cash in hand	19,572,474	17,904,562
Balances with Central Bank other than mandatory reserve deposits	<u>61,737,794</u>	<u>35,837,023</u>
Included in cash and cash equivalents (Note 34)	81,310,268	53,741,585
Mandatory reserve deposits with Central Bank	<u>42,948,729</u>	<u>39,356,116</u>
	<u>124,258,997</u>	<u>93,097,701</u>

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

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

#### 6 Treasury bills

	2016 \$	2015 \$
Treasury bills less than 90 days to maturity (Note 34)	<u>10,173,836</u>	<u>10,167,671</u>

Treasury bills are debt securities issued by the Governments of Saint Lucia. The weighted average effective interest rate on treasury bills at 31 December 2016 was 4.5% (2015-4.5%).

#### 7 Deposits with other banks

	2016 \$	2015 \$
Items in the course of collection with other banks (Note 34)	6,915,983	2,169,412
Placements with other banks (Note 34)	131,338,129	87,771,413
Interest bearing deposits (more than 3 months)	<u>2,449,915</u>	<u>2,390,157</u>
Total	<u>140,704,027</u>	<u>92,330,982</u>

The weighted average effective interest rate in respect of interest bearing deposits at 31 December 2016 was 2.35% (2015 -2.75%).

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 8 Loans and advances to customers

	2016 \$	2015 \$
Large corporate loans	129,340,105	139,878,604
Mortgage loans	294,747,909	278,699,245
Term loans	90,689,443	90,756,247
Credit cards	2,909,786	3,250,238
Overdrafts	73,635,219	80,440,765
<b>Gross</b>	<b>591,322,462</b>	<b>593,025,099</b>
Less allowance for impairment losses on loans and advances (Note 9)	<u>(12,508,727)</u>	<u>(7,019,004)</u>
<b>Net</b>	<b><u>578,813,735</u></b>	<b><u>586,006,095</u></b>

The weighted average effective interest rate on productive loans stated at amortised cost at 31 December 2016 was 8.46% (2015 - 8.47%) and productive overdrafts stated at amortised cost was 9.67% (2015 - 9.72%).

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 9 Allowance for impairment losses on loans and advances

The movement on the provision by class was as follows:

	2016 \$	2015 \$
<b>Large corporate loans</b>		
At beginning of year	1,768,587	975,844
Specific provision for loan impairment	1,903,267	659,783
Collective provision for loan impairment	752,083	232,865
Written off during the year as uncollectible	(521,843)	(99,905)
	<hr/>	<hr/>
At end of year	3,902,094	1,768,587
<b>Mortgages</b>		
At beginning of year	1,879,792	1,539,171
Specific provision for loan impairment	1,081,074	316,533
Collective provision for loan impairment	1,844,832	490,557
Written off during the year as uncollectible	(132,347)	(466,469)
	<hr/>	<hr/>
At end of year	4,673,351	1,879,792
<b>Term loans</b>		
At beginning of year	2,233,510	2,206,269
Specific provision for loan impairment	543,165	939,458
Collective provision for loan impairment	551,270	150,275
Written off during the year as uncollectible	(621,506)	(1,062,492)
	<hr/>	<hr/>
At end of year	2,706,439	2,233,510
<b>Overdrafts</b>		
At beginning of year	661,656	331,950
Specific provision for loan impairment	139,541	610,132
Collective provision for loan impairment	425,538	(134,470)
Written off during the year as uncollectible	(152,861)	(145,956)
	<hr/>	<hr/>
At end of year	1,073,874	661,656
<b>Credit Cards</b>		
At beginning of year	475,459	140,962
Specific provision for loan impairment	(339,072)	5,604
Collective provision for loan impairment	16,582	328,893
	<hr/>	<hr/>
At end of year	152,969	475,459
<b>Total</b>	<hr/> <b>12,508,727</b>	<hr/> <b>7,019,004</b>

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 10 Loans and receivables – bonds

	2016 \$	2015 \$
Government bonds	<u>10,033,904</u>	<u>10,032,877</u>

Government bonds are purchased from and issued directly by the Government of Saint Vincent and the Grenadines. The weighted average effective interest rate at 31 December 2016 on Government bonds at amortised cost was 7.50% (2015 – 7.50 %).

