NATIONAL BANK OF DOMINICA LTD.

Consolidated Financial Statements

June 30, 2018
(Expressed in Eastern Caribbean dollars)

NATIONAL BANK OF DOMINICA LTD.

Table of Contents **Page**

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of National Bank of Dominica Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of National Bank of Dominica Ltd. and its subsidiary (collectively, "the Group"), which comprise the consolidated statement of financial position as at June 30, 2018, the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at June 30, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Eastern Caribbean, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the Annual Report 2018, but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

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

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

INDEPENDENT AUDITORS' REPORT, continued

To the Shareholders of National Bank of Dominica Ltd.

Other Information, continued

When we read the Annual Report 2018, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITORS' REPORT, continued

To the Shareholders of National Bank of Dominica Ltd.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements, continued

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

KPMG

Chartered Accountants
Castries, Saint Lucia
January 31, 2019

National Bank of Dominica Ltd.
Consolidated Statement of Financial Position
As at June 30, 2018

(Expressed in Eastern Caribbean Dollars)

	Notes	2018 $	2017 $
Assets			
Cash and balances with Central Bank	7(a)	**212,800,942**	289,389,512
Treasury bills	8	**36,882,462**	41,830,371
Due from other banks	9	**529,362,607**	400,266,775
Deposits with non-bank financial institutions	10	**2,295,935**	1,915,227
Loans and advances	11	**558,946,027**	559,143,094
Investment securities	12	**250,972,264**	167,702,283
Other assets	13	**25,265,940**	19,035,318
Property and equipment	14	**11,262,967**	11,197,990
Intangible assets	15	**144,779**	186,194
Income tax recoverable	16	**-**	196,310
Total assets		**1,627,933,923**	1,490,863,074
Liabilities			
Deposits from customers	17	**1,468,736,016**	1,334,998,572
Other liabilities	18	**37,409,658**	39,062,824
Commercial paper	19	**31,621,268**	20,461,249
Current tax liabilities		**296,229**	-
Total liabilities		**1,538,063,171**	1,394,522,645
Equity			
Share capital	20	**20,000,000**	20,000,000
Statutory reserve	21	**11,334,909**	11,334,909
Loan loss reserve	22	**9,000,000**	9,000,000
Available-for-sale reserve	23	**575,400**	986,316
Retained earnings		**48,960,443**	55,019,204
Total equity		**89,870,752**	96,340,429
Total liabilities and equity		**1,627,933,923**	1,490,863,074

The consolidated financial statements, on pages 4 to 74, were approved on January 30, 2019 by the Board of Directors for issue and signed on its behalf by:

Ellingworth Edwards
Managing Director

Linda Toussaint Peter
Chief Financial Officer

The notes on pages 9 to 74 are an integral part of these consolidated financial statements.

National Bank of Dominica Ltd.

Consolidated Statement of Changes in Equity

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

	Notes	Share capital $	Statutory reserve $	Available-for-sale reserve $	Loan loss reserve $	Retained earnings $	Total $
Balance at July 1, 2016		11,000,000	11,000,000	1,568,966	9,000,000	62,679,569	95,248,535
Total comprehensive income for the year							
Profit for the year		-	-	-	-	1,674,544	1,674,544
Allocation to statutory reserve	21	-	334,909	-	-	(334,909)	-
Change in fair value of available-for-sale investment securities	23	-	-	(582,650)	-	-	(582,650)
Bonus share issue	20	9,000,000	-	-	-	(9,000,000)	-
Total comprehensive income for the year		9,000,000	334,909	(582,650)	-	(7,660,365)	1,091,894
Balance at June 30, 2017		20,000,000	11,334,909	986,316	9,000,000	55,019,204	96,340,429
Total comprehensive loss for the year							
Loss for the year		**-**	**-**	**-**	**-**	**(5,338,761)**	**(5,338,761)**
Allocation to statutory reserve	21	**-**	**-**	**-**	**-**	**-**	**-**
Change in fair value of available-for-sale investment securities	23	**-**	**-**	**(410,916)**	**-**	**-**	**(410,916)**
Total comprehensive loss for the year		**-**	**-**	**(410,916)**	**-**	**(5,338,761)**	**(5,749,677)**
Dividend	24	**-**	**-**	**-**	**-**	**(720,000)**	**(720,000)**
Balance at June 30, 2018		**20,000,000**	**11,334,909**	**575,400**	**9,000,000**	**48,960,443**	**89,870,752**

The notes on pages 9 to 74 are an integral part of these consolidated financial statements.

National Bank of Dominica Ltd.

Consolidated Statement of Profit or Loss

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

	Notes	2018 $	2017 $
Interest income	25	**50,468,019**	46,890,424
Interest expense	25	**(22,524,232)**	(22,462,070)
Net interest income		**27,943,787**	24,428,354
Net foreign exchange trading income		**10,133,111**	7,692,199
Net commission and other income	26	**7,261,970**	6,953,546
Net interest, commission and other income		**45,338,868**	39,074,099
Net income from investment securities at fair value through profit or loss	12	**1,603,517**	5,469,503
Net impairment losses on loans and advances	11(a)	**(30,135,540)**	(19,614,169)
Impairment recovery on investment securities	12, 27	**184,877**	436,904
Operating expenses	28	**(21,837,944)**	(23,691,793)
(Loss)/profit before income tax		**(4,846,222)**	1,674,544
Income tax expense	31	**(492,539)**	-
(Loss)/profit for the year		**(5,338,761)**	1,674,544

The notes on pages 9 to 74 are an integral part of these consolidated financial statements.

(Expressed in Eastern Caribbean Dollars)

	Notes	2018 $	2017 $
(Loss)/profit for the year		**(5,338,761)**	1,674,544
Other comprehensive income:			
Items that are or may be subsequently reclassified to profit or loss:			
Change in fair value of available-for-sale investment securities	23	**(410,916)**	(582,650)
Total comprehensive (loss)/income for the year		**(5,749,677)**	1,091,894
(Loss)/profit per share attributable to equity holders of the Bank			
Basic and diluted	33	**(0.22)**	0.07

National Bank of Dominica Ltd.

Consolidated Statement of Cash Flows

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

	Notes	2018 $	2017 $
Cash flows from operating activities			
(Loss)/profit for the year		**(5,338,761)**	1,674,544
Adjustments for:			
Depreciation and amortization	14,15	**1,175,169**	1,869,899
Gain on disposal of property and equipment		**-**	(155)
Interest income	25	**(50,468,019)**	(46,890,424)
Unrealized gain on investment securities at fair value through profit or loss	12	**(1,603,518)**	(5,469,503)
Interest expense	25	**22,524,232**	22,462,070
Tax expense		**492,539**	
Recovery on investment securities	27	**(184,877)**	(436,904)
Movement in provision for impairment of loans and advances	11(a)	**(30,135,540)**	(19,614,169)
Cash flows before changes in operating assets and liabilities		**(63,538,775)**	(46,404,642)
Change in mandatory deposits with Central Bank		**(7,938,221)**	(19,449,415)
Change in loans and advances		**38,546,988**	72,839,023
Change in other assets		**(6,230,622)**	125,111
Change in deposits from customers and commercial paper		**143,537,308**	325,781,708
Change in other liabilities		**(1,653,166)**	(15,688,227)
Cash generated by operations		**102,723,512**	317,203,558
Interest received		**42,253,638**	41,164,766
Interest paid		**(21,164,077)**	(24,198,255)
Net cash generated by operating activities		**123,813,073**	334,170,069
Cash flows from investing activities			
Proceeds from maturity of treasury bills		**11,452,305**	2,903,336
Purchase of investment securities	12	**(104,344,294)**	(24,207,008)
Proceeds from disposal of investment securities	12	**22,451,792**	5,198,623
Purchase of property and equipment	14	**(1,289,883)**	(864,551)
Purchase of intangible assets	15	**(20,388)**	(145,517)
Proceeds from sale of property and equipment		**111,540**	155
Net cash used in investing activities		**(71,638,928)**	(17,114,962)
Cash flows from financing activities			
Dividends paid		**(720,000)**	-
Net cash used in financing activities		**(720,000)**	-
Net increase in cash and cash equivalents		**51,454,145**	317,055,107
Cash and cash equivalents – beginning of year		**627,373,850**	310,318,743
Cash and cash equivalents – end of year	7(b)	**678,827,995**	627,373,850

The notes on pages 9 to 74 are an integral part of these consolidated financial statements.

