Bank of St. Vincent and the Grenadines Limited

Consolidated Financial Statements

For the year ended 31 December 2012
(Expressed in Eastern Caribbean Dollars)

Bank of St. Vincent and the Grenadines Limited

Index to the Financial Statements
For the Year ended 31 December 2012

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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 ("the Company")** which comprise the consolidated statement of financial position as of 31 December 2012 and the 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 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 Company as of 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters
The consolidated financial statements of Bank of St. Vincent and the Grenadines Limited for the year ended 31 December 2011 were audited by another auditor who expressed an unqualified opinion on those financial statements on 21 May 2012. Those financial statements have been restated as described in note 17.

Ernst & Young

CHARTERED ACCOUNTANTS
Barbados
14 June 2013

Bank of St. Vincent and the Grenadines Limited

Consolidated Statement of Financial Position

As at 31 December 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $ (As restated)	2010 $
Assets			
Cash and balances with Central Bank (Note 5)	**59,258,809**	45,047,725	124,148,387
Treasury bills (Note 6)	**4,633,348**	4,643,605	7,421,866
Deposits with other banks (Note 7)	**42,300,299**	26,609,618	51,080,097
Financial assets held for trading (Note 8)	**41,109**	40,271	41,652
Loans and receivables - loans and advances to customers (Note 9)	**526,815,064**	454,708,591	399,420,613
- bonds (Note 11)	**10,032,877**	10,514,894	27,088,767
Investment securities - held-to-maturity (Note 12)	**58,564,702**	76,878,402	61,303,167
- available-for-sale (Note 12)	**5,241,126**	5,180,822	4,043,181
Financial instruments - pledged assets	**-**	-	1,259,208
Property and equipment (Note 14)	**59,955,388**	57,436,607	25,893,332
Investment property (Note 15)	**4,437,000**	3,809,400	-
Other assets (Note 16)	**3,676,364**	7,586,658	6,111,052
Income tax recoverable	**3,112,387**	3,572,397	3,834,389
Deferred tax asset (Note 17)	**549,459**	1,393,897	2,010,808
Total assets	**778,617,932**	697,422,887	713,656,519
Liabilities			
Deposits from banks (Note 18)	**40,404,614**	17,082,484	27,315,765
Due to customers (Note 19)	**594,989,882**	543,854,979	557,629,290
Other funding Instruments	**-**	-	1,245,123
Borrowed funds (Note 20)	**30,850,840**	30,181,258	30,698,772
Other liabilities (Note 21)	**19,491,087**	15,516,898	10,404,355
Total liabilities	**685,736,423**	606,635,619	627,293,305
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	**1,860,347**	1,800,042	1,686,319
Retained earnings	**61,514,550**	59,480,614	55,170,283
Total equity	**92,881,509**	90,787,268	86,363,214
Total liabilities and equity	**778,617,932**	697,422,887	713,656,519

Approved by the Board of Directors on June 14th, 2013

Director   Director

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

Bank of St. Vincent and the Grenadines Limited

Consolidated Statement of Income

For the year ended 31 December 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $ (As restated)
Interest income (Note 25)	**46,347,376**	44,465,808
Interest expense (Note 25)	**(20,268,190)**	(20,504,576)
Net interest income	**26,079,186**	23,961,232
Net fee and commission income (Note 26)	**5,365,159**	4,148,814
Dividend income (Note 27)	**113,517**	58,354
Net foreign exchange trading income (Note 28)	**4,105,004**	3,947,254
Other gains (Note 29)	**1,044,200**	-
Operating expenses (Note 30)	**(29,817,041)**	(28,751,282)
Impairment losses on investment securities	**(1,264,060)**	(1,748,198)
Recoveries of loans and advances, net (Note 32)	**1,312,418**	3,573,060
Income before income tax	**6,938,383**	5,189,234
Income tax expense (Note 33)	**(1,304,447)**	(878,903)
Income for the year	**5,633,936**	4,310,331
Earnings per share (Note 34)	**0.56**	0.49

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

Bank of St. Vincent and the Grenadines Limited

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $ (As restated)
Income for the year	**5,633,936**	4,310,331
Other comprehensive income		
Unrealised gains on available- for- sale securities	**60,305**	113,723
Total comprehensive income for the year	**5,694,241**	4,424,054

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 2012

(expressed in Eastern Caribbean dollars)

	Share capital (Note 22) $	Other Reserves (Note 23) $	Unrealised gains on investments $	Retained Earnings $	Total $
Balance at 1 January 2011	**14,753,306**	**14,753,306**	**1,686,319**	**55,170,283**	**86,363,214**
Total comprehensive income (as restated)	–	–	113,723	4,310,331	4,424,054
Balance at 31 December 2011 (as restated)	**14,753,306**	**14,753,306**	**1,800,042**	**59,480,614**	**90,787,268**
Balance at January 1, 2012 (as previously reported)	**14,753,306**	**14,753,306**	**1,800,042**	**60,096,046**	**91,402,700**
Prior Period Adjustment (Note 17)	–	–	–	(615,432)	(615,432)
Balance as at January 1, 2012 (as restated)	**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	-	-	-	(3,600,000)	(3,600,000)
At December 31, 2012	**14,753,306**	**14,753,306**	**1,860,347**	**61,514,550**	**92,881,509**