## 11 Investment securities

	2016 \$	2015 \$
<b>Securities held-to-maturity</b>		
Debt securities at amortised costs		
- Unlisted	35,627,024	25,784,908
- Listed	<u>4,479,828</u>	<u>10,753,379</u>
	40,106,852	36,538,287
Less allowance for impairment	<u>(2,302,251)</u>	<u>(2,302,251)</u>
	<u>37,804,601</u>	<u>34,236,036</u>
<b>Securities available for sale</b>		
Listed equity securities	1,862,479	1,966,059
Unlisted equity securities	<u>3,048,187</u>	<u>3,048,199</u>
	<u>4,910,666</u>	<u>5,014,258</u>
<b>Total investment securities</b>	<u>42,715,267</u>	<u>39,250,294</u>

The weighted average effective interest rate on securities held-to-maturity stated at amortised cost at 31 December 2016 was 5.74% (2015 -5.45%).

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

## 11 Investment securities...continued

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

	<b>Held-to- maturity</b>	<b>Available for sale</b>	<b>Loans and receivables -bonds</b>	<b>Total</b>
	\$	\$	\$	\$
<b>At 1 January 2016</b>	<b>34,236,036</b>	<b>5,014,258</b>	<b>10,032,877</b>	<b>49,283,171</b>
Additions	12,649,091	-	33,904	12,682,995
Disposals (sale and redemption)	(9,080,526)	-	(32,877)	(9,113,403)
Losses from change in fair value	-	(103,592)	-	(103,592)
<b>At 31 December 2016</b>	<b>37,804,601</b>	<b>4,910,666</b>	<b>10,033,904</b>	<b>52,749,171</b>
<b>At 1 January 2015</b>	38,136,192	4,941,389	10,032,877	53,110,458
Additions	6,522,849	-	32,877	6,555,726
Disposals (sale and redemption)	(10,012,597)	-	(32,877)	(10,045,474)
Impairment Loss	(410,408)	-	-	(410,408)
Losses from change in fair value	-	72,869	-	72,869
<b>At 31 December 2015</b>	<b>34,236,036</b>	<b>5,014,258</b>	<b>10,032,877</b>	<b>49,283,171</b>

## 12 Related parties balances and transactions

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

The Group is controlled by East Caribbean Financial Holding Company Limited which owns 51% of the ordinary shares and is related to the companies listed below by common ownership and control.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans and deposits.

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 12 Related parties balances and transactions...continued

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

	2016 \$	2015 \$
<b>Bank of Saint Lucia Limited</b>		
Due from banks	1,965,575	1,914,168
Due to banks	<u>6,751,223</u>	<u>6,600,754</u>
	<u>8,716,798</u>	<u>8,514,922</u>
<b>Eastern Caribbean Amalgamated Bank Limited</b>		
Due from banks	484,341	475,988
Due to banks	7,907,152	7,861,595
Held to maturity investment	<u>1,920,000</u>	<u>1,920,000</u>
	<u>10,311,493</u>	<u>10,257,583</u>
<b>East Caribbean Financial Holding Company Limited</b>		
Held to maturity investment	<u>270,592</u>	<u>541,184</u>
<b>Government of St. Vincent and the Grenadines</b>		
Held to maturity investment	<u>16,903,125</u>	<u>19,841,478</u>
Transactions carried out with related parties:		
	2016 \$	2015 \$
<b>Income</b>		
Interest income	<u>2,425,342</u>	<u>2,727,233</u>
<b>Expenses</b>		
Interest expense	339,359	464,861
Management fees	<u>909,340</u>	<u>909,340</u>

### Other related parties

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

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

## 12 Related parties balances and transactions...continued

Other related parties balances with the Group:

	2016		2015	
	Loans \$	Deposits \$	Loans \$	Deposits \$
Government of St. Vincent and the Grenadines	84,550,790	38,463,630	93,705,362	24,289,898
Statutory bodies	3,630,089	86,050,607	5,355,467	72,029,804
	<b>88,180,879</b>	<b>124,514,237</b>	99,060,829	96,319,702
Directors and key management	3,376,145	1,216,657	3,003,200	869,953
	<b>91,557,024</b>	<b>125,730,894</b>	102,064,029	97,189,655

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

The loans issued to directors and other key management personnel are repayable monthly over an average of eleven years and have a weighted average effective interest rates of 4.59% (2015 - 5%).