1. Reporting entity

The National Bank of Dominica Ltd. ("the Bank") is domiciled in the Commonwealth of Dominica. The Bank's registered office and principal place of business are both located at 64 Hillsborough Street, Roseau, Commonwealth of Dominica. These consolidated financial statements comprise the financial statements of the Bank and its subsidiary (collectively, "the Group").

The Bank was established by Act of Parliament No. 27 of 1976 and commenced operations on March 15, 1978. The Group is subject to the provisions of the Banking Act No. 4 of 2015 and the Companies Act of 1994 of the Commonwealth of Dominica.

The Eastern Caribbean Securities Exchange acts as a registrar and the transfer agent for the Bank's shares.

The Group provides retail, corporate and investment banking services in the Commonwealth of Dominica and the rest of the Eastern Caribbean region.

The National Investment Corporation Ltd. (NIC) is a wholly-owned subsidiary of the Bank, and was incorporated in the Commonwealth of Dominica under the Companies Act 1994. In August 2012, NIC was amalgamated with the National Mortgage & Finance Corporation, then another wholly-owned subsidiary of the Bank. NIC is in the process of reviewing its mandate and is currently non-operational. However, it is proposed that it engages in capital market services, focusing initially on brokerage and trade execution services to institutions and individual clients wishing to invest funds in various securities offered in the regional capital market.

2. Basis of preparation

(a) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements were approved by the Board of Directors and authorized for issue on January 30, 2019.

(b) *Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position that are measured at fair value:

- financial instruments at fair value through profit or loss, and
- available-for-sale financial assets.

(c) *Functional and presentation currency*

These financial statements are presented in Eastern Caribbean dollars, which is the Bank's functional currency, except otherwise indicated. All amounts have been rounded to the nearest dollar.

2. Basis of preparation (cont'd)

(d) Estimates critical to reported amounts, and judgements in applying accounting policies

The preparation of the financial statements in conformity with IFRS requires management to make estimates, based on assumptions and judgements. Management also makes judgements, other than those involving estimations, in the process of applying the accounting policies. The estimates and judgements affect (1) the reported amounts of assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended, and (2) the carrying amounts of assets and liabilities in the next financial year.

The estimates, and the assumptions underlying them, as well as the judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements that have a significant effect on the amounts recognised in the financial statements, and estimates that can cause a significant adjustment in the next financial year to the carrying amounts of assets and liabilities at the reporting date are:

(i) Key sources of estimation uncertainty

1. <u>Allowance for impairment losses on financial assets</u>

   In determining amounts, if any, to be recorded for impairment of financial assets, management makes assumptions in assessing whether certain facts and circumstances, such as repayment default and adverse economic conditions, are indicators that there may be a measurable decrease in the estimated future cash flows from outstanding balances. Management also makes estimates of the amount of future cash flows from balances determined to be impaired, as well as the timing of such cash flows. If the balances are individually significant, the amount and timing of cash flows are estimated for each receivable individually. Where indicators of impairment are not observable on individually significant receivables, or on a group or portfolio of receivables that are not individually significant, management estimates the impairment by classifying each receivable or group of receivables according to their characteristics, such as credit risks, and applying appropriate factors, such as historical loss experience, to each class with similar characteristics. The use of assumptions makes uncertainty inherent in such estimates.

2. <u>Residual values and useful lives of property and equipment</u>

   The residual value and the useful life of each asset are reviewed at least at each financial year-end, and, if expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. The useful life of an asset is defined in terms of the asset's expected utility to the Group.

2. Basis of preparation (cont'd)

(d) Estimates critical to reported amounts, and judgements in applying accounting policies (cont'd)

(i) Key sources of estimation uncertainty (cont'd)

3. Income taxes

In the ordinary course of the Group's business, it undertakes transactions, and is subject to events, the tax effects of which are uncertain. In the face of such uncertainty, the Group makes estimates and judgements in determining the provision for income taxes.

The final tax outcome attributable to matters subject to such estimates and judgements may be materially different from that which was initially recognised. Any such difference will impact the current and deferred income tax provision in the period in which such determination is made.

4. Fair value of financial instruments

There are no quoted market prices for a significant portion of the Group's financial assets and liabilities. Accordingly, fair values of several financial assets are estimated using a variety of means, including quotes published by broker/dealers, an approach in which there is inherent significant uncertainty that has resulted in these instruments being categorized as Level 2 in the fair value hierarchy. The estimates of fair value arrived at from these sources may be significantly different from the actual price of the instruments in an actual arm's length transaction.

(ii) Critical accounting judgements in applying the Group's accounting policies

For the purpose of these financial statements, prepared in accordance with IFRS, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the agreed principles set out in IFRS.

The Group's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances, and the Group exercises judgement in carrying out such designation.

The following are relevant to these financial statements:

- In classifying financial assets as "held-for-trading", the Group has determined that they meet the description of trading assets set out in accounting policy 3(h).
- In designating financial assets as at fair value through profit or loss, the Group has determined that they have met the criteria for this designation set out in accounting policy 3(h).
- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the asset until their maturity date as required by accounting policy 3(h).
- In classifying financial assets as "loans and receivables" management concludes that, *inter alia*, they are not traded in an active market as required by accounting policy 3(h).This determination sometimes requires judgement.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year to assets and liabilities at the reporting date are discussed in Note 4.

3. Significant accounting policies

(a) Basis of consolidation

The consolidation principles are unchanged as compared to the previous year. The consolidated financial statements of the Group comprise the financial statements of the parent entity and its subsidiary as of and for the year ended June 30, 2018. The financial statements of the subsidiary used to prepare the consolidated financial statements were prepared as of the Bank's reporting date.

The integration of the subsidiary into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances.

(b) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity if it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(c) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(d) Transactions eliminated on consolidation

Intra-group balances and transactions, or any unrealized income and expenses (except for foreign currency transaction gains and/or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. Significant accounting policies (cont'd)

(e) *New standards, and interpretations of and amendments to existing standards that became effective during the year:*

Certain new standards and interpretations of, and amendments to, existing standards, which were in issue and were relevant to the Group, came into effect for the current financial period. None of these pronouncements had a material effect on the financial statements.

(f) *New standards, and interpretations of and amendments to existing standards that are not yet effective:*

At the date of authorization of the consolidated financial statements, there were certain new standards, and amendments to and interpretations of existing standards, which were issued but were not yet effective and which the Group had not early-adopted. The Group has assessed them and determined that the following may be relevant to its operations:

- IFRS 15, *Revenue from Contracts with Customers*, is effective for annual reporting periods beginning on or after January 1, 2018. It replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes,* IFRIC 15, *Agreements for the Construction of Real Estate,* IFRIC 18, *Transfer of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions Involving Advertising Services.* The new standard applies to contracts with customers. However, it does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other IFRS will take precedence.

  The Group is assessing the impact that this standard will have on its 2019 financial statements.

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39, *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment on financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value though profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model, which means that a loss event will no longer need to occur before an impairment allowance is recognized.

  The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

  The Group is assessing the impact that this standard will have on its 2019 financial statements.

3. Significant accounting policies (cont'd)

(f) New standards, and interpretations of and amendments to existing standards that are not yet effective (cont'd):

- IFRS 16, *Leases,* which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Companies will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short-term leases and for low-value items with a value of US$5,000 or less.

  Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases. Finance lease accounting will be based on IAS 17 lease accounting, with recognition of net investment in lease comprising lease receivable and residual asset. Operating lease accounting will be based on IAS 17 operating lease accounting.

  Early adoption is permitted if IFRS 15, *Revenue from Contracts with Customers,* is also adopted. The Group is assessing the impact that this standard will have on its 2020 financial statements.

(g) Cash and cash equivalents

Cash comprises cash on hand and demand deposits at banks, and includes unrestricted balances with the Eastern Caribbean Central Bank (ECCB). Cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and held for short-term operating, rather than investment, purposes. They comprise balances with less than three months' maturity from the date of acquisition and include treasury bills, term deposits with other banks, term deposits with non-bank financial institutions, and other short-term securities.

3. Significant accounting policies (cont'd)

(h) Financial assets and financial liabilities

(i) Recognition

The Group initially recognizes loans and advances and deposits on the date that they are originated. The Group uses trade date accounting for regular way contracts when recording financial asset transactions. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

A financial asset or liability is measured initially at fair value plus, for an item not at fair value through the profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial assets expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain ownership of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets that are transferred to a third party but do not qualify for de-recognition are presented in the consolidated statement of financial position as "Assets pledged as collateral", if the transferee has the right to sell or re-pledge them. If the transferee is required to return the same or a similar asset, the transfer is recorded as a reverse repurchase agreement.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

3. Significant accounting policies (cont'd)

(h) Financial assets and financial liabilities (cont'd)

(iii) Classification

Financial assets
The Group classifies its financial assets in one of the following categories:

- *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 recognized at fair value – which is the cash consideration to originate or purchase the loan, including any transaction costs – and measured subsequently at amortized cost using the effective interest rate method.

- *Held-to-maturity investments*
  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.

  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.

- *Available-for-sale*
  Available-for-sale investments are financial assets that are (1) intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or (2) 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 investments comprise equity and debt securities.

  Available-for-sale financial assets are initially recognized at fair value, which is the cash consideration, including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit and loss.

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

(h) Financial assets and financial liabilities (cont'd)

(iii) Classification (cont'd)

Financial assets (cont'd)

- *Available-for-sale (cont'd)*
  However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognized in profit or loss. Dividends on available-for-sale equity instruments are recognized in profit or loss in "Dividend income" when the Group's right to receive payment is established.

- *At fair value through profit or loss and within the category sub-classified as:*
  - *held for trading*
    A financial asset is classified as held for trading if it is acquired 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.
    or
  - *designated as fair value through profit or loss*
    A financial asset is classified as fair value through profit or loss if acquired principally for the purpose of selling in the short term or if so designated by management.

Financial liabilities
The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost. Financial liabilities measured at amortized cost are deposits from banks or customers and other financial liabilities

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

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

(v) Offsetting
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions, similar to Group's trading activities.

3. Significant accounting policies (cont'd)

(h) Financial assets and financial liabilities (cont'd)

(vi) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(vii) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of a financial instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. These include using recent arms' length transactions between knowledgeable, willing parties (if available), reference to the current values of other instruments that are substantially the same, discounted cash flow analyses, and option pricing models.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy (see Note 6) as of the end of the reporting period during which the change has occurred.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy (see Note 6) as of the end of the reporting period during which the change has occurred.

3. Significant accounting policies (cont'd)

(h) Financial assets and financial liabilities (cont'd)

(viii) Identification and measurement of impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s) (a "loss event"), and that the loss event (or events) has or had an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- other observable data relating to a group of assets, such as:
  - adverse changes in the payment status of borrowers or issuers in the Group; or
  - economic conditions that correlate with defaults on the assets in the Group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In general, the Group considers a decline of 20% to be significant and a period of nine (9) months to be prolonged.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities both at a specific assets and collective level. All individually significant loans and advances and held-to-maturity investments are assessed for specific impairment. Those not found to be specifically impaired, along with those not individually significant, are then collectively assessed for any impairment that has been incurred but not yet identified. This collective assessment of loans and advances and held-to-maturity investment securities that are not individually significant is performed by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, the Group uses statistical modeling of historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

3. Significant accounting policies (cont'd)

(h) Financial assets and financial liabilities (cont'd)

(viii) Identification and measurement of impairment

Assets carried at amortised cost
Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made whether the financial assets should be derecognized. If the cash flows of the renegotiated assets are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and the new financial asset is recognized at fair value. The impairment loss is measured as follows:

- If the expected restructuring does not result in de-recognition of the existing asset, the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and the amounts are discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring does result in de-recognition of the existing asset, then the expected fair value of the new assets is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities. Interest on the impaired assets continues to be recognized through the unwinding of the discount. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Assets classified as available-for-sale
Impairment losses on available-for-sale investment securities are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

The Group writes off certain loans and advances and investment securities when they are determined to be uncollectible.

3. Significant accounting policies (cont'd)

(h) Financial assets and financial liabilities (cont'd)

(viii) Identification and measurement of impairment

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

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

Renegotiated loans
Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

(ix) Designation at fair value through profit or loss
The Group designates financial assets at fair value through profit or loss in either of the following circumstances:

- The assets are managed, evaluated and reported internally on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Note 12 sets out the amount of each financial asset that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset class.

3. Significant accounting policies (cont'd)

(i) Property and equipment

(i) Recognition and measurement
Items of property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. The cost of self-constructed assets includes:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the asset to a working condition for its intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within other income in profit or loss

(ii) Subsequent costs
Subsequent expenditures are included in the asset's carrying amount or are recognized 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 reliably measured. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

(iii) Depreciation
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:

Building	3%
Leasehold improvements	20%
Computer equipment	14% - 33%
Furniture and equipment	14% - 20
Motor vehicles	20%

Depreciation methods, residual values and useful lives are reviewed at each reporting date, and adjusted if appropriate. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is then written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposal are determined by comparing proceeds with carrying amount and are included in profit or loss.

3. Significant accounting policies (cont'd)

(j) Intangible assets

Intangible assets comprise separately identifiable intangible items arising from computer software licenses and other intangible assets. Intangible assets are recognized at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite useful life are not amortized. Generally, the identified intangible assets of the Group have a definite useful life.

At each reporting date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analyzed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount. The Group chooses to use the cost model for measurement after recognition.

Computer software licenses
Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits of the relevant asset. Software costs are amortized on the straight line basis in profit or loss from the date it is available for use. The estimated useful lives of software range from three (3) to five (5) years. Amortization methods, useful lives and residual values are reviewed annually and adjusted if necessary. Costs associated with maintaining computer software programs are recognized as an expense when incurred.

(k) Impairment of other non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists for any asset, then that asset's recoverable amount is estimated. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset or cash generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present vale using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Impairment losses are recognised in profit or loss.

3. Significant accounting policies (cont'd)

(l) Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income, in which case they are recognised in equity or other comprehensive income.

(i) *Current tax*
Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any tax adjustment to tax payable in respect of previous years. Income tax payable is calculated on the basis of the applicable tax laws in the Commonwealth of Dominica and is recognized as an expense (income) for the period, except to the extent that current tax relates to items that are charged or credited in other comprehensive income; in these circumstances, current tax is charged or credited to other comprehensive income. Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the consolidated statement of financial position.

(ii) *Deferred tax*
Deferred income tax is provided on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. The principal temporary differences arise from the difference between the carrying amounts of property and equipment and intangible assets and their tax bases and unutilized tax losses.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred income tax liability is settled.

However, deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit or loss;
- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax assets reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. Significant accounting policies (cont'd)

(m) Borrowings

Borrowings are recognized initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred and measured at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(n) 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.

Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees recognized in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience with similar transactions and history of past losses, supplemented by the judgment of management. The fee income earned is recognized on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the profit or loss within other operating expenses.

(o) Share Capital

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

Dividends on ordinary shares
Dividends on ordinary shares are recognized in equity in the period in which they are declared. Dividends for the year that are declared after the reporting date are, however, disclosed in the notes to the consolidated financial statements.