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

Bank of St. Vincent and the Grenadines Limited

Consolidated Statement of Cash Flows

As at 31 December 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Cash flows from operating activities		
Income before income tax	**6,938,383**	5,189,234
Adjustments for:		
Interest income (Note 25)	**(46,347,376)**	(44,465,808)
Interest expense (Note 25)	**20,268,190**	20,504,576
Impairment on investments	**1,264,060**	1,748,198
Impairment losses on loans and advances	**1,506,595**	(746,102)
Depreciation (Notes 14 and 26)	**2,568,996**	1,915,014
Net foreign exchange trading income	**(4,105,004)**	(3,947,254)
Fair value gains on investment property	**(629,599)**	–
Gain on disposal of property and equipment	**(298)**	–
Cash flows before changes in operating assets and liabilities	**(18,536,053)**	(19,802,142)
(Increase)/decrease in mandatory deposits with Central Bank	**(5,807,819)**	4,635,095
Increase in loans and advances to customers	**(72,923,641)**	(54,127,598)
Decrease/(increase) in other assets	**3,910,293**	(1,475,606)
Redemption of treasury bills	–	2,902,911
Redemption of investment securities	**20,316,399**	32,267,659
Purchase of investment securities	**(4,281,835)**	(32,970,718)
Decrease in pledged assets	–	1,270,564
Increase/(decrease) in due to customers	**54,956,024**	(11,109,296)
Increase/(decrease) in deposits from banks	**23,322,130**	(10,233,281)
Decrease in other funding instruments	–	(1,245,123)
Increase in other liabilities	**3,974,189**	5,112,543
Net cash generated from/(used in) operations	**4,929,687**	(84,774,992)
Interest received	**47,165,301**	42,845,105
Interest paid	**(19,995,113)**	(19,241,345)
Net cash generated from/(used in) operating activities	**32,099,875**	(61,171,232)
Cash flows from investing activities		
Proceeds from sale of investment property	**1,999**	(3,809,400)
Purchase of property and equipment	**(8,522,369)**	(33,458,289)
Transfer of property and equipment	**3,434,590**	–
Proceeds from disposal of property and equipment	**300**	–
Net cash used in investing activities	**(5,085,480)**	(37,267,689)

Bank of St. Vincent and the Grenadines Limited
Consolidated Statement of Cash Flows...*continued*
As at 31 December 2012
(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Cash flows from financing activities		
Dividends paid	**(3,600,000)**	–
Repayment of borrowings	**(2,174,514)**	(2,393,002)
Proceeds from borrowings	**2,854,903**	1,894,496
Net cash used in financing activities	**(2,919,611)**	(498,506)
Net increase/(decrease) in cash and cash equivalents	**24,094,784**	(98,937,427)
Cash and cash equivalents at beginning of year	**42,921,624**	141,859,051
Cash and cash equivalents at end of year (Note 31)	**67,016,408**	42,921,624

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

(expressed in Eastern Caribbean dollars)

1 General information

Bank of St. Vincent and the Grenadines Limited (the Bank), (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 form "the Group" which is a 51% subsidiary of ECFH, 40% owned by the Government, 8.04% owned by the National Insurance Services and 0.96% owned by the staff as at 31 December 2012.

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

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

2 Summary of significant accounting policies

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

Basis of preparation

The consolidated financial statements of the Bank of St. Vincent and the Grenadines Ltd. have been prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets held at fair value through profit or loss classified in the statement of financial position as financial assets held for trading.

The preparation of consolidated 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.

(a) Standards and amendments effective and relevant to the Group

The accounting policies adopted are consistent with those of the previous financial year.

The Company has adopted IFRS 7 Financial instruments: disclosures (amended) which was required for annual years beginning after 1 July 2011.

Adoption of this revised standard did not have any effect on the financial performance or position of the Company.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies …*continued*

Revised standard effective and relevant to the Group

(b) Standards and interpretations not yet adopted
Certain new standards and amendments to existing standards have been published that are mandatory for the Bank's accounting years beginning on or after 1 January 2013. Of these, the following are relevant to the Bank but have not been adopted:

- IAS 1 Presentation of items of other comprehensive income – amendments to IAS 1 July 2012
- IAS 19 Employee Benefits (revised) 1 January 2013
- IFRS 7 Financial Instruments: Disclosures (Amendments) Offsetting Financial Assets and Financial Liabilities 1 January 2013
- IFRS 9 Financial Instruments part 1: Classification and Measurement 1 January 2015
- IFRS 10 Consolidated Financial Statements 1 January 2013
- IFRS 11 Joint Arrangements 1 January 2013
- IFRS 12 Disclosure of Interests in Other Entities 1 January 2013
- IFRS 13 Fair Value Measurements 1 January 2013
- IAS 27 Investment Entities (Amendments) 1 January 2014

The amendment to IAS 1 changes the grouping of items presented in other comprehensive income, separating items that would be reclassified (or recycled) to the statement of income in the future from those that will never be reclassified.

IAS 19 (revised) removes the ability to defer recognition of actuarial gains and losses (the 'corridor approach') requiring instead recognition in other comprehensive income with no subsequent recycling to the statement of income. It also introduces new quantitative and qualitative disclosures.

The amendments to IFRS 7 require an entity to disclose information about rights of set-off and related arrangements (e.g. collateral agreements).

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets.

IFRS 10 includes a new definition of control, which is used to determine which entities are consolidated.

IFRS 11 describes the accounting for joint arrangements with joint control; proportionate consolidation is not permitted for joint ventures (as newly defined).

IFRS 12 includes all of the disclosure requirements for subsidiaries, joint arrangements, associates, and structured entities.

IFRS 13 provides a single source of guidance under IFRS for all fair value measurements.

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.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies …*continued*

Revised standard effective and relevant to the Group… *continued*

(c) Early adoption of standards
The Group did not early-adopt any new or amended standards in 2012

Consolidation
The financial statements its subsidiary 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 2012.

Subsidiaries
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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 cost of an investment is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

Cash and cash equivalents
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 as disclosed in Note 5.

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.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Financial assets…*continued*

(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 assets held for trading consist of money-market paper. They are recognised in the statement of financial position as ‘Financial assets held for trading’.

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 de-recognition.

(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: (a) those that the Group upon initial recognition designates as at fair value through profit or loss; (b) those that the Group designates as available for sale; and (c) those that meet the definition of loans and receivables. These are initially recognised at fair value including direct and incremental transaction costs (b) and measured subsequently at amortised cost, using the effective interest method. Interest on held-to-maturity investments is 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 investment and recognised in the statement of income.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Financial assets…*continued*

(c) Held-to-maturity...continued
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.

(d) Available-for-sale financial assets
Available-for-sale investments are financial assets that are intended to be held for an indefinite year 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. 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. However, 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 income statement. Dividends on available-for-sale equity instruments are recognised in the statement of income when the Group's right to receive payment is established.