Interest income and interest expense with other related parties:

	2016		2015	
	Income \$	Expenses \$	Income \$	Expenses \$
Government of St. Vincent and the Grenadines	8,564,124	1,244,736	8,995,734	868,016
Statutory bodies	343,319	2,004,684	500,886	2,234,853
Directors and key management	129,662	22,903	136,296	23,652
	<b>9,037,105</b>	<b>3,272,323</b>	9,632,916	3,126,521

### Key management compensation

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

	2016 \$	2015 \$
Salaries and other short-term benefits	1,262,766	1,507,079
Pension cost	43,436	52,368
	<b>1,306,202</b>	<b>1,559,447</b>

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

## 13 Property and equipment

	Land and building \$	Leasehold Improvements \$	Office Furniture and Equipment \$	Work in Progress \$	Computer Equipment and Software \$	Motor Vehicles \$	Total \$
<b>Year ended 31 December 2015</b>							
Opening net book amount	47,810,549	61,859	6,758,738	719,592	2,345,745	306,242	58,002,725
Additions	-	-	384,814	815,031	485,354	-	1,685,199
Disposals	-	(58)	(5,097)	-	(7)	(1)	(5,163)
Depreciation charge	(587,910)	(29,079)	(1,327,294)	-	(881,652)	(115,319)	(2,941,254)
Closing net book amount	47,222,639	32,722	5,811,161	1,534,623	1,949,440	190,922	56,741,507
<b>At 31 December 2015</b>							
Cost	50,220,878	1,114,878	15,745,004	1,534,623	9,815,481	646,390	79,077,254
Accumulated depreciation	(2,998,239)	(1,082,156)	(9,933,843)	-	(7,866,041)	(455,468)	(22,335,747)
Net book amount	47,222,639	32,722	5,811,161	1,534,623	1,949,440	190,922	56,741,507
<b>Year ended 31 December 2016</b>							
Opening net book amount	47,222,639	32,722	5,811,161	1,534,623	1,949,440	190,922	56,741,507
Additions	933,274	-	591,778	(499,220)	443,109	219,928	1,688,869
Disposals	-	(7,904)	-	-	(1)	(12,834)	(20,739)
Depreciation charge (Note 29)	(602,910)	(24,818)	(1,256,007)	-	(831,896)	(135,589)	(2,851,220)
Closing net book amount	47,553,003	-	5,146,932	1,035,403	1,560,652	262,427	55,558,417
<b>At 31 December 2016</b>							
Cost	51,154,152	-	16,336,782	1,035,403	10,251,095	631,677	79,409,109
Accumulated depreciation	(3,601,149)	-	(11,189,850)	-	(8,690,443)	(369,250)	(23,850,692)
Net book amount	47,553,003	-	5,146,932	1,035,403	1,560,652	262,427	55,558,417

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

## 14 Investment properties

	2016 \$	2015 \$
Cost at 1 January	<u>2,565,000</u>	3,809,400
Fair value at 1 January	2,565,000	4,331,000
Disposal	-	(1,766,000)
Fair value gain	<u>215,000</u>	-
<b>Fair value at 31 December</b>	<b><u>2,780,000</u></b>	<b>2,565,000</b>

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

## 15 Other assets

	2016 \$	2015 \$
Other receivables	4,432,579	6,166,622
Prepaid expenses	<u>1,220,552</u>	<u>1,650,324</u>
	<b><u>5,653,131</u></b>	<b>7,816,946</b>

## 16 Deferred tax liability

The movement on the deferred tax liability is as follows:

	2016 \$	2015 \$
At beginning of year	(433,585)	(652,890)
Current year recovery (Note 32)	<u>136,058</u>	<u>219,305</u>
At end of year	<b><u>(297,527)</u></b>	<b>(433,585)</b>

The deferred tax liability account is detailed below:

	2016 \$	2015 \$
Temporary differences on capital assets	<u>(297,527)</u>	<u>(433,585)</u>
	<b><u>(297,527)</u></b>	<b>(433,585)</b>

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.

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

## 17 Deposits from banks

	2016 \$	2015 \$
Deposits from other banks	<u>40,040,805</u>	38,841,463

Interest rates range from 1.75% to 2.50% (2015 -1.75% to 3%).