(p) Interest income and expense

Interest income and expense are recognized in profit or loss for all financial instruments using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial assets or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments and 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 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 of the effective interest rate includes all transaction costs and 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 recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3. Significant accounting policies (cont'd)

(q) Fee and commission income

Fee and commission income is generally recognized on the accrual basis when the service has been provided. Commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of a business, are recognized on completion of the underlying transaction. For financial planning and custody services that are continuously provided over an extended period of time, fees are recognized based on the applicable service contracts, usually on a time apportioned basis.

(r) Dividend income

Dividend income is recognized in profit or loss when the Group's right to receive payment is established. Dividends are presented in net interest, commission and other income in the statement of profit or loss.

(s) Employee benefits

(i) *Short-term employee benefits:*
Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) *Defined contribution plans:*
Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(t) Foreign currency

Foreign currency transactions that are denominated, or that require settlement, in a foreign currency are translated into the Group's functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated with the closing rates as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security.

Foreign currency differences arising on translation are generally recognized in profit or loss. However, foreign currency differences arising from the translation of available-for-sale equity instruments are recognised in other comprehensive income.

3. Significant accounting policies (cont'd)

(u) Leases

All leases entered into by the Group are operating leases and therefore payments made under the terms of the leases are recognized in profit or loss on the straight line basis over their individual lives.

(v) Financial instruments

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

4. Use of estimates and judgments

As indicated in note 2(d), the preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses within the next financial year.

Management discusses with the Group Audit Committee the development, selection and disclosure of the Group's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. Information about assumptions and estimation uncertainties that have a major risk of resulting in a material adjustment within the next financial year and about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is disclosed below.

These disclosures supplement the commentary on financial risk management (see Note 5).

(a) Impairment of financial assets

(i) Impairment losses on loans and advances

Loans and advances and held-to-maturity securities are accounted for at amortised cost. They are evaluated for impairment on the basis described in Note 3(h) (viii).

The specific component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merit, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

A collective component of the total allowance is established for:

- Groups of homogenous loans that are not considered individually significant; and
- Groups of assets that are individually significant but that were not found to be individually impaired (IBNR).

Collective allowance for groups of homogenous loans is established using a formula approach based on historic loss rate experience.

Collective impairment for groups of assets that are individually significant but that were not found to be individually impaired (IBNR) cover credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, and held-to-maturity investment securities, but the individual impaired items cannot yet be identified.

4. Use of estimates and judgments (cont'd)

(a) Impairment of financial assets (cont'd)

(i) Impairment losses on loans and advances (cont'd)

In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

(ii) Impairment of available-for-sale equity investments

The Group determines that for available-for-sale equity investments, a significant or prolonged decline in their fair value below their cost is objective evidence of impairment. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, the normal volatility in share prices. 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 operating and financing cash flows.

(b) Classification of 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 judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments 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 amortized cost. If the entire held-to-maturity investments are tainted, their values would be as indicated in Note 6.

(c) Determination of fair value

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3(h)(vii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group places the fair values estimated in a fair value hierarchy based on the degree to which the estimates are affected by unobservable inputs. See Note 6.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of the amount and timing of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

5. Financial risk management

Risk management framework
This note presents information about the Group's objectives, policies, and processes for measuring and managing risk. 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 retail banking, and 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 minimize potential adverse effects on the Group's 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 mainly by the Finance Department under policies approved by the Board of Directors. Management identifies and evaluates financial risks in close co-operation with the Bank's operating units. The Board provides oversight for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks that arise from the use of financial instruments are:

- Credit risk
- Liquidity risk
- Market risk (includes currency risk, interest rate risk, and equity price risk)
- Operational risk

(a) Credit risk

Credit risk is the risk of the Group suffering financial loss should a customer or a counterparty to a financial instrument fail to meet its contractual obligations to the Group, and arises principally from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities. It 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. For risk management purposes, the Group considers and consolidates all elements of credit risk exposure - e.g. individual obligor default risk, country and sector risk.

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

5. Financial risk management (cont'd)

(a) Credit risk (cont'd)

Probability of default
The Group assesses the probability of default of individual counterparties using an internal rating tool tailored to the various categories of counterparty. They have been developed based on the East Caribbean Central Bank prudential guidelines. Borrowing customers of the Group are segmented into five rating classes as follows:

(i) Pass
(ii) Special mention
(iii) Sub-standard
(iv) Doubtful
(v) Loss

This rating scale reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tool is kept under review and upgraded as necessary.

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

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

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

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.

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

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

Longer-term finance and lending to corporate entities are generally secured, while revolving individual credit facilities are generally unsecured.

5. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(i) *Collateral*
Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Government-issued debt securities, treasury and other eligible bills are generally unsecured.

(ii) *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 authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions) are collaterised 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 authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter-term commitments.

(iii) *Impairment and provisioning policies*
The Group's internal rating system focuses more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes. The impairment provision shown in the consolidated statement of financial position at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom three grades.

The table below shows the percentage of the Group's on-statement of financial position items relating to loans and advances and the associated impairment provision for each of the Group's internal rating categories:

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(iii) Impairment and provisioning policies (cont'd)

	Loans to customers		Impairment Provision		Net Total
	$	%	$	%	$
At June 30, 2018					
Pass	**260,447,820**	**45**	**-**	**-**	**260,447,820**
Special mention	**130,318,829**	**20**	**-**	**-**	**130,318,829**
Substandard	**99,363,493**	**16**	**9,936,349**	**18**	**89,427,144**
Doubtful	**28,961,020**	**5**	**14,480,510**	**27**	**14,480,510**
Loss	**30,008,788**	**5**	**30,008,788**	**55**	**-**
Inherent risk provision	**264,083**	**0**	**2,641**	**0**	**261,442**
Gross loans to customers	**549,364,033**	**91**	**54,428,288**	**100**	**494,935,745**
Interest receivable	**60,581,013**	**9**	**-**	**-**	**60,581,013**
Total	**609,945,046**	**100**	**54,428,288**	**100**	**555,516,758**

	Loans to customers		Impairment Provision		Net Total
	$	%	$	%	$
At June 30, 2017					
Pass	335,529,656	54	-	-	335,529,656
Special mention	80,010,231	13	-	-	80,010,231
Substandard	83,680,048	14	8,368,005	21	75,312,043
Doubtful	59,310,634	10	29,655,317	74	29,655,317
Loss	1,915,250	-	1,915,250	5	-
Inherent risk provision	83,000	-	830	-	82,170
Gross loans to customers	560,528,819	91	39,939,402	100	520,589,417
Interest receivable	52,375,784	9	-	-	52,375,784
Total	612,904,603	100	39,939,402	100	572,965,201

5. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(iii) Impairment and provisioning policies (cont'd)

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

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

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

The table below represents a worst case scenario of credit risk exposure to the Group at June 30, 2018 and 2017 without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

As shown below 41% (2017 - 48%) of the total maximum exposure is derived from loans and receivables 18% (2017 – 14%) represents investment securities.