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Impairment of financial assets

<u>Assets carried at amortised cost</u>
The Group assesses at each statement of financial position 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. Objective evidence that a financial asset or group of asset is impaired includes observable data that comes to the attention of the Group about the following loss events:

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Impairment of financial assets…*continued*

Assets carried at amortised cost...*continued*
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 twelve months; in exceptional cases, longer periods are warranted.

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

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

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. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using the observable market price.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group’s grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets within credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Impairment of financial assets…*continued*

Assets carried at amortised cost...*continued*
Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses to the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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 carried at fair value
The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income, if any.

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.

Impairment of other non-financial assets
Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*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.

Sale and repurchase agreements
Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right to contract or custom to sell or re pledge the collateral; the counterparty liability is included in other funding instruments in the statement of financial position. Securities purchased under agreements to resell ('reverse repos') are recorded as advances to other banks or customers. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreement using the effective interest method.

Investment property
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 Group and the cost can be measured reliably. This is usually the day when all risks are transferred. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the cost of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the statement of financial position. Gains or losses arising from changes in the fair value of investment properties are included in the statement of comprehensive income in the year in which they arise.

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 operations during the financial year in which they are incurred.

The fair value of the investment property is based on the nature, location and condition of the specific asset. The fair value of an investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure. These valuations are performed annually be external appraisers.

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.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

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

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 income.

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

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 or to equity.

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, other funding instruments and borrowed funds.

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 for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Guarantees and letters of credit...*continued*
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. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the statement of income within other operating expenses.

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

Dividend distribution
Dividends on ordinary shares are recognised in equity in the year in which they are approved by the Group's shareholders.

Interest income and expense
Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the statement of income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant year. 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.

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. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Dividend income
Dividend income from available-for-sale equities is recognised when the right to receive payment is established.

Foreign currency translation

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

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed 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 are recognised in equity.

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.

Employee benefits

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

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

Comparatives
Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

(expressed in Eastern Caribbean dollars)

3 Financial risk management

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 and other price risk.

Credit risk

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

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets.

<u>Loans and advances</u>

The Group takes on exposure to credit risk which, is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the 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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Credit risk measurement – debt securities and other bills
For debt securities and other bills external rating such as Standard & Poor's or their equivalents are used by Group Treasury 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.

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.

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 geographical and 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. Limits on the level of credit risk by product, and industry sector are approved annually by the Assets and Liabilities Committee (ALCO).

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-statement of financial position exposures, and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored.

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

Some other specific control and mitigation measures are outlined below.

(a) 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, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Risk limit control and mitigation policies…*continued*

(b) Credit-related commitments
The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the 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 collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the 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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Impairment and provisioning policies
Quarterly loan portfolio reviews formed the basis for the Bank's impairment assessment and provisioning policies. The provisioning criteria are 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 before collateral held or other credit enhancements

Credit risk exposures relating to on-statement of financial position assets are as follows:

	Maximum exposure	
	2012	**2011**
	$	**$**
Cash balance with Central Bank	**34,583,809**	28,775,990
Treasury bills	**4,633,348**	4,643,605
Deposits with other banks	**42,300,299**	26,609,618
Trading assets		
− Debt securities	**41,109**	40,271
Loans and advances to customers:		
− Overdrafts	**60,176,506**	40,908,960
− Term loans	**95,807,120**	85,419,408
− Corporate loans	**148,678,550**	132,506,882
− Mortgage loans	**219,822,702**	193,706,834
− Credit cards	**2,330,186**	2,166,507
Bonds	**10,032,877**	10,514,894
Held to maturity debt securities	**58,564,702**	76,878,402
Available for sale equity securities	**5,241,126**	5,180,822
Other assets	**2,840,115**	6,860,493
	685,052,449	614,212,686
Credit risk exposures relating to off-statement of financial position items:		
Guarantees and letters of credit	**1,635,275**	921,800
Loan commitments	**6,784,248**	6,496,122
Other contingent liabilities (Note 24)	**-**	-
	8,419,523	7,147,922
	693,471,972	621,630,608

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2012 and December 2011, without taking account of any collateral held or other credit enhancements attached. For on-statement of financial position assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 74% (2011 - 71%) of the total maximum exposure is derived from loans and advances to customers; 9.67% (2011 - 13.67%) represents investments in debt securities.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

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

	2012 $	2011 $
Neither past due nor impaired	**433,719,531**	350,695,308
Past due but not impaired	**64,327,311**	75,426,632
Impaired	**35,071,596**	33,619,665
Gross	**533,118,438**	459,741,605
Less allowance for impairment losses on loans and advances to customers	**(6,303,374)**	(5,033,014)
Net	**526,815,064**	454,708,591

The total impairment provision for loans and advances to customers is $6,303,374 (2011 – $5,033,014) of which $4,641,568 (2011 – $4,487,016) represents the individually impaired loans and the remaining amount of $1,661,806 (2011 – $545,998) 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.

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

	Overdrafts $	Term loans $	Mortgage Loans $	Large Corporate Loans $	Credit Cards $	Total $
31 December 2012	**60,358,118**	**63,964,685**	**180,809,615**	**126,829,650**	**1,757,463**	**433,719,531**
31 December 2011	40,958,095	60,414,546	151,165,240	96,685,893	1,471,534	350,695,308

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Loans and advances…*continued*

(b) Loans and advances to customers past due but not impaired
Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. 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 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**
At 31 December 2011					
Past due up to 30 days	12,728,285	22,274,132	13,612,580	406,485	49,021,482
Past due 30 - 60 days	2,048,775	6,378,519	4,080,153	64,503	12,571,950
Past due 60 - 90 days	1,434,813	3,050,591	9,326,445	21,351	13,833,200
	16,211,873	**31,703,242**	**27,019,178**	**492,339**	**75,426,632**

(c) Loans and advances to customers individually impaired
The table below shows the individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held.

