Bank of St. Vincent and the Grenadines Limited

Consolidated Financial Statements

For the year ended 31 December 2013
(Expressed in Eastern Caribbean Dollars)

Bank of St. Vincent and the Grenadines Limited

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For the Year ended 31 December 2013

Ernst & Young
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INDEPENDENT AUDITORS' REPORT

To the shareholders of Bank of St. Vincent and the Grenadines Limited

We have audited the accompanying 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 2013, and the consolidated statement income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

CHARTERED ACCOUNTANTS
St. Lucia
April 25, 2014

Bank of Saint Vincent and the Grenadines

Consolidated Statement of Financial Position

As at 31 December 2013

(expressed in Eastern Caribbean dollars)

	2013 $	Restated 2012 $	Restated as at Jan 1, 2012 $
Assets			
Cash and balances with Central Bank (Note 5)	63,027,459	59,258,809	45,047,725
Treasury bills (Note 6)	5,981,449	4,633,348	4,643,605
Deposits with other banks (Note 7)	69,426,904	42,300,299	26,609,618
Financial assets held for trading (Note 8)	45,518	41,109	40,271
Loans and receivables - loans and advances to customers (Note 9)	564,081,530	543,799,900	454,708,591
- bonds (Note 11)	10,032,877	10,032,877	10,514,894
Investment securities (Note 12)	51,240,589	63,805,828	82,059,224
Property and equipment (Note 14)	58,639,831	59,955,388	57,436,607
Investment property (Note 15)	4,331,000	4,437,000	3,809,400
Other assets (Note 16)	5,084,321	3,676,364	7,586,658
Deferred tax asset (Note 17)	-	549,459	1,393,897
Income tax recoverable	2,359,150	3,112,387	3,572,397
Total assets	834,250,628	795,602,768	697,422,887
Liabilities			
Deferred tax liability (Note 17)	244,563	-	-
Deposits from banks (Note 18)	42,788,717	40,404,614	17,082,484
Due to customers (Note 19)	589,139,473	594,989,882	543,854,979
Borrowings (Note 20)	66,289,814	47,835,676	30,181,258
Other liabilities (Note 21)	35,572,347	19,491,087	15,516,898
Total liabilities	734,034,914	702,721,259	606,635,619
Equity			
Share capital (Note 22)	14,753,306	14,753,306	14,753,306
Reserves (Note 23)	14,753,306	14,753,306	14,753,306
Unrealised gains on investments	1,703,817	1,860,347	1,800,042
Retained earnings	69,005,285	61,514,550	59,480,614
Total equity	100,215,714	92,881,509	90,787,268
Total liabilities and equity	834,250,628	795,602,768	697,422,887

Approved by the Board of Directors on April 25th, 2014

Director

Director

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 December 31, 2013

(expressed in Eastern Caribbean dollars)

	2013 $	2012 $
Interest income (Note 25)	**47,825,394**	46,347,376
Interest expense (Note 25)	**(21,884,437)**	(20,268,190)
Net interest income	**25,940,957**	26,079,186
Net fee and commission income (Note 26)	**6,623,709**	5,365,159
Dividend income (Note 27)	**49,414**	113,517
Net foreign exchange trading income (Note 28)	**5,324,565**	4,105,004
Other gains (Note 29)	**89,755**	1,044,200
Operating expenses (Note 30)	**(29,415,268)**	(29,817,041)
Impairment losses on investment securities	**(770,900)**	(1,264,060)
Recoveries of loans and advances, net (Note 32)	**1,195,762**	1,312,418
Profit before income tax	**9,037,994**	6,938,383
Income tax expense (Note 33)	**(1,547,259)**	(1,304,447)
Profit for the year	**7,490,735**	5,633,936

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 December 31, 2013

(expressed in Eastern Caribbean dollars)

	2013 $	2012 $
Profit for the year	7,490,735	5,633,936
Other comprehensive (loss)/income		
Other comprehensive income to be reclassified to Profits or loss in subsequent periods:		
Unrealised (losses)/gains on available-for-sale securities	(156,530)	60,305
Total comprehensive income for the year	**7,334,205**	5,694,241
Earnings per share (Note 34)	**0.73**	0.56

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 2013

(expressed in Eastern Caribbean dollars)

	Share Capital (Note 22) $	Reserves (Note 23) $	Unrealised Gains/(Losses) On Investments $	Retained Earnings $	Total $
Balance at 1 January 2012	**14,753,306**	**14,753,306**	**1,800,042**	**59,480,614**	**90,787,268**
Total comprehensive income	-	-	60,305	5,633,936	5,694,241
Dividend paid (Note 36)	-	-	-	(3,600,000)	(3,600,000)
Balance at 31 December 2012	**14,753,306**	**14,753,306**	**1,860,347**	**61,514,550**	**92,881,509**
Balance at 1 January 2013	**14,753,306**	**14,753,306**	**1,860,347**	**61,514,550**	**92,881,509**
Total comprehensive income	-	-	**(156,530)**	**7,490,735**	**7,334,205**
At 31 December 2013	**14,753,306**	**14,753,306**	**1,703,817**	**69,005,285**	**100,215,714**

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 2013

(expressed in Eastern Caribbean dollars)

	2013 $	Restated 2012 $
Cash flows from operating activities		
Profit before income tax	**9,037,994**	6,938,383
Adjustments for:		
Interest income	**(4,681,619)**	(5,808,413)
Interest expense	**2,041,189**	1,463,001
Impairment on investments	**770,900**	1,264,060
Depreciation	**2,888,364**	2,568,996
Impairment losses on loans and advances	**99,779**	1,506,595
Fair value gains on investment property	**-**	(629,599)
Loss on disposal of investment property	**15,750**	-
Gain on disposal of property and equipment	**(105,505)**	(298)
Cash flows before changes in operating assets and liabilities	**10,066,852**	7,302,725
Increase in mandatory deposits with Central Bank	**(764,559)**	(5,807,819)
Increase in loans and advances to customers	**(13,448,689)**	(73,613,068)
(Increase)/decrease in other assets	**(1,407,957)**	3,910,293
(Decrease)/increase in due to customers	**(5,850,408)**	51,134,903
Increase in deposits from banks	**2,384,103**	23,322,130
Increase in other liabilities	**16,081,260**	3,974,189
Net cash used in operations	**7,060,602**	10,223,353
Interest received	**4,684,064**	7,315,766
Interest paid	**(1,922,110)**	(1,473,808)
Net cash generated from operating activities	**9,822,556**	16,065,311
Cash flows from investing activities		
Proceeds from sale of investment property	**90,250**	1,999
Purchase of treasury bills	**(1,348,101)**	-
Proceeds from disposal and redemption of investment securities	**17,313,515**	19,648,276
Purchase of investment securities	**(5,678,151)**	(3,613,712)
Purchase of property and equipment	**(1,584,831)**	(5,087,779)
Proceeds from disposal of property and equipment	**117,529**	300
Net cash generated from investing activities	**8,910,211**	10,949,084

Bank of St. Vincent and the Grenadines Limited

Consolidated Statement of Cash Flows (continued)

For the year ended December 31, 2013

(expressed in Eastern Caribbean dollars)

	2013 $	Restated 2012 $
Cash flows from financing activities		
Dividends paid	**-**	(3,600,000)
Repayment of borrowings	**(2,793,584)**	(2,174,514)
Proceeds from borrowings	**14,195,921**	2,854,903
Net cash from financing activities	**11,402,337**	(2,919,611)
Net increase in cash and cash equivalents	**30,135,104**	24,094,784
Cash and cash equivalents at beginning of year	**67,016,408**	42,921,624
Cash and cash equivalents at end of year	**97,151,512**	67,016,408

(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 Saint Vincent and the Grenadines on 13 December 2010. The Subsidiaries' 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 ECFH. Of the remaining 49%, 22.26% owned by the Government, 10% owned by the National Insurance Services and 16.74% owned by the public as at 31 December 2013.