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

71% (2017 - 74%) of the loans and advances portfolio is categorized in the top two grades of the internal rating system;

Large corporate customer loans, which represent the biggest group in the portfolio, are backed by collateral;

69% (2017 - 71%) of the loans and advances portfolio are considered to be neither past due nor impaired;

5. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(iii) Impairment and provisioning policies (cont'd)

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

	2018 $	2017 $
Credit risk exposure relating to on-statement of financial position assets:		
Treasury bills	**36,882,462**	41,830,371
Due from other banks	**529,362,607**	400,266,775
Deposits with non-bank financial institutions	**2,295,935**	1,915,227
Loans and receivables		
- Loans and advances to customers	**528,946,027**	559,143,094
- Syndicated Loans and advances	**30,000,000**	-
Financial assets at fair value through profit or loss	**130,540,360**	83,727,164
Investment securities		
- Held-to-maturity	**93,562,107**	56,119,122
- Available-for-sale	**26,869,797**	27,855,997
	1,378,459,295	1,170,857,750
Credit exposure relating to off-balance sheet items:		
Loan commitments	**51,100,474**	60,677,699
Financial guarantees and other financial facilities	**3,781,704**	3,966,899
	54,882,178	64,644,598
	1,433,341,473	1,235,502,348

5. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(iv) Concentration of risk by location

Loans and advances to customers	**2018** **$**	**2017** **$**
Domestic	**472,173,845**	485,694,270
ECCU area	**41,415,515**	44,219,027
Non-ECCU area	**15,356,667**	29,229,797
	528,946,027	559,143,094
Total loans and advances	**528,946,027**	559,143,094

Investment and debts securities	**2018** **$**	**2017** **$**
Domestic	**81,183,210**	23,968,504
ECCU area	**39,248,694**	60,006,613
Non-ECCU area	**130,540,360**	83,727,166
	250,972,264	167,702,283

Lending commitments and financial guarantees	**2018** **$**	**2017** **$**
Domestic	**54,882,178**	64,644,598
	54,882,178	64,644,598

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(v) Loans and advances to customers

Loans and advances to customers are summarized as follows:

	2018 $	2017 $
Loans and advances to customers		
Neither past due nor impaired	**420,883,695**	435,307,839
Past due but not impaired	**50,576,570**	88,994,308
Impaired	**138,484,781**	88,602,456
	609,945,046	612,904,603
Less: unearned interest	**(41,692)**	(31,649)
Gross	**609,903,354**	612,872,954
Less: impairment provision	**(80,957,327)**	(53,729,860)
Net	**528,946,027**	559,143,094

The total impairment provision for losses on loans and advances is $80,957,327 (2017 - $53,729,860) of which $77,580,674 (2017 - $48,771,149) relates to the individually impaired loans and the remaining amount of $3,376,653 (2017 - $4,958,711) is the portfolio provision. Further information on impairment is included in Note 11(a).

(vi) Loans and advances neither past due nor impaired

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

	Overdrafts $	Term loans $	Mortgages $	Large Corporate customers $	Total loans and advances $
June 30, 2018					
Loans and advances to customers					
Pass	**31,908,089**	**70,161,102**	**101,033,122**	**217,781,382**	**420,883,695**
June 30, 2017					
Loans and advances to customers					
Pass	32,476,839	67,222,560	107,506,681	228,101,759	435,307,839

5. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(vii) Loans and advances past due but not impaired

Loans and advances past due but not impaired are those for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group. The gross amount of loans and advances by class to customers that were past due but not impaired, net of unearned interest, were as follows:

	Term loans $	Mortgages $	Large Corporate customers $	Total loans and advances to customers $
June 30, 2018				
Past due up to 30 days	**2,859,556**	**9,174,727**	**2,185,144**	**14,219,427**
Past due 30 – 60 days	**1,528,437**	**925,944**	**-**	**2,454,381**
Past due 60 – 90 days	**1,543,757**	**69,528**	**820,112**	**2,433,397**
Over 90 days	**5,395,799**	**7,278,098**	**18,795,468**	**31,469,365**
Gross	**11,327,549**	**17,448,297**	**21,800,724**	**50,576,570**
Less unearned interest in discount loans	**(41,692)**	**-**	**-**	**(41,692)**
Net	**11,285,857**	**17,448,297**	**21,800,724**	**50,534,878**
June 30, 2017				
Past due up to 30 days	7,083,131	5,566,804	36,530,904	49,180,839
Past due 30 – 60 days	401,250	2,793,963	2,261,075	5,456,288
Past due 60 – 90 days	822,861	154,714	7,667,868	8,645,443
Over 90 days	1,556,138	6,452,937	17,702,663	25,711,738
Gross	9,863,380	14,968,418	64,162,510	88,994,308
Less unearned interest in discount loans	(31,649)	-	-	(31,649)
Net	9,831,731	14,968,418	64,162,510	88,962,659

5. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(viii) *Loans and advances individually impaired*

The individually impaired loans and advances to customers, before taking into consideration the cash flows from collateral held and unearned interest on discount loans is $138,484,781 (2017 - $88,602,456). The breakdown of the gross amount of individually impaired loans and advances by class is as follows:

	Overdrafts $	Term loans $	Mortgages $	Large Corporate customers $	Total loans and advances to customers $
June 30, 2018					
Individually impaired loans	**4,440,246**	**6,918,491**	**20,746,506**	**106,379,538**	**138,484,781**
June 30, 2017					
Individually impaired loans	6,856,721	2,227,477	17,882,179	61,636,079	88,602,456

(ix) *Loans and advances renegotiated*

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These accounts are kept under continual review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired at June 30, 2018 amounted to $11,643,318 (2017 - $10,555,587).

(x) *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 June 30, 2018, based on Standard & Poor's ratings or their equivalent.

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(x) Debt securities, treasury bills and other eligible bills (cont'd)

	Financial assets at fair value through profit or loss $	Treasury bills $	Investment securities $	Total $
June 30, 2018				
BB- to AA+	**130,540,360**	**-**	**-**	**130,540,360**
Un-rated	**-**	**36,882,462**	**120,431,904**	**157,314,366**
	130,540,360	**36,882,462**	**120,431,904**	**287,854,726**
June 30, 2017				
BB- to AA+	83,727,164	-	-	83,727,164
Un-rated	-	41,830,371	83,975,119	125,805,490
	83,727,164	41,830,371	83,975,119	209,532,654

	2018 $	2017 $
Treasury bills	**36,882,462**	41,830,371
Investment securities	**250,972,264**	167,702,283
	287,854,726	209,532,654

(b) Market risk

The Group takes on exposure to market risks, which is the risk that changes in market prices – e.g. interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) – will affect the Group's income or the value of its holdings of financial instruments. The objective of the Group's market risk management is to control and manage market risk exposures within acceptable parameters to ensure the Group's solvency while optimising the return on risk.

The Group's exposure to market risks arises from its non-trading portfolios. 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.

Management of market risk

The Group's policies, processes and controls for trading activities are designed to achieve a balance between pursuing profitable trading opportunities and managing earnings volatility within a framework of sound and prudent practices. Trading activities are primarily customer focused, but also include a proprietary component.

Market risk arising from the Group's trading activities is managed in accordance with Board-approved policies and limits.

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(b) Market risk (cont'd)

(i) Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) has been formally pegged at EC$2.70 = US$1.00 since 1974. The Group's exposure to various currencies at June 30, 2018 is depicted in the following table. Included in the table are the Group's financial instruments at carrying amounts, categorized by currency.

	XCD $	USD $	BDS $	EURO $	GBP $	CAN $	Other $	Total $
As at June 30, 2018								
Assets								
Cash and balances with ECCB	**211,673,026**	**514,901**	**37,669**	**357,500**	**170,814**	**47,032**	**-**	**212,800,942**
Treasury bills	**36,882,462**	**-**	**-**	**-**	**-**	**-**	**-**	**36,882,462**
Due from other banks	**35,469,075**	**480,082,363**	**37,669**	**9,419,257**	**2,224,743**	**492,552**	**1,636,948**	**529,362,607**
Deposits with non-bank financial institutions	**623,662**	**-**	**-**	**-**	**-**	**-**	**1,672,273**	**2,295,935**
Loans and advances	**525,263,205**	**3,682,822**	**-**	**-**	**-**	**-**	**-**	**528,946,027**
Syndicated loans and advances	**30,000,000**	**-**	**-**	**-**	**-**	**-**	**-**	**30,000,000**
Investment securities:								
Held-to-maturity	**89,836,795**	**3,725,312**	**-**	**-**	**-**	**-**	**-**	**93,562,107**
Available-for-sale	**24,861,672**	**2,008,125**	**-**	**-**	**-**	**-**	**-**	**26,869,797**
At fair value through profit or loss	**-**	**122,360,187**	**-**	**-**	**-**	**-**	**8,180,173**	**130,540,360**
Total financial assets	**954,609,897**	**612,373,710**	**75,338**	**9,776,757**	**2,395,557**	**539,584**	**11,489,394**	**1,591,260,237**