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

	Over-drafts $	Term loans $	Mortgage loans $	Large corporate loans $	Credit cards $	Total $
31 December 2012	**312,650**	**11,923,605**	**11,606,090**	**11,115,534**	**113,717**	**35,071,596**
31 December 2011	141,458	10,629,468	12,591,150	10,054,955	202,634	33,619,665

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Credit risk…*continued*

Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at 31 December 2012 and 2011, 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 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**
At 31 December 2011					
AA- to AA+	8,733,690	-	-	-	8,733,690
A- to A+	-	-	-	-	-
Lower than A-	25,031,930	-	-	-	25,031,930
Unrated	43,112,783	5,180,821	40,271	10,514,894	58,848,769
	78,878,403	5,180,821	40,271	10,514,984	92,614,389

Repossessed collateral

At the end of 31 December 2012 and 31 December 2011 the Group had no repossessed collateral.

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 county of domicile of its counterparties and the exposure to credit risk is concentrated in this area.

(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	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	–	–	–	–	–	218,828,621	994,081	219,822,702
- 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	**132,403,453**	**7,907,450**	**16,654,501**	**140,589,240**	**15,681,301**	**323,097,336**	**73,394,168**	**709,727,449**
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
Financial assets								
At 31 December 2011	**110,796,811**	**7,770,704**	**15,872,148**	**123,179,066**	**15,841,248**	**283,966,132**	**73,784,477**	**631,210,586**
Credit risk – off statement of financial position items								
Guarantees, letters of credit, loan commitments and other credit related obligations	–	–	**1,100,000**	–	–	**5,496,122**	**821,800**	**7,417,922**

(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 exposures to market risks arise from its non-trading portfolios.

The market risks arising from trading and non-trading activities are regularly reported to the Assets and Liabilities Committee (ALCO).

Trading portfolios include those positions arising from market-making transactions where the Group acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the Group's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of equity risks arising from the Group's 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. The following table summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2012 and 31 December 2011.

(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**
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:	526,815,064	–	–	–	–	–	–	526,815,064
– loans and advances to customers								
– 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	651,639,142	48,967,541	1,723,401	3,251,255	1,673,798	2,297,635	174,677	709,727,449

(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								
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	13,947,510	16,903,330	–	–	–	–	–	30,850,840
Other liabilities	19,491,087	–	–	–	–	–	-	19,491,087
Total financial liabilities	634,041,267	45,786,718	–	2,540,102	952,416	2,415,920	–	685,736,423
Net on-statement of financial position financial Position	**17,597,875**	**3,180,823**	**1,723,401**	**711,153**	**721,382**	**(118,285)**	**174,677**	**23,991,026**
Credit commitments	**6,784,248**	–	–	–	–	–	–	**6,784,248**

(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								
At 31 December 2011								
Financial assets								
Cash and balances with Central Bank	42,807,987	1,196,030	258,671	368,265	148,645	268,127	–	45,047,725
Treasury bills	4,643,605	–	–	–	-	-	–	4,643,605
Deposits with other banks	12,436,833	10,958,760	8,551	1,493,815	788,092	871,838	51,729	26,609,618
Financial assets held for trading	–	–	–	40,271	–	–	–	40,271
Loans and receivables:								
– loans and advances to customers	454,708,591	–	–	–	–	–	–	454,708,591
– bonds	10,514,894	–	–	–	–	–	–	10,514,894
Investment securities:								
– held-to-maturity	47,452,687	29,425,715	–	–	–	–	–	76,878,402
– available-for-sale	3,047,833	1,150,141	978,750	4,098	–	–	–	5,180,822
Other assets	7,586,658	–	–	–	–	–	–	7,586,658
Total financial assets At 31 December 2011	583,199,088	42,730,646	1,245,972	1,906,449	936,737	1,139,965	51,729	631,210,586

(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								
Financial liabilities								
Deposits from banks	17,082,484	–	–	–	–	–	–	17,082,484
Due to customers	508,037,314	32,985,672	–	1,053,361	310,310	1,468,322	–	543,854,979
Borrowed funds	14,552,335	15,628,923	–	–	–	–	–	30,181,258
Other liabilities	15,516,898	–	–	–	–	–	–	15,516,898
Total financial liabilities	555,189,031	48,614,595	–	1,053,361	310,310	1,468,322	–	606,635,619
Net on-statement of financial position financial Position	28,010,057	(5,883,949)	1,245,972	853,088	626,427	(328,357)	51,729	24,574,967
Credit commitments	6,496,122	–	–	–	–	–	–	6,496,122

(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 repricing that may be undertaken.

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 repricing or maturity dates.

(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 $
Concentrations of financial assets and financial liabilities							
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	24,584,587	51,112,201	11,730,201	57,822,116	381,565,959	–	526,815,064
– bonds	–	–	–	–	10,032,877	–	10,032,877
Investment securities:							
– held-to-maturity	10,952,014	3,761,409	7,722,563	17,485,158	17,657,968	985,590	58,564,702
– available for sale	–	–	–	–	–	5,241,126	5,241,126
Other assets	–	–	–	–	–	2,840,115	2,840,115
Total financial assets	37,737,947	55,310,384	27,124,505	75,307,274	409,256,804	104,990,535	709,727,449
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	504,661	134,181	1,882,361	6,466,865	21,862,772	–	30,850,840
Other liabilities	–	–	–	–	–	19,491,087	19,491,087
Total financial liabilities	359,811,108	88,739,981	66,857,415	6,466,865	21,862,772	141,998,282	685,736,423
Net interest re-pricing gap	**(322,073,161)**	**(33,429,597)**	**(39,732,910)**	**68,840,409**	**387,394,032**	**(37,007,747)**	**23,991,026**