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.

The statement of financial position was restated retrospectively for the following:

The recognition of loans sold to ECHMB previously reported off statement of financial position. These amounts were adjusted for against loans and advances (Note 9) and borrowings (Note 20).

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).

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

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies …*continued*

Future changes in accounting policies

Certain new standards and amendments to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2013. Of these, the following are relevant to the Group but have not been adopted:

- IAS 1 Presentation of items of other comprehensive income – amendments to IAS 1 July 2012
- IFRS 7 Financial Instruments: Disclosures (Amendments) Offsetting Financial Assets and Financial Liabilities 1 January 2013
- IFRS 10 Consolidated Financial Statements 1 January 2013
- IFRS 12 Disclosure of Interests in Other Entities 1 January 2013
- IFRS 13 Fair Value Measurements 1 January 2013
- IAS 36 Impairment of Assets

(a) New standards and amendments/revisions to published standards and interpretations effective in 2013

The following amendments to published standards are mandatory for the Group's accounting periods beginning on or after 1 January 2013:

IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1
The amendment to IAS 1 introduced a grouping requirement for items presented in other comprehensive income. Items that will be reclassified ('recycled') to the consolidated statement of income in the future (e.g. exchange differences on translating foreign operations) will be presented separately from items that will not be reclassified (e.g. gain recognised on revaluation of land and buildings). The amendment only affects disclosures of the Group and as such did not have any impact on the Group's financial position or performance.

IAS 1 Presentation of Financial Statements - Clarification of requirements for comparative information (as part of the Annual Improvements to IFRSs 2009 - 2011 cycle)
These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Group's financial position or performance.

IFRS 7 Financial Instruments Disclosures: Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7
The amendment to IFRS 7 requires an entity to disclose information about rights of offset and related arrangements (e.g. collateral agreements). The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32. The amendment only affects disclosures of the Group and as such did not have any impact on the Group's financial position or performance.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities, which resulted in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies …*continued*

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities, which resulted in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements.

IFRS 10 does not change consolidation procedures (i.e., how to consolidate an entity) rather, IFRS 10 changes whether an entity is consolidated by revising the definition of control. Control exists when an investor has all of the following:

- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee AND
- The ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 10 also provides a number of clarifications on applying this new definition of control, including the following key points:

- An investor is any party that potentially controls an investee; such party need not hold an equity investment to be considered an investor.
- An investor may have control over an investee even when it has less than a majority of the voting rights of that investee (sometimes referred to as de facto control).
- Exposure to risks and rewards is an indicator of control, but does not in itself constitute control.
- When decision-making rights have been delegated or are being held for the benefit of others, it is necessary to assess whether a decision-maker is a principal or an agent to determine whether it has control.
- Consolidation is required until such time as control ceases, even if control is temporary.

IFRS 10 only affect disclosures of the Group and as such did not have any impact on the Group's financial position or performance.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 set out the requirements for disclosures relating to an entity's interest in subsidiaries, joint arrangements, associates and structured entities. Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include:

- Summarised financial information for each subsidiary that has non-controlling interests that are material to the reporting entity.
- Significant judgements used by management in determining control, joint control and significant influence, and the type of joint arrangement (i.e., joint operation or joint venture), if applicable.
- Summarised financial information for each individually material joint venture and associate.
- Nature of the risks associated with an entity's interests in unconsolidated structured entities, and changes to those.

IFRS 12 only affect disclosures of the Group and as such did not have any impact on the Group's financial position or performance.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies …*continued*

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. Fair value under IFRS 13 is defined as "the price that would be received to sell an asset or paid to transfer to liability in an orderly transaction between market participants at the measurement date" (i.e. an exit price).

IFRS 13 provides clarification on a number of areas, including the following:
- Concepts of ‘highest and best use’ and ‘valuation premise’ are relevant only for non-financial assets.
- Adjustments for blockage factors (block discounts) are prohibited in all fair value measurements.
- A description of how to measure fair value when a market becomes less active.

IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the notes to consolidated financial statements. Fair value hierarchy is provided in Note 3.

(a) New standards and amendments / revisions to published standards and interpretations effective in 2013 but not applicable to the Group.

The following new and revised IFRS that has been issued does not apply to the activities of the Group:
- IFRS 1 Government Loans - Amendments to IFRS 1 - Effective 1 January 2013
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine - Effective 1 January 2013
- Annual Improvements to IFRSs 2009 - 2011 cycle – Effective 1 January 2013:
- IFRS 1 First-time Adoption of International Financial Reporting Standards - Repeated application of IFRS 1and borrowing costs
- IAS 16 Property Plant and Equipment - Classification of servicing equipment
- IAS 32 Financial Instruments, Presentation - Tax effect of distributions to holders of equity instruments
- IAS 34 Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities

(b) New interpretations and revised or amended standards that are not yet effective and have not been early adopted by the Group

- IFRS 9 Financial Instruments - Classification and Measurement - In July 2013 the IASB tentatively decided to defer the mandatory effective date of IFRS 9 (1 January 2015) until the issue date of the completed version of IFRS 9 is known.
- IFRS 10, IFRS 12 and IAS 27 Investment Entities - Amendments - Effective 1 January 2014
- IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 - Effective
- 1 January 2014
- IAS 36 Recoverable Amount Disclosures for Non-Financial Assets - Amendments to IAS 36 - Effective 1 January 2014
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39 – Effective 1 January 2014
- IFRIC 21 Levies - Effective 1 January 2014

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies …*continued*

IAS 1 is mandatory for annual years beginning on or after 1 July 2012. All of the remaining standards noted above are effective for annual years beginning on or after 1 January 2013, except for IFRS 9 which is required for annual years beginning on or after 1 January 2015. Early adoption is permitted, and management is considering the implications of these new standards, the impact on the Bank and the timing of their adoption by the Bank.

IAS 36 describes the recoverable amount for disclosures for non-financial assets

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 2013 (the reporting date).

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.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Basis of preparation…*continued*

Consolidation…*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 and valuation methods for similar transactions and other occurrences under similar circumstances.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Basis of preparation*…continued*

Consolidation*…continued*

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

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

(b) Associates

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

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

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Basis of preparation*…continued*

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

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.

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

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

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

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

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.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…continued

Basis of preparation…*continued*

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

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 (c) those that meet the definition of loans and receivables. These are initially recognised at fair value including direct and incremental transaction costs are measured subsequently at amortised cost, using the effective interest method less impairment. Interest on held-to-maturity investments is included in the consolidated statement of income. The losses arising from impairment are recognised in the consolidated statement of income as finance costs.

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.

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.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

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;
- 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.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Impairment of financial assets…*continued*

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

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

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

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

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

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

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 even occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

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

(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.

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 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%
Furniture and equipment	10%-20%
Motor vehicles	25%
Property	2%
Computer Software	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each statement of financial position 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 comprehensive income.

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. This is usually the day when all risks are transferred. Investment properties are measured initially at cost, including

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.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Investment properties*… continued*
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.

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).

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.

Income tax

(a) Current tax
Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the 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 credit to other comprehensive 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 statement of Financial Position.

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

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Income tax ...*continued*

(b) Deferred tax…continued
The principal temporary differences arise from depreciation of property and equipment and unlimited tax losses. The rates enacted or substantively enacted at the statement of financial position 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 statement of income over the year of the borrowings using the effective interest method.