5. Financial risk management (cont'd)

(b) Market risk (cont'd)

(i) Currency risk (cont'd)

	XCD $	USD $	BDS $	EURO $	GBP $	CAN $	Other $	Total $
As at June 30, 2018 (Cont'd)								
Liabilities								
Deposits from customers	**1,449,804,636**	**17,022,532**	**-**	**1,601,213**	**963**	**306,672**	**-**	**1,468,736,016**
Commercial paper	**31,621,268**	**-**	**-**	**-**	**-**	**-**	**-**	**31,621,268**
Other liabilities	**31,710,050**	**5,699,608**	**-**	**-**	**-**	**-**	**-**	**37,409,658**
Total financial liabilities	**1,513,135,954**	**22,722,140**	**-**	**1,601,213**	**963**	**306,672**	**-**	**1,537,766,942**
Net currency exposure	**(558,526,057)**	**589,651,570**	**75,338**	**8,175,544**	**2,394,594**	**232,912**	**11,489,394**	**53,493,295**
As at June 30, 2017								
- Financial assets	**1,044,979,720**	**385,293,330**	**72,360**	**13,785,110**	**3,668,928**	**557,901**	**11,889,913**	**1,460,247,262**
- Financial liabilities	**1,315,296,102**	**77,876,100**	**-**	**1,037,705**	**941**	**311,797**	**-**	**1,394,522,645**
Net currency exposure	**(270,316,382)**	**307,417,230**	**72,360**	**12,747,405**	**3,667,987**	**246,104**	**11,889,913**	**65,724,617**

(ii) 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 flows risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate re-pricing that may be undertaken. The table below summarizes the Group's exposure to interest rate risks. Included in the table are the Group's interest- bearing financial assets and financial liabilities at carrying amounts, categorized by the earlier of contractual re-pricing and maturity dates.

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(*b*) *Market risk (cont'd)*

(*ii*) *Interest rate risk (cont'd)*

	Up to 1 year $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
As at June 30, 2018					
Assets					
Cash and balances with ECCB	**-**	**-**	**-**	**212,800,942**	**212,800,942**
Treasury bills	**36,882,462**	**-**	**-**	**-**	**36,882,462**
Due from other banks	**456,102,291**	**-**	**-**	**73,260,316**	**529,362,607**
Deposits with non-bank financial institutions	**623,663**	**-**	**-**	**1,672,272**	**2,295,935**
Loans and advances to customers	**132,174,082**	**71,614,605**	**325,157,340**	**-**	**528,946,027**
Syndicated loans and advances	**-**	**30,000,000**	**-**	**-**	**30,000,000**
Investment securities:					
Held-to-maturity	**12,925,702**	**18,849,234**	**61,787,171**	**-**	**93,562,107**
Available-for-sale	**4,149,704**	**5,119,864**	**-**	**17,600,229**	**26,869,797**
At Fair Value	**-**	**-**	**-**	**-**	**-**
Total financial assets	**642,857,904**	**125,583,703**	**386,944,511**	**305,333,759**	**1,460,719,877**
Liabilities					
Deposits from customers	**807,858,261**	**118,510,721**	**52,309,530**	**490,057,504**	**1,468,736,016**
Other liabilities	**-**	**-**	**-**	**37,409,658**	**37,409,658**
Commercial paper	**24,155,529**	**7,465,739**	**-**	**-**	**31,621,268**
Total financial liabilities	**832,013,790**	**125,976,460**	**52,309,530**	**527,467,162**	**1,537,766,942**
Interest sensitivity gap	**(189,155,886)**	**(392,757)**	**334,634,981**	**(222,133,403)**	**(77,047,065)**
Cumulative sensitivity gap	**(189,155,886)**	**(189,548,643)**	**145,086,338**	**(77,047,065)**	
As at June 30, 2017					
Total financial assets	392,383,546	128,628,050	319,748,392	535,760,110	1,376,520,098
Total financial liabilities	706,125,255	139,023,781	56,181,786	493,191,823	1,394,522,645
Interest sensitivity gap	(313,741,709)	(10,395,731)	263,566,606	42,568,287	(18,002,547)
Cumulative sensitivity gap	(313,741,709)	(324,137,440)	(60, 570,834)	(18,002,547)	

5. Financial risk management (cont'd)

(*b*) *Market risk (cont'd)*

(iii) *Equity price risk*

Equity price risk is the possibility that equity prices will fluctuate, affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices. The Group is exposed to equity security price risk because of investments held by the Group that are classified on the consolidated statement of financial position as available-for-sale and at fair value through profit or loss. The primary exposure to equity prices arises from trading activities. The Group manages its non-trading equity investments in response to changing market conditions and limits the risk by maintaining a diversified portfolio.

Sensitivity analysis – Equity price risk

If market rates at June 30, 2018 had been 1% higher, with all other variables held constant, consolidated comprehensive income for the year would have been $4,109 (2017 - $5,827) higher as a result of the increase in the fair value of available-for-sale equity securities. An equivalent decrease would have resulted in an equivalent amount stated above but with opposite impact

For such investments classified as fair value through profit or loss, the impact on consolidated profit or loss and equity would have been an increase or decrease of $10,635 (2017 - $54,695).

(c) *Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting its payment obligations associated with its financial liabilities when they fall due or upon demand. The Group is exposed to daily cash calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, and guarantees. The Group does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board of Directors sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Management of Liquidity Risk

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.

5. Financial risk management (cont'd)

(c) Liquidity risk (cont'd)

Management of liquidity risk (cont'd)

The key elements of the liquidity management process are as follows:

Daily and weekly monitoring to ensure that requirements are met. This includes the replenishment of funds as they mature or as borrowed by customers. The Group ensures that sufficient funds are held in the one to thirty day maturity bucket to satisfy liquidity requirements.

- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against any unforeseen liquidity problems. Additionally, the investment portfolio is fairly diversified by currency, geography, issuer, product and term.
- Weekly monitoring of the balance sheet liquidity ratios against internal and regulatory requirements.
- Managing the concentration and profile of debt maturities.
- Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term.

5. Financial risk management (cont'd)

(c) Liquidity risk (cont'd)

Management of liquidity risk (cont'd)

Maturities of financial assets and financial liabilities

The tables below set out the remaining period to the contractual maturities of the Group's financial assets and financial liabilities

	Up to 1 year	1 to 5 years	Over 5 years	Total
As at June 30, 2018	$	$	$	$
Assets				
Cash and balances with ECCB	212,800,942	-	-	212,800,942
Treasury bills	36,882,462	-	-	36,882,462
Due from other banks	529,362,607	-	-	529,362,607
Deposits with non-bank financial institutions	2,295,935	-	-	2,295,935
Loans and advances to customers	132,174,082	71,614,605	325,157,340	528,946,027
Syndicated loans and advances	-	30,000,000	-	30,000,000
Investment securities:				
Held-to maturity	12,925,702	18,849,234	61,787,171	93,562,107
Available-for-sale	4,149,704	5,119,864	17,600,229	26,869,797
At fair value through profit or loss	130,540,360	-	-	130,540,360
Total financial assets	1,061,131,794	125,583,703	404,544,740	1,591,260,237
Liabilities				
Deposits from customers	1,297,915,765	118,510,721	52,309,530	1,468,736,016
Other liabilities	24,155,529	7,465,739	-	31,621,268
Commercial paper	37,409,658	-	-	37,409,658
Total financial liabilities	1,359,480,952	125,976,460	52,309,530	1,537,766,942
Liquidity gap	(298,349,158)	(392,757)	352,235,210	53,493,295
As at June 30, 2017				
Total financial assets	984,910,528	128,628,050	346,708,684	1,460,247,262
Total financial liabilities	1,199,317,078	139,023,781	56,181,786	1,394,522,645
	(214,406,550)	(10,395,731)	290,526,898	65,724,617

5. Financial risk management (cont'd)

(c) Liquidity risk (cont'd)

Residual contractual maturities relating to off-balance sheet items

Loan commitments
The dates of the contractual amounts of the Group's off-balance sheet instruments that commit it to extend credit to customers and other facilities (Note 35) are summarized in the table below:

Financial guarantees and other financial facilities
Financial guarantee facilities, which are included in other accounts payable (Note 18) are also included in the table below, based on the earliest contractual maturity date.