(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 $
Concentrations of financial assets and financial liabilities							
At 31 December 2011							
Financial assets							
Cash and balances with Central Bank	–	–	–	–	–	45,047,725	45,047,725
Treasury bills	–	–	4,643,605	–	–	–	4,643,605
Deposits with other banks	–	422,534	2,956,336	–	–	23,230,748	26,609,618
Financial assets held for trading	–	–	–	40,271	–	–	40,271
Originated loans:							
– loans and advances to customers	52,452,583	3,641,411	6,898,799	58,557,698	333,158,100	–	454,708,591
– bonds	–	–	–	–	10,514,894	–	10,514,894
Investment securities:							
– held-to-maturity	22,813,451	–	3,339,773	26,436,608	24,288,570	–	76,878,402
– available for sale	–	–	–	–	–	5,180,822	5,180,822
Other assets	–	–	–	–	–	7,586,658	7,586,658
Total financial assets	75,266,034	4,063,945	17,838,513	85,034,577	367,961,564	81,045,953	631,210,586
Financial liabilities							
Deposits from banks	10,366,942	6,715,542	–	–	–	–	17,082,484
Due to customers	343,199,020	69,523,785	46,168,873	–	–	84,963,301	543,854,979
Borrowed funds	515,468	213,288	1,568,803	6,898,420	20,985,279	–	30,181,258
Other liabilities	–	–	–	–	–	15,516,898	15,516,898
Total financial liabilities	354,081,430	76,452,615	47,737,676	6,898,420	20,985,279	100,480,199	606,635,619
Net interest re-pricing gap	(278,815,396)	(72,388,670)	(29,899,163)	78,136,157	346,976,285	(19,434,246)	24,574,967

(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$ %	US$ %	EURO€ %
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	**5.74**	**3.76**	–
Deposits from banks	**4.20**	–	–
As at 31 December 2011			
Assets			
Treasury bills	5.60	–	–
Deposits with other banks	4.79	0.30	–
Loans and receivables:			
- loans and advances to customers	8.91	–	–
- bonds	7.50	–	–
Investment securities:	5.73	7.65	–
- held-to-maturity			
Liabilities			
Due to customers	3.48	2.81	0.38
Borrowed funds	5.74	3.76	–
Deposits from Banks	4.75	–	–

Sensitivity analysis

Cash flow interest rate risk arises from loans and advances to customers and borrowings at variable rates. At 31 December 2012, 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 $2,637,608 (2011 - $2,249,815) higher/lower.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

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.

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 statement of financial position 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 $	1-3 Months $	3-12 Months $	1-5 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	601,533	334,344	3,058,410	11,276,776	29,008,068	44,279,131
Other liabilities	19,491,087	–	–	–	–	19,491,087
Total financial liabilities	**526,068,016**	**66,117,914**	**119,504,324**	**11,276,776**	**29,008,068**	**751,975,098**
As at 31 December 2011						
Financial liabilities						
Deposits from banks	10,388,113	6,799,255	–	–	–	17,187,368
Due to customers	429,260,415	72,170,347	46,909,149	–	–	548,339,911
Borrowed funds	666,940	422,001	2,613,767	11,749,496	28,759,725	44,211,929
Other liabilities	15,516,898	–	–	–	–	15,516,898
Total financial liabilities	455,832,366	79,391,603	49,522,916	11,749,496	28,759,725	625,256,106

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

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 $	1-5 Years $	Total $
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**
At 31 December 2011			
Loan commitments	–	6,496,122	6,496,122
Guarantees and letters of credit	921,800	–	921,800
Total	921,800	6,496,122	7,417,922

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.

Loans and advances to customers
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.

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

Due to other banks and customers, other deposits and borrowings
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 values.

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**	
	2012 $	**2011 $**	**2012 $**	**2011 $**
Financial assets				
Loans and advances to customers:				
− Term loans	**95,807,120**	85,419,408	**78,558,062**	70,827,297
− Large corporate loans	**148,678,550**	132,506,882	**123,408,011**	107,983,337
− Mortgage loans	**219,822,702**	193,706,834	**158,548,003**	140,117,664
− Overdrafts	**60,176,506**	40,908,960	**60,176,507**	43,100,207
− Bonds	**10,032,877**	10,514,894	**9,017,708**	8,781,580
Investment securities:				
− Held-to-maturity	**58,564,702**	76,878,402	**62,916,629**	82,361,496
Financial liabilities				
Deposits from banks	**40,404,614**	17,082,484	**40,404,614**	17,082,484
Customer deposits	**594,989,882**	543,854,979	**594,989,882**	543,854,979
Borrowed funds	**30,850,840**	30,181,258	**31,021,850**	30,042,438

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 financial 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 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**
31 December 2011			
Financial assets held for trading			
- Debt securities	–	40,271	40,271
Financial assets available for sale			
- Equity securities	978,750	4,202,072	5,180,822
Total financial assets	978,750	4,242,343	5,221,093

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- 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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

Fair value hierarchy…*continued*

The following table presents the changes in level 3 instruments for the year ended 31 December 2012 and 2011.

	Financial assets Held for trading Debt Securities $	Financial assets Available for sale Equity Securities $	Total $
At 1 January 2012	40,271	3,051,931	**3,092,202**
Currency revaluation	838	–	**838**
At 31 December 2012	**41,109**	**3,051,931**	**3,093,040**

Assets and liabilities measured at fair value:

	Financial assets Held for trading Debt securities $	Financial assets Available for sale Equity securities $	Total $
At 1 January 2011	41,652	3,131,931	3,173,583
Currency revaluation	(1,381)	–	(1,381)
Settlements	–	(80,000)	(80,000)
At 31 December 2011	40,271	3,051,931	3,092,202

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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

Capital management…*continued*

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: (a) hold the minimum level of the regulatory capital to the risk-weighted asset (the 'Basel capital adequacy ratio') at or above the internationally agreed minimum of 8%.

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

- Tier 1 capital: share capital (net of any book values of the treasury shares), minority interests arising on consolidation from interests in permanent 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).

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 2012 and year ended 31 December 2011. 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*

	2012 $	2011 $ (As restated)
Tier 1 capital		
Share capital	**14,753,306**	14,753,306
Statutory reserve	**14,753,306**	14,753,306
Retained earnings	**62,631,178**	60,096,046
Total qualifying Tier 1 capital	**92,137,790**	89,602,658
Tier 2 capital		
Revaluation reserve – available-for-sale investments	**1,860,347**	1,800,042
Collective impairment allowance	**1,661,806**	545,998
Total qualifying Tier 2 capital	**3,522,153**	2,346,040
Total regulatory capital	**95,659,943**	91,948,698
Risk-weighted assets:		
On-statement of financial position	**449,148,000**	409,080,000
Total risk-weighted assets	**449,148,000**	409,080,000
Basel capital adequacy ratio	**21%**	22%

(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.