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

Employee benefits

<u>Pension</u>
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. 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.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

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 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 statement of financial position date are dealt with the subsequent events note.

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

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

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

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 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 comprehensive income.

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

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 year 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 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. 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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

The Group is also exposed to other credit risks arising from investments in debt securities 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 statement of financial position 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 statement of financial position date. Management therefore carefully manages its exposure to credit risk.

Debt securities and other bills
For debt securities and other 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.

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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk …*continued*

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

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 advances, 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.

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.

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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*
Management determines whether objective evidence of impairment exists based on the following criteria set out by the Group:

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

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

	Maximum exposure	
	2013	**2012**
	$	**$**
Cash balance with Central Bank	**63,027,459**	59,258,809
Treasury bills	**5,981,449**	4,633,348
Deposits with other banks	**69,426,904**	42,300,299
Financial assets held for trading		
− Debt securities	**45,518**	41,109
Loans and advances to customers:		
− Overdrafts	**69,904,137**	60,176,506
− Term loans	**95,821,234**	95,807,120
− Corporate loans	**141,958,912**	148,678,550
− Mortgage loans	**253,559,825**	236,807,538
− Credit cards	**2,837,422**	2,330,186
Loans and receivables - Bonds	**10,032,877**	10,032,877
Held to maturity debt securities	**46,155,993**	58,564,702
Available for sale equity securities	**5,084,596**	5,241,126
Other assets	**3,886,138**	2,840,115
Total Credit Exposure	**767,722,464**	726,712,285
Credit risk exposures relating to off-statement of financial position items:		
Loan commitments	**7,713,000**	6,784,248
Guarantees and letters of credit	**1,412,665**	1,635,275
	9,125,665	8,419,523
	776,848,129	735,131,808

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2013 and December 2012, 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.

As shown above, 72.61% (2012 - 73.97%) of the total maximum exposure is derived from loans and advances to customers; 7.89% (2012 - 10.04%) represents investments in debt securities.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Loans and advances to customers are summarised as follows:

	2013 $	2012 $
Neither past due nor impaired	**444,191,270**	450,704,367
Past due but not impaired	**86,810,323**	64,327,311
Impaired	**39,307,137**	35,071,596
Gross	**570,308,730**	550,103,274
Less allowance for impairment losses on loans and advances to customers (Note 10)	**(6,227,200)**	(6,303,374)
Net	**564,081,530**	543,799,900

The total impairment provision for loans and advances to customers is $6,227,200 (2012 - $6,303,374) of which $5,063,325(2012 - $4,641,568) represents the individually impaired loans and the remaining amount of $1,163,875 (2012 - $1,661,806) represents the collective provision. Further information on the allowance for impairment losses on loans and advances to customers is provided in Notes 9 and 10.

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

	Overdrafts $	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Credit Cards $	Total $
31 December 2013	**70,016,014**	**64,363,042**	**204,863,565**	**102,810,133**	**2,138,516**	**444,191,270**
31 December 2012	60,358,118	63,964,685	197,794,451	126,829,650	1,757,463	450,704,367

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Loans and advances to customers past due but not impaired

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

	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Credit Cards $	Total $
At 31 December 2013					
Past due up to 30 days	15,745,959	28,673,289	11,616,773	531,178	56,567,199
Past due 30 - 60 days	2,299,453	6,520,165	3,655,224	57,317	12,532,159
Past due 60 - 90 days	1,203,452	2,076,140	14,374,585	56,788	17,710,965
	19,248,864	**37,269,594**	**29,646,582**	**645,283**	**86,810,323**
At 31 December 2012					
Past due up to 30 days	16,493,431	22,451,530	4,857,806	506,912	44,309,679
Past due 30 - 60 days	3,010,276	3,908,165	4,916,980	46,114	11,881,535
Past due 60 - 90 days	2,367,932	2,705,368	3,046,770	16,027	8,136,097
	21,871,639	**29,065,063**	**12,821,556**	**569,053**	**64,327,311**

Loans and advances to customers individually impaired:

	Over -drafts $	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Credit Cards $	Total $
31 December 2013	**340,973**	**14,309,783**	**12,861,689**	**11,654,369**	**140,323**	**39,307,137**
31 December 2012	312,650	11,923,605	11,606,090	11,115,534	113,717	35,071,596

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Repossessed collateral
At the end of 31 December 2013 and 31 December 2012, the Group had no repossessed collateral.

Debt securities and other eligible bills
The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at 31 December 2013 and 2012, based on Standard & Poor's and Caricris ratings:

	Financial Assets held-to-maturity $	Financial Assets Available-for-sale $	Financial Assets held-for-trading $	Loans and Receivables – Bonds $	Total $
At 31 December 2013					
AA- to AA+	**8,269,742**	**-**	**-**	**-**	**8,269,742**
A- to A+	**-**	**-**	**-**	**-**	**-**
Lower than A-	**11,415,386**	**-**	**-**	**-**	**11,415,386**
Unrated	**26,470,865**	**5,084,596**	**45,518**	**10,032,877**	**41,633,856**
	46,155,993	**5,084,596**	**45,518**	**10,032,877**	**61,318,984**
At 31 December 2012					
AA- to AA+	8,733,690	-	-	-	8,733,690
A- to A+	-	-	-	-	-
Lower than A-	20,961,984	-	-	-	20,961,984
Unrated	28,869,028	5,241,126	41,109	10,032,877	44,184,140
	58,564,702	5,241,126	41,109	10,032,877	73,879,814

Concentrations of risks of financial assets with credit exposure

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

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Geographical 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	63,027,459	-	-	-	-	-	-	63,027,459
Treasury bills	-	-	-	5,981,449	-	-	-	5,981,449
Deposits with other banks	69,426,904	-	-	-	-	-	-	69,426,904
Financial assets held for trading	45,518	-	-	-	-	-	-	45,518
Loans and receivables:								
- Loans and advances to customers								
- Corporate	-	3,528,871	14,515,867	42,717,295	13,375,525	8,265,173	59,556,181	141,958,912
- Term	2,610,809	434,002	575,163	-	300,244	90,016,266	1,884,750	95,821,234
- Mortgages	-	11,042	-	-	-	252,671,086	877,697	253,559,825
- Overdrafts	304,713	1,202,485	1,228,438	51,656,866	3,343,116	2,966,795	9,201,724	69,904,137
- Credit cards	142,020	-	2,607	2,644	6,842	2,656,569	26,740	2,837,422
- Bonds	-	-	-	10,032,877	-	-	-	10,032,877
Investment securities:								
- Held to maturity	22,199,772	-	-	20,781,645	-	-	3,174,576	46,155,993
- Available for sale	4,057,681	-	-	-	-	-	1,026,915	5,084,596
Other assets	-	-	-	-	-	-	3,886,138	3,886,138
At 31 December 2013	**161,814,876**	**5,176,400**	**16,322,075**	**131,172,776**	**17,025,727**	**356,575,889**	**79,634,721**	**767,722,464**
Credit risk – off statement of financial position items								
Guarantees, letters of credit, loan commitments and other credit related obligations	-	-	350,000	890,865	974,800	6,810,000	100,000	9,125,665

Bank of St. Vincent and the Grenadines Limited

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For the Year ended 31 December 2013

(expressed in Eastern Caribbean dollars)