	1 year $	**1 – 5 years** $	**Total** $
June 30, 2018			
Loan commitments	**36,955,640**	**14,144,834**	**51,100,474**
Financial guarantees and other financial facilities	**3,781,704**	**-**	**3,781,704**
	40,737,344	**14,144,834**	**54,882,178**
June 30, 2017			
Loan commitments	30,677,699	30,000,000	60,677,699
Financial guarantees and other financial facilities	3,966,899	-	3,966,899
	34,644,598	30,000,000	64,644,598

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, Group policy requires compliance with all applicable legal and regulatory requirements.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board of Directors.

5. Financial risk management (cont'd)

(d) Operational risk (cont'd)

This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas. These standards address the following requirements:

- appropriate segregation of duties, including the independent authorization of transactions;
- the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- the periodic assessment of operational risk faced and the adequacy of controls and procedures to address the risks identified;
- the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective.

Compliance with the Group's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and the Board of Directors.

(e) Capital management

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

- to comply with the capital requirements set by the Eastern Caribbean Central Bank ("ECCB");
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the ECCB for supervisory purposes. The required information is filed with the ECCB on a quarterly basis.
A new Banking Act, No. 4 of 2015, was assented to on June 12, 2015 and commenced on November 12, 2015. Under this new Act, the ECCB requires each bank or banking group to:

(a) hold the minimum level paid up share capital of EC$20,000,000; this is an increase from the previous level of EC$5,000,000 and;

(b) maintain a ratio of total regulatory capital to the risk weighted assets ("the Basel ratio") at or above the minimum 8% indicated in the ECCB Prudential Guidelines. There has been no change in this regard under the new Act.

5. Financial risk management (cont'd)

(e) Capital management (cont'd)

The Bank is in compliance with the minimum capital requirement as per the new Banking Act. No. 4 of 2015 by way of a transfer from retained earnings done in the financial year 2017. The Group will also be seeking injections of new capital in the medium term.

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

- Tier 1 capital: share capital (net of any book values of the treasury shares), retained earnings and reserves created by appropriations of retained earnings; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment losses, and unrealized gains arising on the fair valuation of equity instruments held as available-for-sale (limited to 20% 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-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarizes the composition of regulatory capital and the ratios of the Group for the years ended June 30, 2018 and 2017. During those two years, the Group complied with all of the externally imposed capital requirements to which it was subject.

	Notes	2018 $	2017 $
Tier 1 capital			
Share capital	20	**20,000,000**	20,000,000
Statutory reserve	21	**11,334,909**	11,334,909
Retained earnings		**48,960,443**	55,019,204
Total tier 1 capital		**80,295,352**	86,354,113
Tier 2 capital			
Collective impairment allowance		**3,376,653**	4,958,711
Loan loss reserve	22	**9,000,000**	9,000,000
Unrealised gain on available-for-sale investment securities	23	**575,400**	986,316
Total qualifying tier 2 capital		**12,952,053**	14,945,027
Total regulatory capital		**93,247,405**	101,299,140
Risk weighed assets		**725,494,484**	543,441,386
Capital adequacy ratio			
- Required		**8.0%**	8.0%
- Actual		**12.9%**	18.6%

6. Fair values of financial instruments

Fair value is defined in Note 3(h)(vii). The following methods and assumptions were used to estimate the fair value of financial instruments.

The fair values of cash and cash equivalents, other assets and other liabilities and due to other banks are assumed to approximate their carrying values due to their short term nature. The fair value of off-balance sheet commitments is also assumed to approximate the amounts disclosed in Note 36 due to their short term nature.

The fair values of listed securities are assumed to be equal to their quoted market values. The fair values of unlisted securities are estimated at book value.

The estimated fair values of loans reflect changes in interest rates that have occurred since the loans originated and are determined by discounting contractual future cash flows, over the remaining term to maturity, at market interest rates prevailing at the reporting date. The estimated fair values of loans are not significantly different from their carrying values.

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 considered to have fair values which approximate carrying values.

Fair value hierarchy
The Group classifies fair value measurements using the following fair value hierarchy, which reflects the nature of the significant inputs used in making the measurements:

- Level 1 - Inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges such as the New York Stock Exchange and the London Stock Exchange

- 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). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3 - Inputs are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments. This level includes equity investments and debt instruments with significant unobservable components.

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

6. Fair values of financial instruments (cont'd)

Fair value hierarchy (cont'd)

Investments whose values are based on quoted market prices in active markets, and therefore classified within Level 1, include listed equities and certain non-US sovereign obligations. The Group does not adjust the quoted prices of these instruments.

Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are classified as Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is reclassified as Level 3. For the year ended June 30, 2018, there were no securities transferred between Levels 1 and 2.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs, are classified as Level 2. These include most investment-grade corporate bonds, certain non-US sovereign obligations, thinly traded listed equities and some over-the-counter derivatives. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

For the year ended June 30, 2018 the Group had no Level 3 securities, neither were any securities transferred into or out of Level 3.

6. Fair values of financial instruments (cont'd)

Fair value hierarchy (cont'd)

Financial instruments not measured at fair value:

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		Carrying amount							Fair value			
As at June 30, 2018	**Notes**	**Designated at fair value**	**Held-to-maturity**	**Loans and receivables**	**Available-for sale**	**Other amortised costs**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets not measured at fair value												
Cash and cash equivalent	7	-	-	678,827,995	-	-	-	678,827,995	-	-	-	-
Treasury bills		-	-	15,093,278	-	-	-	15,093,278	-	-	-	-
Loans and advances	11	-	-	528,946,027	-	-	-	528,946,027	-	-	-	-
Investment securities:	12	-	-	-	-	-	-	-	-	-	-	-
Measured at amortised cost		-	93,562,107	-	-	-	-	93,562,107				
Unquoted securities		-	-	-	21,409,447	-	-	21,409,447	-	-	-	-
Financial assets measured at fair value												
Corporate bonds		24,201,114	-	-	-	-	-	24,201,114	-	24,201,114	-	24,201,114
Quoted equity securities		54,911,293	-	-	5,460,350	-	-	60,371,643	-	60,371,643	-	60,371,643
Debt securities		51,417,927	-	-	-	-	-	51,417,927	-	51,417,927	-	51,417,927
Asset-backed securities		10,026	-	-	-	-	-	10,026	-	10,026	-	10,026
Total assets		130,540,360	93,562,107	1,222,867,300	26,869,797	-	-	1,473,839,564	-	136,000,710	-	136,000,710
Deposit from customers	17	-	-	-	-	1,468,736,016	-	1,468,736,016	-	-	-	-
Trading liabilities	18	-	-	-	-	-	37,409,658	37,409,658	-	-	-	-
Commercial paper	19	-	-	-	-	31,621,268	-	31,621,268	-	-	-	-
Total liabilities		-	-	-	-	1,500,357,284	37,409,658	1,537,766,942	-	-	-	-

(Expressed in Eastern Caribbean Dollars)

6. Fair values of financial instruments (cont'd)

Fair value hierarchy (cont'd)

Financial instruments not measured at fair value (cont'd)