Impairment losses on loans and advances to customers
The Group reviews its loan portfolio to assess impairment at least quarterly. 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 $ 1,089,261/$476,363 (2011 - 298,755/$611,176) 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 fair 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 $4,351,927 (2011 - $4,332,953) with a corresponding entry in the fair value reserve in equity.

During the year, the Government of St. Kitts and Nevis asked its bondholders to accept a debt restructuring proposal. This proposal involved bondholders accepting new bonds of a lower value than the original bonds and therefore required the Bank to make an accounting provision for the resultant impairment of its original investment. The Bank used discounted cash flow methodology to calculate the provision required. This calculation involved the use of various estimates to arrive at a net present value of the future cash flows expected to arise from ownership of the new bonds.

(expressed in Eastern Caribbean dollars)

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

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

To the extent that the net present value of the estimated cash flows differs by +/- 5% the provision would be estimated at $57,410 lower or higher.

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 2012 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

	2012 **$**	**2011** **$**
Cash in hand	**24,612,762**	16,209,497
Balances with Central Bank other than mandatory reserve deposits	**62,238**	62,238
Included in cash and cash equivalents (Note 36)	**24,675,000**	16,271,735
Mandatory reserve deposits with Central Bank	**34,583,809**	28,775,990
	59,258,809	45,047,725

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

	2012 $	2011 $
Treasury bills – more than 90 days to maturity	**4,633,348**	4,643,605

Treasury bills are debt securities issued by the Governments of Saint Lucia, for terms of three months to five years.

The weighted average effective interest rate on treasury bills at 31 December 2012 was 5.60% (2011 - 5.60%).

7 Deposits with other banks

	2012 $	2011 $
Items in the course of collection with other banks	**9,013,385**	7,540,490
Placements with other banks	**27,651,510**	15,690,258
Interest bearing deposits	**5,635,404**	3,378,870
Included in cash and cash equivalents (Note 36)	**42,300,299**	26,609,618

The weighted average effective interest rate in respect of interest bearing deposits at 31 December 2012 was 3.97% (2011 - 2.99%)

8 Financial assets held for trading

	2012 $	2011 $
Debt securities	**41,109**	40,271

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.

(expressed in Eastern Caribbean dollars)

9 Loans and advances to customers

	2012 $	2011 $
Large corporate loans	**150,686,271**	133,760,026
Mortgage loans	**221,473,776**	195,459,632
Term loans	**97,845,651**	87,255,887
Credit cards	**2,440,233**	2,166,507
Overdrafts	**60,672,507**	41,099,553
Gross	**533,118,438**	459,741,605
Less allowance for impairment losses on loans and advances (Note 10)	**(6,303,374)**	(5,033,014)
Net	**526,815,064**	454,708,591

The weighted average effective interest rate on productive loans stated at amortised cost at 31 December 2012 was 9% (2011 - 9.58%) and productive overdrafts stated at amortised cost was 9.69% (2011 – 10.21%).

(expressed in Eastern Caribbean dollars)

10 Allowance for impairment losses on loans and advances

The movement on the provision by class was as follows:

	2012 $	2011 $
Large corporate loans		
At beginning of year	**1,253,144**	2,933,563
Increase/(decrease) in provision for loan impairment	**663,721**	(880,497)
Written-back/(off) during the year as uncollectible	**90,857**	(799,922)
At end of year	**2,007,722**	1,253,144
Mortgages		
At beginning of year	**1,752,798**	2,323,842
Increase in provision for loan impairment	**272,281**	64,730
Written-off during the year as uncollectable	**(374,005)**	(635,774)
At end of year	**1,651,074**	1,752,798
Term loans		
At beginning of year	**1,836,479**	2,421,240
Increase in provision for loan impairment	**280,186**	69,665
Written-off during the year as uncollectible	**(78,134)**	(654,426)
At end of year	**2,038,531**	1,836,479
Overdrafts		
At beginning of year	**190,593**	344,830
Increase in provision for loan impairment	**180,360**	–
Written-back/(off) during the year as uncollectible	**125,047**	(154,237)
At end of year	**496,000**	190,593
Credit Cards		
At beginning of year	–	–
Increase in provision for loan impairment	**110,047**	–
At end of year	**110,047**	–
Total	**6,303,374**	5,033,014

(expressed in Eastern Caribbean dollars)

11 Loans and receivables – bonds

	2012 $	2011 $
Government bonds	**10,032,877**	10,514,894

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 2012 on Government bonds at amortised cost was 7.50 % (2011 – 7.50%)

12 Investment securities

	2012 $	2011 $
Securities held-to-maturity		
Debt securities at amortised costs		
- Unlisted	**42,490,677**	59,244,076
- Listed	**18,388,762**	20,433,201
	60,879,439	79,677,277
Less allowance for impairment	**(2,314,737)**	(2,798,875)
	58,564,702	76,878,402
Securities available for sale		
Listed equity securities	**2,189,195**	978,750
Unlisted equity securities	**3,051,931**	4,202,072
	5,241,126	5,180,822
Total investment securities	**63,805,828**	82,059,224
Current	**22,435,986**	24,113,111
Non-current	**41,369,842**	57,946,113
	63,805,828	82,059,224

The weighted average effective interest rate on securities held-to-maturity stated at amortised cost at 31 December 2012 was 6.63% (2011 – 6.48%).