	Financial Institutions $	Manu-facturing $	Tourism $	Government $	Professional and Other Services $	Personal $	Other Industries $	Total $
Cash and balances with Central Bank	59,258,809	-	-	-	-	-	-	59,258,809
Treasury bills	-	-	-	4,633,348	-	-	-	4,633,348
Deposits with other banks	42,300,299	-	-	-	-	-	-	42,300,299
Financial assets held for trading	41,109	-	-	-	-	-	-	41,109
Loans and receivables:								
- Loans and advances to customers								
- Corporate	-	6,480,740	14,988,932	54,851,053	12,868,728	10,357,802	49,131,295	148,678,550
- Term	4,039,869	464,760	191,997	-	411,299	89,538,204	1,160,991	95,807,120
- Mortgages	-	-	-	-	-	235,813,457	994,081	236,807,538
- Overdrafts	125,755	961,950	1,473,572	42,300,901	2,401,274	2,042,523	10,870,531	60,176,506
- Credit cards	-	-	-	-	-	2,330,186	-	2,330,186
- Bonds	-	-	-	10,032,877	-	-	-	10,032,877
Investment securities:								
- Held to maturity	22,560,404	-	-	28,771,061	-	-	7,233,237	58,564,702
- Available for sale	4,077,208	-	-	-	-	-	1,163,918	5,241,126
Other assets	-	-	-	-	-	-	2,840,115	2,840,115
At 31 December 2012	**132,403,454**	**7,907,450**	**16,654,501**	**140,589,240**	**15,681,301**	**340,082,172**	**73,394,168**	**726,712,285**
Credit risk – off statement of financial position items								
Guarantees, letters of credit, loan commitments and other credit related obligations	-	-	350,000	1,113,475	-	6,444,248	511,800	8,419,523

(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 held-to-maturity and available-for-sale investments.

Currency risk

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

Currency risk*…continued*

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
Concentrations of financial assets and financial liabilities								
As at 31 December 2013								
Financial assets								
Cash and balances with Central Bank	58,703,405	2,303,211	377,731	687,260	487,134	468,413	305	63,027,459
Treasury bills	5,981,449	-	-	-	-	-	-	5,981,449
Deposit with other banks	23,060,127	38,519,584	205,786	5,024,945	928,631	1,573,582	114,249	69,426,904
Financial assets held for trading	-	-	-	45,518	-	-	-	45,518
Loans and receivables:								
– loans and advances to customers	564,081,530	-	-	-	-	-	-	564,081,530
– bonds	10,032,877	-	-	-	-	-	-	10,032,877
Investment securities:								
– held-to-maturity	29,778,431	16,377,562	-	-	-	-	-	46,155,993
– available-for-sale	3,047,833	1,026,915	1,005,750	4,098	-	-	-	5,084,596
Other assets	3,886,138	-	-	-	-	-	-	3,886,138
Total financial assets	**698,571,790**	**58,227,272**	**1,589,267**	**5,761,821**	**1,415,765**	**2,041,995**	**114,554**	**767,722,464**

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

Currency risk*…continued*

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
Concentrations of financial assets and financial liabilities								
As at 31 December 2013								
Financial liabilities								
Deposits from banks	42,788,717	-	-	-	-	-	-	42,788,717
Due to customers	562,788,493	19,893,379	-	5,006,337	42,338	1,408,926	-	589,139,473
Borrowed funds	46,644,413	19,645,401	-	-	-	-	-	66,289,814
Other liabilities	35,572,347	-	-	-	-	-	-	35,572,347
Total financial liabilities	**687,793,970**	**39,538,780**	**-**	**5,006,337**	**42,338**	**1,408,926**	**-**	**733,790,351**
Net asset	**10,777,820**	**18,688,492**	**1,589,267**	**755,484**	**1,373,427**	**633,069**	**114,554**	**33,932,113**
Commitments, guarantees	**7,713,000**	**-**	**-**	**-**	**-**	**-**	**-**	**7,713,000**
letters of credit and other credit related obligations	**1,412,665**	**-**	**-**	**-**	**-**	**-**	**-**	**1,412,665**

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

Currency risk*…continued*

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
Concentrations of financial assets and financial liabilities								
As at 31 December 2012								
Financial assets								
Cash and balances with Central Bank	54,970,753	2,058,561	511,927	618,504	511,741	586,729	594	59,258,809
Treasury bills	4,633,348	-	-	-	-	-	-	4,633,348
Deposit with other banks	16,706,137	19,777,473	182,099	2,587,544	1,162,057	1,710,906	174,083	42,300,299
Financial assets held for trading	-	-	-	41,109	-	-	-	41,109
Loans and receivables: – loans and advances to customers	543,799,900	-	-	-	-	-	-	543,799,900
– bonds	10,032,877	-	-	-	-	-	-	10,032,877
Investment securities:								
– held-to-maturity	32,593,015	25,971,687	-	-	-	-	-	58,564,702
– available-for-sale	3,047,833	1,159,820	1,029,375	4,098	-	-	-	5,241,126
Other assets	2,840,115	-	-	-	-	-	-	2,840,115
Total financial assets	668,623,978	48,967,541	1,723,401	3,251,255	1,673,798	2,297,635	174,677	726,712,285

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

Currency risk*…continued*

Concentrations of financial assets and financial liabilities	**ECD**	**USD**	**BDS**	**EURO**	**GBP**	**CAD**	**Other**	**Total**
As at 31 December 2012								
Financial liabilities								
Deposits from banks	40,404,614	-	-	-	-	-	-	40,404,614
Due to customers	560,198,056	28,883,388	-	2,540,102	952,416	2,415,920	-	594,989,882
Borrowed funds	30,932,346	16,903,330	-	-	-	-	-	47,835,676
Other liabilities	19,491,087	-	-	-	-	-	-	19,491,087
Total financial liabilities	651,026,103	45,786,718	-	2,540,102	952,416	2,415,920	-	702,721,259
Net assets/(liabilities)	**17,597,875**	**3,180,823**	**1,723,401**	**711,153**	**721,382**	**(118,285)**	**174,677**	**23,991,026**
Commitments, guarantees	**6,784,248**	**-**	**-**	**-**	**-**	**-**	**-**	**6,784,248**
letters of credit and other credit related obligations	**1,635,275**	**-**	**-**	**-**	**-**	**-**	**-**	**1,635,275**

(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.

(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 $
As at 31 December 2013							
Financial assets							
Cash and balances with Central Bank	-	-	-	-	-	63,027,459	63,027,459
Treasury bills	5,981,449	-	-	-	-	-	5,981,449
Deposits with other banks	10,002,192	451,143	3,122,636	-	-	55,850,933	69,426,904
Financial assets held for trading	45,518	-	-	-	-	-	45,518
Loans and receivables:							
– loans and advances to customers	20,311,370	59,405,942	11,638,651	56,896,058	415,829,509	-	564,081,530
– bonds	-	-	-	-	10,032,877	-	10,032,877
Investment securities:							
– held-to-maturity	10,926,018	-	7,267,785	20,119,565	7,842,625		46,155,993
– available for sale	-	-	-	-	-	5,084,596	5,084,596
Other assets	-	-	-	-	-	3,886,138	3,886,138
Total financial assets	47,266,547	59,857,085	22,029,072	77,015,623	433,705,011	127,849,126	767,722,464
Financial liabilities							
Deposits from banks	14,330,669	8,647,592	17,264,274	-	-	2,546,182	42,788,717
Due to customers	346,161,472	65,047,580	63,783,614	-	-	114,146,807	589,139,473
Borrowed funds	573,118	246,067	3,378,246	12,384,994	49,707,389	-	66,289,814
Other liabilities	-	-	-	-	-	35,572,347	35,572,347
Total financial liabilities	361,065,259	73,941,239	84,426,134	12,384,994	49,707,389	152,265,336	733,790,351
Net interest re-pricing gap	**(313,798,712)**	**(14,084,154)**	**(62,397,062)**	**64,630,629**	**383,997,622**	**(24,416,210)**	**33,932,113**