## 18 Due to customers

	2016 \$	2015 \$
Term deposits	134,552,065	151,055,580
Saving deposits	334,216,294	287,625,132
Demand deposits	<u>247,043,793</u>	<u>217,254,565</u>
	<u>715,812,152</u>	655,935,277

The weighted average effective interest rate of customers' deposits at 31 December 2016 was 1.98% (2015 - 2.23%).

## 19 Borrowings

	Due	Interest Rate %	2016 \$	Interest Rate %	2015 \$
Caribbean Development Bank	2016 – 2029	2.87	26,858,267	3.18	25,393,333
National Insurance Scheme	2016 – 2025	6.12	19,492,708	6.14	20,636,075
ECHMB	2016 - 2039	-	<u>-</u>	7.82	<u>5,034,767</u>
			<u>46,350,975</u>		<u>51,064,175</u>

### Security

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

The ECHMB borrowings represent the value of loans sold to ECHMB. Under the terms of the agreement, Bank of St. Lucia Limited and Bank of St. Vincent Limited remain obligated to indemnify ECHMB with respect to any default, loss or title deficiency occurring during the life of the loans secured by the purchase of mortgages. An equal amount is included within loans and advances.

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

## 19 Borrowings...continued

Fees earned on the administration of the loans are reported in other income. There have not been any defaults of principal, interest or other breaches with respect to borrowings during the year.

The Group had undrawn facilities at the end of the financial reporting period of \$2,093,309 (2015 - \$6,350,414) with the Caribbean Development Bank.

## 20 Other liabilities

	2016 \$	2015 \$
Managers' cheques outstanding	1,741,836	3,653,754
Trade and other payables	11,843,530	11,863,543
Customers Security Deposits	49,362,619	33,497,972
	<u>62,947,985</u>	<u>49,015,269</u>

## 21 Share capital

	2016 \$	2015 \$
Issued and fully paid: 10,000,000	<u>14,753,306</u>	<u>14,753,306</u>

## 22 Reserves

	2016 \$	2015 \$
At beginning and end of year	<u>14,753,306</u>	<u>14,753,306</u>

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

## 23 Contingent liabilities and commitments

### Commitments

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

	2016 \$	2015 \$
Loan commitments	11,900,700	11,624,068
Guarantees and letters of credit	40,000	140,500
	<u>11,940,700</u>	<u>11,764,568</u>

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

## 24 Net interest income

	2016 \$	2015 \$
<b>Interest income</b>		
Loans and advances	46,797,168	46,944,357
Treasury bills and investment securities	3,074,997	3,119,035
Deposits with banks	15,258	4,755
	<u>49,887,423</u>	<u>50,068,147</u>
<b>Interest expense</b>		
Savings deposits	7,678,937	7,442,977
Time deposits	4,815,160	6,392,396
Demand deposits	3,138,092	3,403,574
Other borrowed funds	1,906,703	2,068,405
Correspondent banks	103,544	105,485
	<u>17,642,436</u>	<u>19,412,837</u>
<b>Net interest income</b>	<u>32,244,987</u>	<u>30,655,310</u>

## 25 Net fee and commission income

	2016 \$	2015 \$
Credit relates fees and commissions	<u>7,487,166</u>	<u>6,934,381</u>

## 26 Dividend income

	2016 \$	2015 \$
Investment available for sale	<u>117,954</u>	<u>74,604</u>

## 27 Net foreign exchange trading income

	2016 \$	2015 \$
Foreign exchange		
Net realized gains	4,970,166	4,359,030
Net unrealized gains	(292,988)	(57,814)
	<u>4,677,169</u>	<u>4,301,216</u>

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 28 Other gains

	2016 \$	2015 \$
Gain from disposal of fixed asset	43,261	14,837
Fair value gain on sale of Investment Properties	215,000	-
Recovery of impairment on Investment	-	965,015
	<u>258,261</u>	<u>979,852</u>