(expressed in Eastern Caribbean dollars)

12 Investment securities...*continued*

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

	Held-to-maturity $	Available for sale $	Held for trading $	Loans and receivables -bonds $	Total $
At 1 January 2012	76,878,403	5,180,821	40,271	10,514,894	92,614,389
Additions	2,083,741	–	–	32,877	3,266,758
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**
At 1 January 2011	61,303,167	4,043,181	41,652	27,088,767	92,476,767
Additions	33,615,010	1,150,140	–	426,127	35,191,278
Currency revaluation	–	–	(1,381)	–	(1,381)
Disposals (sale and redemption)	(15,187,659)	(80,000)	–	(17,000,000)	(32,267,659)
Impairment loss	(1,748,198)	–	–	–	(1,748,198)
Reclassification	(1,150,140)	–	–	–	(1,150,140)
Gains from change in fair value	46,223	67,500	–	–	113,723
At 31 December 2011	76,878,403	5,180,821	40,271	10,514,894	92,614,389

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:

	2012 $	2011 $
Bank of Saint Lucia Limited		
Due from banks	**3,834,434**	1,593,750
Due to banks	**5,870,504**	6,715,541
	9,704,938	8,309,291
Eastern Caribbean Amalgamated Bank Limited		
Due from banks	**434,530**	419,866
Due to banks	**7,182,423**	–
Available for sale investments	**1,920,000**	1,920,000
	9,536,953	2,339,866
Eastern Caribbean Financial Holding Company Limited		
Held to maturity investment	**1,350,000**	1,620,000

Transactions carried out with related parties:

	2012 $	2011 $
Income		
Interest income	**263,985**	252,699
Expenses		
Interest expense	**541,349**	325,939
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:

	2012		2011	
	Loans $	**Deposits $**	**Loans $**	**Deposits $**
Government of St Vincent and the Grenadines	**96,243,360**	**80,873,523**	75,276,626	75,779,626
Statutory bodies	**5,595,182**	**60,219,197**	1,773,459	95,671,791
	101,838,542	**141,092,720**	77,050,085	171,451,417
Directors and key management	**1,601,500**	**430,143**	1,912,261	484,140
	103,440,042	**141,522,863**	78,962,346	171,935,557

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 seven (7) years and have a weighted average effective interest rates of 4.75% (2011 – 4.55%)

Interest income and interest expense with other related parties:

	2012		2011	
	Income $	**Expenses $**	**Income $**	**Expenses $**
Government of St. Vincent and the Grenadines	**7,246,911**	**3,436,857**	2,340,383	2,919,491
Statutory bodies	**258,238**	**2,409,036**	4,445,977	4,025,148
Directors and key management	**78,657**	**15,691**	55,912	19,408

Key management compensation

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

	2012 $	**2011 $**
Key management compensation		
Salaries and other short-term benefits	**1,017,100**	950,766
Pension cost	**40,291**	38,542
	1,057,391	989,308

(expressed in Eastern Caribbean dollars)

14 Property and equipment

	Land and building $	Leasehold Improvements $	Office Furniture & Equipment $	Work in Progress $	Computer Equipment & Software $	Motor Vehicles $	Total $
Year ended 31 December 2011							
Opening net book amount	19,954,182	270,648	3,095,781	1,529,446	813,514	229,761	25,893,332
Additions	26,759,221	108,175	1,898,759	3,441,098	1,251,036	–	33,458,289
Transfers	–	–	39,779	(39,779)	–	–	-
Depreciation charge (Note 26)	(518,947)	(90,334)	(778,359)	–	(396,992)	(130,382)	(1,915,014)
Closing net book amount	46,194,456	288,489	4,255,960	4,930,765	1,667,558	99,379	57,436,607
At 31 December 2011							
Cost	46,986,231	1,459,547	9,664,812	4,930,765	7,542,500	913,572	71,497,427
Accumulated depreciation	(791,775)	(1,171,058)	(5,408,852)	–	(5,874,942)	(814,193)	(14,060,820)
Net book amount	46,194,456	288,489	4,255,960	4,930,765	1,667,558	99,379	57,436,607
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 (Note 26)	(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

(expressed in Eastern Caribbean dollars)

15 Investment property

	2012 $	2011 $
Cost at 1 January	**3,809,400**	3,809,400
Book value at 1 January	**3,809,400**	3,809,400
Disposal	**(1,999)**	–
Fair value gains	**629,599**	–
Book value at 31 December	**4,437,000**	3,809,400

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

16 Other assets

	2012 $	2011 $
Other receivables	**2,840,115**	6,860,493
Prepaid expenses	**836,249**	726,165
	3,676,364	7,586,658

17 Deferred tax asset

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

	2012 $	2011 $ (As restated)	2010 $
At beginning of year	**1,393,897**	2,010,808	2,393,195
Current year charge (Note 29)	**(844,438)**	(616,911)	(382,387)
At end of year	**549,459**	1,393,897	2,010,808

The deferred tax asset account is detailed below:

	2012 $	2011 $	2010 $
Unutilised tax losses and general provisions	**1,292,557**	1,752,565	1,777,609
Temporary differences on capital assets	**(743,098)**	(358,668)	233,199
	549,459	1,393,897	2,010,808

(expressed in Eastern Caribbean dollars)

17 Deferred tax asset*…continued*

The 2011 comparative figure was restated to correct an error in the calculation of the temporary timing differences and of the losses available for offset against future tax liabilities. The total impact of the restatement was to reduce the deferred tax asset as at 31 December 2011 by $615,432.

Deferred income taxes are calculated on all temporary differences under the liability method using the effective tax rate of 32.5%.

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.

18 Deposits from banks

	2012 **$**	**2011** **$**
Deposits from other banks	**40,404,614**	17,082,484

Interest rates range from 3.5% to 5.0% (2011– 3.5% to 5.5%).

19 Due to customers

	2012 **$**	**2011** **$**
Term deposits	**156,236,620**	136,849,044
Saving deposits	**266,895,106**	264,566,047
Demand deposits	**171,858,156**	142,439,888
	594,989,882	543,854,979
Current	**594,989,882**	**543,854,979**

The weighted average effective interest rate of customers' deposits at 31 December 2012 was 3.23% (2011 – 3.43%).