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

Interest rate risk *…continued*

	Up to 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Over 5 years $	Non-interest bearing $	Total $
As at 31 December 2012							
Financial assets							
Cash and balances with Central Bank	-	-	-	-	-	59,258,809	59,258,809
Treasury bills	-	-	4,633,348	-	-	-	4,633,348
Deposits with other banks	2,160,237	436,774	3,038,393	-	-	36,664,895	42,300,299
Financial assets held for trading	41,109	-	-	-	-	-	41,109
Originated loans:							
– loans and advances to customers	24,589,961	51,112,201	11,757,818	58,377,493	397,962,427	-	543,799,900
– bonds	-	-	-	-	10,032,877	-	10,032,877
Investment securities:							
– held-to-maturity	10,952,014	3,761,409	7,722,563	18,470,748	17,657,968	-	58,564,702
– available for sale	-	-	-	-	-	5,241,126	5,241,126
Other assets	-	-	-	-	-	2,840,115	2,840,115
Total financial assets	37,743,321	55,310,384	27,152,122	76,848,241	425,653,272	104,004,945	726,712,285
Financial liabilities							
Deposits from banks	14,007,697	10,061,079	14,645,658	-	-	1,690,180	40,404,614
Due to customers	345,298,750	78,544,721	50,329,396	-	-	120,817,015	594,989,882
Borrowed funds	510,034	134,181	1,909,979	7,022,243	38,259,239	-	47,835,676
Other liabilities	-	-	-	-	-	19,491,087	19,491,087
Total financial liabilities	359,816,481	88,739,981	66,885,033	7,022,243	38,259,239	141,998,282	702,721,259
Net interest re-pricing gap	**(322,073,160)**	**(33,429,597)**	**(39,732,911)**	**69,825,998**	**387,394,033**	**(37,993,337)**	**23,991,026**

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

Interest rate risk*…continued*
The table below summarize the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss:

	EC$ %	USD %	BDS %	EURO %	GBP %	CAD %	OTHER %
As at 31 December 2013							
Assets							
Treasury bills	**4.41**	-	-	-	-	-	-
Deposits with other banks	**4.12**	**0.30**	-	-	-	-	-
Loans and receivables:							
- loans and advances to customers	**8.69**	-	-	-	-	-	-
- bonds	**7.50**	-	-	-	-	-	-
Investment securities:							
- held-to-maturity	**5.06**	**6.95**	-	-	-	-	-
Liabilities							
Due to customers	**3.17**	**1.54**	-	**1.28**	-	-	-
Borrowed funds	**7.03**	**3.42**	-	-	-	-	-
Deposits from banks	**3.56**	-	-	-	-	-	-

	EC$ %	USD %	BDS %	EURO %	GBP %	CAD %	OTHER %
As at 31 December 2012							
Assets							
Treasury bills	5.60	-	-	-	-	-	-
Deposits with other banks	4.82	0.52	-	-	-	-	-
Loans and receivables:							
- loans and advances to customers	9.00	-	-	-	-	-	-
- bonds	7.50	-	-	-	-	-	-
Investment securities:							
- held-to-maturity	5.54	7.61	-	-	-	-	-
Liabilities							
Due to customers	3.27	1.67	-	1.00	-	-	-
Borrowed funds	7.06	3.76	-	-	-	-	-
Deposits from banks	4.20	-	-	-	-	-	-

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Interest rate risk
Cash flow interest rate risk arises from loans and advances to customers and borrowings at variable rates. At 31 December 2013, 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 $2,820,408 (2012 - $2,637,608) 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.

(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
As at 31 December 2013						
Financial liabilities						
Deposits from banks	16,942,742	8,807,952	17,786,194	-	-	43,536,888
Due to customers	460,308,279	65,047,580	63,783,614	-	-	589,139,473
Borrowed funds	746,054	595,051	5,064,232	19,046,730	55,879,004	81,331,071
Other liabilities	35,572,347	-	-	-	-	35,572,347
Total financial liabilities	**513,569,422**	**74,450,583**	**86,634,040**	**19,046,730**	**55,879,004**	**749,579,779**
Financial assets						
Cash and balances with Central Bank	63,027,459	-	-	-	-	63,027,459
Treasury Bills	6,000,000	-	-	-	-	6,000,000
Deposit with other Banks	65,886,001	450,224	3,143,401	-	-	69,479,626
Financial Assets Held for Trading	45,518	-	-	-	-	45,518
Loans and advances to customers	19,901,031	19,695,535	75,055,269	323,055,574	482,248,827	919,956,236
Bonds	-	-	750,000	3,000,000	10,719,178	14,469,178
Investment Securities (Held to Maturity)	10,962,258	51,947	9,245,344	24,756,785	9,852,714	54,869,048
Investment Securities (Available for Sale)	-	-	-	1,026,915	4,057,681	5,084,596
Other Assets	5,251,831	-	-	-	-	5,251,831
Total financial assets held for managing liquidity	**171,074,098**	**20,197,706**	**88,194,014**	**351,839,274**	**506,878,400**	**1,138,183,492**

(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
As at 31 December 2012						
Financial liabilities						
Deposits from banks	15,745,524	10,168,092	15,019,315	-	-	40,932,931
Due to customers	490,229,872	55,615,478	101,426,599	-	-	647,271,949
Borrowed funds	666,483	334,345	3,086,027	11,832,153	45,404,536	61,323,544
Other liabilities	19,491,087	-	-	-	-	19,491,087
Total financial liabilities	**526,132,966**	**66,117,915**	**119,531,941**	**11,832,153**	**45,404,536**	**769,019,511**
Financial assets						
Cash and balances with Central Bank	59,258,809	-	-	-	-	59,258,809
Treasury Bills	-	-	4,741,742	-	-	4,741,742
Deposit with other Banks	38,825,605	438,089	3,073,067	-	-	42,336,761
Financial Assets Held for Trading	41,109	-	-	-	-	41,109
Loans and advances to customers	29,506,822	19,668,190	73,745,445	315,964,686	483,472,024	922,357,167
Bonds	-	-	750,000	3,000,000	11,502,055	15,252,055
Investment Securities (Held to Maturity)	10,981,952	3,810,907	10,688,204	28,405,257	21,484,853	75,371,173
Investment Securities (Available for Sale)	-	-	-	-	5,241,126	5,241,126
Other Assets	3,676,365	-	-	-	-	3,676,365
Total financial assets held for managing liquidity	**142,290,662**	**23,917,186**	**92,998,458**	**347,369,943**	**521,700,058**	**1,128,276,307**

(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.

	<1 Year $	**Total $**
At 31 December 2013		
Loan commitments	7,713,000	7,713,000
Guarantees and letters of credit	1,412,665	1,412,665
Total	**9,125,665**	**9,125,665**
At 31 December 2012		
Loan commitments	6,784,248	6,784,248
Guarantees and letters of credit	1,635,275	1,635,275
Total	**8,419,523**	**8,419,523**

(c) Capital
Capital commitments are within one year see (Note 24)

(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, cheques and other items in transit and due to other banks are assumed to approximate their carrying values due to their short term nature. The fair value of off-statement of financial position commitments is also assumed to approximate the amounts disclosed in Note 24 due to their short term nature.

<u>Due to customers</u>

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.