## 29 Operating expenses

	2016 \$	2015 \$
Employee benefit expense (Note 30)	9,661,973	10,027,311
Interest levy expense	4,282,163	4,060,066
Rent	263,308	260,213
Audit and accounting fees	263,000	312,076
Director fees	345,373	329,452
Computer expense	67,192	105,162
Insurance	569,777	648,215
Repairs and maintenance	472,366	376,371
Subscription and donations	222,823	113,474
Commission and fees	1,462,504	1,096,913
Depreciation (Note 13)	2,851,220	2,941,254
Utilities	2,142,765	2,183,852
Credit card expenses	1,504,282	1,404,237
Management fees	909,340	909,340
Advertisement and sponsorship	460,091	549,949
Legal and professional fees	744,729	446,371
Postage and stationary	700,573	896,926
Bank and other licences	1,166,628	1,061,287
Security	421,053	452,047
Loss on disposal of investment property	-	45,010
Other expenses	2,479,353	2,642,240
	<u>30,990,513</u>	<u>30,861,766</u>

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

(expressed in Eastern Caribbean dollars)

## 30 Employee benefit expense

	2016 \$	2015 \$
Wages and salaries	7,523,888	7,459,171
Other staff cost	1,803,118	2,235,472
Pensions	334,967	332,668
	<u>9,661,973</u>	<u>10,027,311</u>

## 31 Impairment losses on loans

	2016 \$	2015 \$
Provision against profit for the year	(6,918,280)	(3,599,630)
Amounts written off during the year as uncollectible	(166,424)	(448,683)
Recoveries of amounts previously written off	924,982	440,462
	<u>(6,159,722)</u>	<u>(3,607,851)</u>

## 32 Income tax expense

	2016 \$	2015 \$
Current tax	2,834,989	2,425,689
Deferred tax	(136,058)	(219,305)
	<u>2,698,931</u>	<u>2,206,384</u>

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

	2016 \$	2015 \$
Profit before income tax	7,635,302	8,065,338
Tax calculated at the applicable tax rate of 32.5%	2,481,473	2,621,235
Tax effect of exempt income	(3,672,863)	(4,561,216)
Tax effect of expenses not deductible for tax purposes	3,867,658	4,108,326
Other differences	22,663	38,039
	<u>2,698,931</u>	<u>2,206,384</u>

# Bank of St. Vincent and the Grenadines Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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(expressed in Eastern Caribbean dollars)

## 33 Earnings per share

Earnings per share (EPS) are calculated by dividing the profit for the year attributable to shareholders by the weighted average number of ordinary shares in issue during the year. The EPS calculated for 2016 was \$0.49 (2015 - \$0.58).

## 34 Cash and cash equivalents

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

	2016 \$	2015 \$
Cash and balances with Central Bank (Note 4)	81,310,268	53,741,585
Treasury Bills (Note 6)	10,173,836	10,167,671
Items in the course of collection with banks (Note 7)	6,915,983	2,169,412
Placement with other banks (Note 7)	131,338,129	87,771,413
	<u>229,738,216</u>	<u>153,850,081</u>

## 36 Dividends

A final dividend of \$0.17 per share was approved for the year ended 31 December 2016 (2015 - \$0.29). These dividends have not been paid nor recorded as at the date of approval of these statements.

## 37 Events after the Reporting Period

- a) The new Banking Act 2015 came into effect by Proclamation on November 12, 2015. The Act has increased the minimum capital requirement for licensed financial institutions from EC\$5 million to EC\$20 million giving an allowance of Four Hundred and Fifty (450) days from the Act's effective date to achieve compliance. Bank of St. Vincent and the Grenadines Ltd. paid up capital at December 31, 2016 was \$14,753,306 and as part of the strategy to ensure compliance with the Act, the Board of Directors on February 3, 2017 approved the transfer of Six Million Dollars from retained earnings to issued capital upon approval of the Eastern Caribbean Central Bank. To facilitate this transaction, the Board approved an interim stock dividend in the amount of \$6,000,000 to all shareholders on record as at February 3, 2017.

# **Bank of St. Vincent and the Grenadines Limited**

Notes to the Consolidated Financial Statements

**For the year ended 31 December 2016**

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(expressed in Eastern Caribbean dollars)

## **37 Events after the Reporting Period** *continued*

The stock dividend issue comprised the allotment of 4,999,844 new shares with entitlements to fractional remainders equivalent to a total of 156 shares payable in cash to the affected shareholders.

This represents 1 for 2 Stock Dividend to shareholders on record date at February 3, 2017. A total of \$1,182 was paid to Shareholders with fractional shares from 28<sup>th</sup> March to 30 March 2017.

Effective February 6, 2017, the total issued and outstanding shares of Bank of St. Vincent and the Grenadines Ltd. is 14,999,844.

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