20 Borrowed funds

	Due	**Interest Rate %**	**2012 $**	**Interest Rate %**	**2011 $**
Caribbean Development Bank	**2013 – 2029**	**3.76**	**16,903,330**	3.76	15,628,924
National Insurance Scheme	**2012 – 2025**	**5.74**	**13,947,510**	5.74	14,552,334
			30,850,840		30,181,258

(expressed in Eastern Caribbean dollars)

20 Borrowed funds*...continued*

	2012 $	2011 $
Current	**2,521,203**	2,174,514
Non-current	**28,329,637**	28,006,744
	30,850,840	30,181,258

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.

21 Other liabilities

	2012 $	2011 $
Managers' cheques outstanding	**2,978,690**	2,370,985
Trade and other payables	**8,453,239**	9,910,054
Customers Security Deposits	**8,059,158**	3,235,859
	19,491,087	15,516,898

22 Share capital

	2012 $	2011 $
Issued and fully paid:		
10,000,000	**14,753,306**	14,753,306

23 Reserves

	2012 $	2011 $
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

Contingent liabilities

In prior years, the Group sold mortgage loans to the Eastern Caribbean Home Mortgage Bank (ECHMB). These loans have been removed from the Bank's loan portfolio. Under the terms of the agreement for sale of these loans, the Group remains obligated to indemnify ECHMB with respect to any default, loss or title deficiency occurring during the life of the loans secured by the purchased mortgages. Amount outstanding at 31 December 2012 was $15,878,136 (2011 - $17,587,858).

Commitments

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

	2012 $	**2011** $
Loan commitments	**6,784,248**	6,496,122
Guarantees and letters of credit	**1,635,275**	921,800
	8,419,523	7,417,922

25 Net interest income

	2012 $	**2011** $
Interest income		
Loans and advances	**40,538,963**	36,830,985
Treasury bills and investment securities	**5,623,574**	7,320,394
Deposits with banks	**184,839**	314,429
	46,347,376	44,465,808
Interest expense		
Savings deposits	**9,427,744**	9,294,730
Time deposits	**6,855,618**	7,611,842
Demand deposits	**2,521,827**	2,102,696
Other borrowed funds	**1,272,774**	1,357,739
Correspondent banks	**190,227**	137,569
	20,268,190	20,504,576
Net interest income	**26,079,186**	23,961,232

(expressed in Eastern Caribbean dollars)

26 Net fee and commission income

	2012 $	2011 $
Credit relates fees and commissions	**5,365,159**	4,148,814

27 Dividend income

	2012 $	2011 $
Investment available for sale	**113,517**	58,354

28 Net foreign exchange trading income

	2012 $	2011 $
Foreign exchange		
Net realized gains	**4,097,849**	4,438,100
Net unrealized gains	**7,155**	(490,846)
	4,105,004	3,947,254

29 Other gains

	2012 $	2011 $
Fair value gain on investment property	**629,599**	–
Gain on restructuring of Investment	**414,601**	–
	1,044,200	–

(expressed in Eastern Caribbean dollars)

30 Operating expenses

	2012 $	2011 $
Employee benefit expense (Note 31)	**8,737,501**	8,254,416
Interest levy expense	**4,054,172**	3,598,321
Rent	**280,159**	498,484
Audit and Accounting fees	**372,784**	250,809
Director fees	**256,421**	285,522
Computer expense	**124,463**	714,241
Insurance	**859,303**	459,977
Repairs and maintenance	**519,059**	472,377
Subscription and donations	**225,683**	877,238
Commission and fees	**688,875**	631,428
Depreciation (Note 14)	**2,568,996**	1,915,014
Utilities	**2,446,675**	1,874,834
Credit card expenses	**923,464**	1,250,514
Management Fees	**1,146,162**	1,146,162
Advertisement and sponsorship	**961,202**	1,088,043
Legal and professional fees	**1,215,558**	1,017,370
Postage and stationary	**1,003,131**	926,769
Bank and other licences	**950,638**	687,807
Security	**447,589**	482,984
Other expenses	**2,035,206**	2,318,972
	29,817,041	28,751,282

31 Employee benefit expense

	2012 $	2011 $
Wages and salaries	**6,942,375**	6,319,754
Other staff cost	**1,480,992**	1,648,517
Pensions	**314,134**	286,145
	8,737,501	8,254,416

The number of employees at 31 December 2012 was 156.

(expressed in Eastern Caribbean dollars)

32 Recoveries of loans and advances, net

	2012 $	2011 $
(Provision)/recoveries against profit for the year	**(1,506,595)**	746,102
Amounts written off during the year as uncollectible	**(101,407)**	(438,149)
Recoveries of amounts previously written off	**2,920,420**	3,265,107
	1,312,418	3,573,060

33 Income tax expense

	2012 $	2011 $ (As restated)
Under provision of prior year current tax	–	261,992
Current tax	**460,009**	–
Deferred tax	**844,438**	616,911
	1,304,447	878,903

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:

	2012 $	2011 $ (As restated)
Profit before income tax	**6,938,383**	5,189,234
Tax calculated at the applicable tax rate of 32.5%	**2,254,974**	1,686,501
Tax effect of exempt income	**(1,915,395)**	(5,376,120)
Tax effect of expenses not deductible for tax purposes	**964,868**	3,691,098
Prior year over-statement of tax asset	–	877,424
	1,304,447	878,903

The 2011 comparative figure was restated to correct an error in the calculation of the temporary timing differences and of the losses available for offset against future tax liabilities. The total impact of the restatement was to increase the income tax expense for the year ended 31 December 2011 by $615,432.

The Group has unutilised tax losses of $3,977,097 (2011 - $5,392,508) for which the deferred tax asset has been recognised as the group is expected to generate future profits.

(expressed in Eastern Caribbean dollars)

33 Income tax expense...*continued*

Unutilized tax losses may be carried forward and deducted against 50% of future taxable income within the 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.

Tax losses of $3,513,107 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 2012 was $0.56 (2011 - $0.49).

35 Cash and cash equivalents

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

	2012 **$**	**2011** **$**
Cash and balances with Central Bank (Note 5)	**24,675,000**	16,271,735
Deposits with other banks (Note 7)	**42,300,299**	26,609,618
	66,975,299	42,921,624

36 Dividends

During the year the Bank declared and paid a dividend of $3.6 million.