<u>Investment securities</u>

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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

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

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	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
Financial assets				
Loans and advances to customers:				
− Term loans	**95,821,234**	95,807,120	**79,659,241**	78,558,062
− Large corporate loans	**141,958,912**	148,678,550	**114,440,781**	123,408,011
− Mortgage loans	**253,559,825**	236,807,538	**180,798,812**	169,891,555
− Overdrafts	**69,904,137**	60,176,506	**69,390,444**	60,176,507
Credit Cards	**2,837,422**	2,330,186	**2,628,326**	2,330,186
− Bonds	**10,032,877**	10,032,877	**9,238,884**	9,017,708
Investment securities:				
− Held-to-maturity	**46,155,993**	58,564,702	**51,036,545**	62,916,629
Financial liabilities				
Deposits from banks	**42,788,717**	40,404,614	**42,788,717**	40,404,614
Due to Customers	**589,139,473**	594,989,882	**589,139,473**	594,989,882
Borrowings	**66,289,814**	47,835,676	**48,907,673**	35,689,628

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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

Fair value hierarchy…*continued*
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 $	Level 3 $	Total $
31 December 2013			
Financial assets held for trading			
- Debt securities	-	45,518	**45,518**
Financial assets available for sale			
- Equity securities	2,032,665	3,051,931	**5,084,596**
Total financial assets	**2,032,665**	**3,097,449**	**5,130,114**
31 December 2012			
Financial assets held for trading			
- Debt securities	-	41,109	41,109
Financial assets available for sale			
- Equity securities	2,189,195	3,051,931	5,241,126
Total financial assets	**2,189,195**	**3,093,040**	**5,282,235**

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

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

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

Fair value hierarchy…*continued*
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.

The following table presents the changes in level 3 instruments for the year ended 31 December 2013 and 2012.

	Financial assets Held for trading	**Financial assets Available for sale**	**Total**
	Debt Securities $	**Equity Securities $**	**$**
31 December 2013			
At the beginning of the year	41,109	3,051,931	**3,093,040**
Currency revaluation	1,964	**-**	**1,964**
Additions	2,445	**-**	**2,445**
At the end of the year	**45,518**	**3,051,931**	**3,097,449**

	Financial assets Held for trading	**Financial assets Available for sale**	**Total**
	Debt securities $	**Equity securities $**	**$**
32 December 2012			
At the beginning of year	40,271	3,051,931	**3,092,202**
Currency revaluation	838	**-**	**838**
At 31 December 2012	**41,109**	**3,051,931**	**3,093,040**

(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 2006.
- 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 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 2013. During those two years, the Group complied with all of the externally imposed capital requirements to which they are subject.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Capital management…*continued*

Fair value hierarchy…*continued*

	2013 $	2012 $
Tier 1 capital		
Share capital	**14,753,306**	14,753,306
Statutory reserve	**14,753,306**	14,753,306
Retained earnings	**69,005,285**	62,631,178
Total qualifying Tier 1 capital	**98,511,897**	92,137,790
Tier 2 capital		
Revaluation reserve – available-for-sale investments	**1,703,817**	1,860,347
Collective impairment allowance	**1,163,874**	1,661,806
Total qualifying Tier 2 capital	**2,867,691**	3,522,153
Total regulatory capital	**101,379,588**	95,659,943
Risk-weighted assets:		
On-statement of financial position	**461,181,730**	449,148,000
Off-statement of financial position	**38,828,226**	28,838,000
Total risk-weighted assets	**500,009,956**	477,986,000
Basel capital adequacy ratio	**20.28%**	20.01%

(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 $226,850/$562,658 (2012 - $1,089,261/$476,363) 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.

Held-to-maturity investments
The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value not amortised cost. If the entire held-to-maturity investments are tainted, the carrying value would increase by $4,880,552 (2012 - $4,351,927) 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.

(expressed in Eastern Caribbean dollars)

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

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

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

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 2013 have been based on future profitability assumptions over a five year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

5 Cash and balances with Central Bank

	2013 **$**	**2012** **$**
Cash in hand	**13,546,695**	24,612,762
Balances with Central Bank other than mandatory reserve deposits	**14,132,396**	62,238
Included in cash and cash equivalents (Note 35)	**27,679,091**	24,675,000
Mandatory reserve deposits with Central Bank	**35,348,368**	34,583,809
	63,027,459	59,258,809

Pursuant to the Banking Act of 2006, 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.

(expressed in Eastern Caribbean dollars)

6 Treasury bills

	2013 $	2012 $
More than 90 days to maturity	**5,981,449**	4,633,348

Treasury bills are debt securities issued by the Governments of Saint Lucia and St. Vincent. The weighted average effective interest rate on treasury bills at 31 December 2013 was 4.41% (2012 - 5.60%).

7 Deposits with other banks

	2013 $	2012 $
Items in the course of collection with other banks	**7,386,437**	9,013,385
Placements with other banks	**48,464,496**	27,651,510
Interest bearing deposits	**13,575,971**	5,635,404
Included in cash and cash equivalents (Note 35)	**69,426,904**	42,300,299

The weighted average effective interest rate in respect of interest bearing deposits at 31 December 2013 was 3.74% (2012 - 3.97%).

8 Financial assets held for trading

	2013 $	2012 $
Debt securities	**45,518**	41,109

Trading financial assets were acquired for the purpose of selling in the near term and would otherwise have been classified as held-to-maturity investments and are non-interest bearing.

(expressed in Eastern Caribbean dollars)

9 Loans and advances to customers

	2013 $	2012 $
Large corporate loans	**144,112,084**	150,686,271
Mortgage loans	**254,994,848**	238,458,612
Term loans	**97,921,689**	97,845,651
Credit cards	**2,924,122**	2,440,233
Overdrafts	**70,355,987**	60,672,507
Gross	**570,308,730**	550,103,274
Less allowance for impairment losses on loans and advances (Note 10)	**(6,227,200)**	(6,303,374)
Net	**564,081,530**	543,799,900
Current	**91,355,963**	87,426,989
Non-current	**472,725,567**	456,372,911
	564,081,530	543,799,900

The weighted average effective interest rate on productive loans stated at amortised cost at 31 December 2013 was 8.69% (2012 - 9%) and productive overdrafts stated at amortised cost was 9.62% (2012 – 9.69%).

Included in loans and advances and borrowed funds (note 20) are $23,917,555 of mortgage loans held by the Eastern Caribbean Home Mortgage Bank for 2013 and $16,984,836 in 2012.

(expressed in Eastern Caribbean dollars)

10 Allowance for impairment losses on loans and advances

The movement on the provision by class was as follows:

	2013 $	2012 $
Large corporate loans		
At beginning of year	**2,007,722**	1,253,144
Increase in provision for loan impairment	**141,595**	663,721
Written-off during the year as uncollectible	**3,855**	90,857
At end of year	**2,153,172**	2,007,722
Mortgages		
At beginning of year	**1,651,074**	1,752,798
(Decrease)/increase in provision for loan impairment	**(15,462)**	272,281
Written-off during the year as uncollectable	**(200,589)**	(374,005)
At end of year	**1,435,023**	1,651,074
Term loans		
At beginning of year	**2,038,531**	1,836,479
(Decrease)/increase in provision for loan impairment	**49,742**	280,186
Written-off during the year as uncollectible	**12,182**	(78,134)
At end of year	**2,100,455**	2,038,531
Overdrafts		
At beginning of year	**496,000**	190,593
(Decrease)/increase in provision for loan impairment	**(45,475)**	180,360
Written-off during the year as uncollectible	**1,325**	125,047
At end of year	**451,850**	496,000
Credit Cards		
At beginning of year	**110,047**	-
(Decrease)/increase in provision for loan impairment	**(30,621)**	110,047
Written-off during the year as uncollectible	**7,274**	-
At end of year	**86,700**	110,047
Total	**6,227,200**	6,303,374

(expressed in Eastern Caribbean dollars)

11 Loans and receivables – bonds

	2013 $	2012 $
Government bonds	**10,032,877**	10,032,877

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 2013 on Government bonds at amortised cost was 7.50% (2012 – 7.50 %)

12 Investment securities

	2013 $	2012 $
Securities held-to-maturity		
Debt securities at amortised costs		
- Unlisted	**32,703,704**	42,490,677
- Listed	**16,537,926**	18,388,762
	49,241,630	60,879,439
Less allowance for impairment	**(3,085,637)**	(2,314,737)
	46,155,993	58,564,702
Securities available for sale		
Listed equity securities	**2,032,665**	2,189,195
Unlisted equity securities	**3,051,931**	3,051,931
	5,084,596	5,241,126
Total investment securities	**51,240,589**	63,805,828
Current	**18,193,803**	22,435,986
Non-current	**33,046,786**	41,369,842
	51,240,589	63,805,828

The weighted average effective interest rate on securities held-to-maturity stated at amortised cost at 31 December 2013 was 5.72% (2012 - 6.63%).

(expressed in Eastern Caribbean dollars)

12 Investment securities...*continued*

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

	Held-to-maturity $,000	Available for sale $'000	Held for trading $,000	Loans and receivables -bonds $,000	Total $'000
At 1 January 2013	58,564,702	5,241,126	41,109	10,032,877	73,879,814
Additions	5,675,706	-	2,445	-	5,678,151
Currency revaluation	-	-	1,964	-	1,964
Disposals (sale and redemption)	(17,313,515)	-	-	-	(17,313,515)
Impairment loss	(770,900)	-	-	-	(770,900)
Losses from change in fair value	-	(156,530)	-	-	(156,530)
At 31 December 2013	**46,155,993**	**5,084,596**	**45,518**	**10,032,877**	**61,318,984**
At 1 January 2012	76,878,403	5,180,821	40,271	10,514,894	92,614,389
Additions	2,083,741	-	-	32,877	2,116,618
Currency revaluation	-	-	838	-	838
Disposals (sale and redemption)	(19,133,382)	-	-	(514,894)	(19,648,276)
Impairment loss	(1,264,060)	-	-	-	(1,264,060)
Gains from change in fair value	-	60,305	-	-	60,305
At 31 December 2012	58,564,702	5,241,126	41,109	10,032,877	73,879,814

13 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.

(expressed in Eastern Caribbean dollars)

13 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:

	2013 $	2012 $
Bank of Saint Lucia Limited		
Due from banks	**11,759,202**	3,834,434
Due to banks	**6,147,592**	5,870,504
	17,906,794	9,704,938
Eastern Caribbean Amalgamated Bank Limited		
Due from banks	**448,825**	434,530
Due to banks	**7,112,500**	7,182,423
Available for sale investments	**1,920,000**	1,920,000
	9,481,325	9,536,953
East Caribbean Financial Holding Company Limited		
Held to maturity investment	**1,080,000**	1,350,000
Government of St. Vincent and the Grenadines		
Held to maturity investment	**30,035,644**	29,510,879

Transactions carried out with related parties:

	2013 $	2012 $
Income		
Interest income	**2,387,145**	2,647,971
Expenses		
Interest expense	**455,007**	541,349
Management fees	**1,146,162**	1,146,162

(expressed in Eastern Caribbean dollars)

13 Related parties balances and transactions*…continued*

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.

Other related parties balances with the Group:

	2013		2012	
	Loans $	**Deposits** $	**Loans** $	**Deposits** $
Government of St Vincent and the Grenadines	**92,294,692**	**41,277,795**	96,243,360	80,873,523
Statutory bodies	**7,520,307**	**65,740,644**	5,595,182	60,219,197
	99,814,999	**107,018,439**	101,838,542	141,092,720
Directors and key management	**1,751,549**	**920,289**	1,601,500	430,143
	101,566,548	**107,938,728**	103,440,042	141,522,863

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

The loans issued to directors and other key management personnel during the year are repayable monthly over an average of nine (9) years and have a weighted average effective interest rates of 5.03% (2012 - 4.75%)

Interest income and interest expense with other related parties:

	2013		2012	
	Income $	**Expenses** $	**Income** $	**Expenses** $
Government of St. Vincent and the Grenadines	**6,978,138**	**2,312,735**	7,246,911	3,436,857
Statutory bodies	**444,856**	**2,465,320**	258,238	2,409,036
Directors and key management	**62,034**	**34,708**	78,657	15,691

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

	2013 $	**2012** $
Salaries and other short-term benefits	**1,162,875**	1,017,100
Pension cost	**42,880**	40,291
	1,205,755	1,057,391

(expressed in Eastern Caribbean dollars)

14 Property and equipment

	Land and building $	Leasehold Improvements $	Office Furniture and Equipment $	Work in Progress $	Computer Equipment and Software $	Motor Vehicles $	Total $
Year ended 31 December 2012							
Opening net book amount	46,194,456	288,489	4,255,960	4,930,765	1,667,558	99,379	57,436,607
Additions	2,319,907	36,263	4,732,131	-	1,339,068	95,000	8,522,369
Transfers	-	-	-	(3,434,590)	-	-	(3,434,590)
Disposals	-	-	(2)	-	-	-	(2)
Depreciation charge	(466,069)	(106,088)	(1,315,057)	-	(572,703)	(109,079)	(2,568,996)
Closing net book amount	48,048,294	218,664	7,673,032	1,496,175	2,433,923	85,300	59,955,388
At 31 December 2012							
Cost	49,306,138	1,495,810	14,387,684	1,496,175	8,881,568	1,008,572	76,575,947
Accumulated depreciation	(1,257,844)	(1,277,146)	(6,714,652)	-	(6,447,645)	(923,272)	(16,620,559)
Net book amount	48,048,294	218,664	7,673,032	1,496,175	2,433,923	85,300	59,955,388
Year ended 31 December 2013							
Opening net book amount	48,048,294	218,664	7,673,032	1,496,175	2,433,923	85,300	59,955,388
Additions	348,576	-	1,605,031	-	696,483	214,768	2,864,858
Transfers	-	-	-	(1,280,027)	-	-	(1,280,027)
Disposals	-	-	(11,879)	-	(142)	(3)	(12,024)
Depreciation charge (Note 30)	(574,832)	(101,815)	(1,497,873)	-	(663,050)	(50,794)	(2,888,364)
Closing net book amount	47,822,038	116,849	7,768,311	216,148	2,467,214	249,271	58,639,831
At 31 December 2013							
Cost	49,654,714	1,495,810	15,980,836	216,148	9,577,909	847,034	77,772,451
Accumulated depreciation	(1,832,676)	(1,378,961)	(8,212,525)	-	(7,110,695)	(597,763)	(19,132,620)
Net book amount	47,822,038	116,849	7,768,311	216,148	2,467,214	249,271	58,639,831

(expressed in Eastern Caribbean dollars)

15 Investment property

	2013 $	2012 $
Cost at 1 January	**3,809,400**	3,809,400
Book value at 1 January	**4,437,000**	3,809,400
Disposal	**(106,000)**	(1,999)
Fair value gains	**-**	629,599
Book value at 31 December	**4,331,000**	4,437,000

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

16 Other assets

	2013 $	2012 $
Other receivables	**3,886,138**	2,840,115
Prepaid expenses	**1,198,183**	836,249
	5,084,321	3,676,364

17 Deferred tax liability/asset

The movement on the deferred tax (liability)/asset is as follows:

	2013 $	2012 $
At beginning of year	**549,459**	1,393,897
Current year charge (Note 33)	**(794,022)**	(844,438)
At end of year	**(244,563)**	549,459

The deferred tax asset account is detailed below:

	2013 $	2012 $
Unutilised tax losses	**539,322**	1,292,557
Temporary differences on capital assets	**(783,885)**	(743,098)
	(244,563)	549,459

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

(expressed in Eastern Caribbean dollars)

18 Deposits from banks

	2013 $	2012 $
Deposits from other banks	**42,788,717**	40,404,614

Interest rates range from 3.50% to 4.00% (2012 - 3.5% to 5.0%)

19 Due to customers

	2013 $	2012 $
Term deposits	**148,998,191**	156,236,620
Saving deposits	**248,483,119**	266,895,106
Demand deposits	**191,658,163**	171,858,156
	589,139,473	594,989,882
Current	**589,139,473**	594,989,882

The weighted average effective interest rate of customers' deposits at 31 December 2013 was 3.13 % (2012 - 3.23%).

20 Borrowings

	Due	Interest Rate %	2013 $	Interest Rate %	2012 $
Caribbean Development Bank	**2013 – 2029**	**3.05**	**19,645,401**	3.15	16,903,330
National Insurance Scheme	**2012 – 2025**	**5.94**	**22,726,857**	5.74	13,947,510
ECHMB		**7.87**	**23,917,556**	8.15	16,984,836
			66,289,814		47,835,676

(expressed in Eastern Caribbean dollars)

20 Borrowed funds*...continued*

	2013 $	2012 $
Current	**4,197,431**	2,554,194
Non-current	**62,092,383**	45,281,482
	66,289,814	47,835,676

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 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. Fees earned on the administration of the loans are reported in other income.

21 Other liabilities

	2013 $	2012 $
Managers' cheques outstanding	**1,284,047**	2,978,690
Trade and other payables	**9,395,635**	8,453,239
Customers Security Deposits	**24,892,665**	8,059,158
	35,572,347	19,491,087

22 Share capital

	2013 $	2012 $
Issued and fully paid:		
10,000,000	**14,753,306**	14,753,306

23 Reserves

	2013 $	2012 $
At beginning and end of year	**14,753,306**	14,753,306

Pursuant to Section 14 (1) of the Banking Act of 2006, the Group shall, maintain a general reserve fund which is not available for distribution by way of dividends equal to 100% of its paid up capital.

(expressed in Eastern Caribbean dollars)

24 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.

	2013 $	2012 $
Loan commitments	**7,713,000**	6,784,248
Guarantees and letters of credit	**1,412,665**	1,635,275
	9,125,665	8,419,523

25 Net interest income

	2013 $	2012 $
Interest income		
Loans and advances	**43,143,775**	40,538,963
Treasury bills and investment securities	**4,438,696**	5,623,574
Deposits with banks	**242,923**	184,839
	47,825,394	46,347,376
Interest expense		
Savings deposits	**8,598,612**	9,427,744
Time deposits	**7,957,512**	6,855,618
Demand deposits	**3,078,603**	2,521,827
Other borrowed funds	**2,041,189**	1,272,774
Correspondent banks	**208,521**	190,227
	21,884,437	20,268,190
Net interest income	**25,940,957**	26,079,186

(expressed in Eastern Caribbean dollars)

26 Net fee and commission income

	2013 $	2012 $
Credit relates fees and commissions	**6,623,709**	5,365,159

27 Dividend income

	2013 $	2012 $
Investment available for sale	**49,414**	113,517

28 Net foreign exchange trading income

	2013 $	2012 $
Foreign exchange		
Net realized gains	**5,160,986**	4,097,849
Net unrealized gains	**163,579**	7,155
	5,324,565	4,105,004

29 Other gains

	2013 $	2012 $
Fair value gain on investment property	**-**	629,599
Gain on restructuring of Investment	**-**	414,601
Gain from disposal of fixed asset	**105,505**	-
Loss on sale of Investment Properties	**(15,750)**	**-**
	89,755	1,044,200

(expressed in Eastern Caribbean dollars)

30 Operating expenses

	2013 $	2012 $
Employee benefit expense (Note 31)	**8,819,051**	8,737,501
Interest levy expense	**3,827,768**	4,054,172
Rent	**282,908**	280,159
Audit and accounting fees	**314,715**	372,784
Director fees	**254,722**	256,421
Computer expense	**21,418**	124,463
Insurance	**615,380**	859,303
Repairs and maintenance	**669,765**	519,059
Subscription and donations	**137,131**	225,683
Commission and fees	**779,860**	688,875
Depreciation (Note 14)	**2,888,364**	2,568,996
Utilities	**2,584,388**	2,446,675
Credit card expenses	**1,018,023**	923,464
Management fees	**1,146,162**	1,146,162
Advertisement and sponsorship	**435,278**	961,202
Legal and professional fees	**996,793**	1,215,558
Postage and stationary	**880,056**	1,003,131
Bank and other licences	**1,106,888**	950,638
Security	**503,133**	447,589
Other expenses	**2,133,465**	2,035,206
	29,415,268	29,817,041

31 Employee benefit expense

	2013 $	2012 $
Wages and salaries	**7,010,295**	6,942,375
Other staff cost	**1,525,777**	1,480,992
Pensions	**282,979**	314,134
	8,819,051	8,737,501

The number of employees at 31 December 2013 was 161 (2012 - 156).

(expressed in Eastern Caribbean dollars)

32 Recoveries of loans and advances, net

	2013 $	2012 $
(Provision)/recoveries against profit for the year	**(99,779)**	(1,506,595)
Amounts written off during the year as uncollectible	**(134,383)**	(101,407)
Recoveries of amounts previously written off	**1,429,924**	2,920,420
	1,195,762	1,312,418

33 Income tax expense

	2013 $	2012 $
Current tax	**753,237**	460,009
Deferred tax	**794,022**	844,438
	1,547,259	1,304,447

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:

	2013 $	2012 $
Profit before income tax	**9,037,994**	6,938,383
Tax calculated at the applicable tax rate of 32.5%	**2,937,346**	2,254,974
Tax effect of exempt income	**(1,446,826)**	(1,915,395)
Tax effect of expenses not deductible for tax purposes	**56,739**	964,868
	1,547,259	1,304,447

The Group has unutilised tax losses of $1,658,412 (2012 - $3,977,097) for which the deferred tax asset has been recognised as the Group is expected to generate future profits. Unutilized tax losses may be carried forward and deducted against 50 % of future taxable income within five years following the year in which the losses were incurred. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department.

(expressed in Eastern Caribbean dollars)

33 Income tax expense*...continued*

Tax losses of $1,194,422 and $463,990 expire in 2015 and 2016 respectively. There was no income tax effect relating to components of other comprehensive income.

34 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 2013 was $0.73 (2012 - $0.56).

35 Cash and cash equivalents

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

	2013 **$**	**2012** **$**
Cash and balances with Central Bank (Note 5)	**27,679,090**	24,675,000
Deposits with other banks (Note 7)	**69,426,904**	42,300,299
Financial assets held-for-trading (Note 8)	**45,518**	41,109
	97,151,512	67,016,408

36 Contingent liability

The Bank has received communication from a third party of an additional liability. The claim was referred to the Bank's professional advisors, who have advised that based on the facts; the Bank does not have an outstanding obligation.

37 Dividends

A final dividend of $0.40 per share was approved for the year ended 31 December 2013. These dividends have not been paid nor recorded as at the date of approval of these statements.