		Carrying amount							Fair value			
As at June 30, 2017	**Notes**	**Designated at fair value**	**Held-to-maturity**	**Loans and receivables**	**Available-for sale**	**Other amortised costs**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets not measured at fair value												
Cash and cash equivalent	**7**	-	-	627,373,850	-	-	-	627,373,850	-	-	-	-
Treasury bills		-	-	26,545,583	-	-	-	26,545,583	-	-	-	-
Loans and advances	**11**	-	-	559,143,094	-	-	-	559,143,094	-	-	-	-
Investment securities:	**12**	-	-	-	-	-	-	-	-	-	-	-
Measured at amortised cost		-	56,119,122	-	-	-	-	56,119,122	-	-	-	-
Unquoted securities		-	-	-	21,309,732	-	-	21,309,732	-	-	-	-
Financial assets measured at fair value												
Corporate bonds		19,846,680	-	-	-	-	-	19,846,680	8,388,598	11,458,082	-	19,846,680
Quoted equity securities		15,078,819	-	-	5,842,174	-	-	20,920,993	4,227,268	16,693,725	-	20,920,993
Debt securities		48,790,924	-	-	704,092	-	-	49,495,016	-	49,495,016	-	49,495,016
Asset-backed securities		10,741	-	-	-	-	-	10,741	-	10,741	-	10,741
Total assets		83,727,164	56,119,122	1,213,062,527	27,855,998	-	-	1380,764,811	12,615,866	77,657,564	-	90,273,430
Deposit from customers	**19**	-	-	-		1,334,998,572	-	1,334,998,572	-	-	-	-
Trading liabilities	**20**	-	-	-	-	-	39,062,824	39,062,824	-	-	-	-
Commercial paper	**21**	-	-	-	-	20,461,249	-	20,461,249	-	-	-	-
Total liabilities		-	-	-	-	1,355,459,821	39,062,824	1,394,522,645	-	-	-	-

7. Cash and balances with Central Bank

(a) Cash and balances with Central Bank

	Note	2018 $	2017 $
Cash in hand		**9,824,586**	9,409,606
Cash at ECCB other than mandatory deposits		**115,555,683**	200,497,454
Included in cash and cash equivalents	7(b)	**125,380,269**	209,907,060
Mandatory deposits		**87,420,673**	79,482,452
		212,800,942	289,389,512

The weighted average effective interest rate on deposits with ECCB at June 30, 2018 was 0% (2017 - 0.00%). Deposits with the ECCB are non-interest bearing.

Mandatory deposits

Section 45 of the Dominica Banking Act No. 4 of 2015, and the Eastern Caribbean Central Bank Agreement Act of 1983, prescribes the maintenance of a reserve, including marginal required reserves, against deposits and other similar liabilities specified for that purpose. Such reserves shall be maintained either by way of notes and coins, cash holdings with other financial institutions or by way of deposits with the ECCB. Such mandatory deposits are not available to finance the Group's day-to-day operations.

(b) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances:

	Notes	2018 $	2017 $
Cash and balances with ECCB	7(a)	**125,380,269**	209,907,060
Treasury bills	8	**21,789,184**	15,284,788
Due from other banks	9	**529,362,607**	400,266,775
Deposits with non-bank financial institutions	10	**2,295,935**	1,915,227
		678,827,995	627,373,850

Treasury bills of $21,789,184 (2017 - $15,284,788) comprise bills with less than three months' maturity from the date of acquisition and forms part of the total of $36,882,462 (2017 - $41,830,371) in note 8.

(Expressed in Eastern Caribbean Dollars)

8. Treasury bills

	Notes	2018 $	2017 $
Treasury bills issued by domestic and regional governments	7(b)	**36,882,462**	41,830,371

The weighted average effective interest rate in respect of treasury bills for the year was 4.04% (2017 – 4.52%).

9. Due from other banks

	Notes	2018 $	2016 $
Items in the course of collection		**1,120,333**	7,688
Placements with other banks		**72,139,983**	99,543,755
Interest bearing deposits		**456,102,291**	300,715,332
	7(b)	**529,362,607**	400,266,775

The weighted average effective interest rate in respect of interest bearing deposits for the year was 2.08% (2017 – 1.51%). Placements with other banks include the amount of $14,754,351 (2017 - $25,724,839) received on behalf of customers that was in the process of clearing at end of year. These funds are not available for the Bank's use in its normal operations until processed.

10. Deposits with non-bank financial institutions

	Notes	2018 $	2017 $
Interest bearing deposits		**623,663**	623,697
Held by broker		**1,672,272**	1,291,530
	7(b)	**2,295,935**	1,915,227

The weighted average effective interest rate in respect of interest bearing deposits for the year was 2% (2017 2%).

(Expressed in Eastern Caribbean Dollars)

11. Loans and advances

	Notes	2018 $	2017 $
Loans and advances to customers	11(a)	**528,946,027**	559,143,094
Syndicated loans and advances	11(b)	**30,000,000**	-
		558,946,027	559,143,094

(a) Loans and advances to customers

	2018 $	2017 $
Mortgage loans	**139,227,924**	140,357,279
Large corporate customers	**340,194,635**	357,664,333
Overdrafts	**42,914,392**	47,288,029
Credit Cards	**3,148,061**	3,682,824
Term loans	**84,460,034**	63,912,138
Gross	**609,945,046**	612,904,603
Unearned interest on discount loans	**(41,692)**	(31,649)
Provision for loan impairment	**(80,957,327)**	(53,729,860)
Net	**528,946,027**	559,143,094
Current	**132,221,757**	146,113,157
Non-current	**396,724,270**	413,029,937
	528,946,027	559,143,094

The weighted average effective interest rate on productive loans stated at amortized cost at June 30, 2018 was 6.89% (2017 - 7.05%) and productive overdrafts stated at amortized cost was 7.62% (2017 - 7.80%).

(Expressed in Eastern Caribbean Dollars)

11. Loans and advances (cont'd)

(a) Loans and advances to customers (cont'd)

(i) Movement in loan provision for the year

	2018 $	2017 $
At beginning of year	**(53,729,860)**	(37,386,100)
Bad debts written off	**3,324,981**	4,364,185
	(50,404,879)	(33,021,915)
Charge for the year	**(30,552,448)**	(20,707,945)
Total provision for loan impairment	**(80,957,327)**	(53,729,860)

(ii) Charges against profits

	2018	2017
Increase in provision for impairment	**(30,552,448)**	(20,707,945)
Impairment recoveries on loans and advances	**416,908**	1,093,776
Net impairment charged in profit or loss	**(30,135,540)**	(19,614,169)

(iv) Analysis by type of credit

	Large corporate customers $	Term loans $	Mortgage loans $	Overdraft $	Total $
At beginning of year 2018	**39,393,124**	**4,230,997**	**5,778,446**	**4,327,293**	**53,729,860**
Bad debts written off	**(2,098,006)**	**(1,076,501)**	**-**	**(150,474)**	**(3,324,981)**
Charge for the year	**29,114,576**	**1,022,196**	**2,466,499**	**(2,050,823)**	**30,552,448**
At end of year	**66,409,694**	**4,176,692**	**8,244,945**	**2,125,996**	**80,957,327**
At beginning of year 2017	22,993,800	5,979,142	4,099,037	4,314,121	37,386,100
Bad debts written off	(4,000,000)	(220,227)	-	(143,958)	(4,364,185)
Charge for the year	20,399,324	(1,527,918)	1,679,409	157,130	20,707,945
At end of year	39,393,124	4,230,997	5,778,446	4,327,293	53,729,860

11. Loans and advances (cont'd)

(a) Loans and advances to customers (cont'd)

Concentration of loans and advances to customers

(i) Sectoral analysis

	2018		2017	
	$	**%**	**$**	**%**
Agriculture, forestry and fishing	**692,524**	0.1	693,458	0.1
Mining and quarrying	**7,789,330**	1.3	7,591,729	1.2
Manufacturing	**2,933,672**	0.5	3,431,215	0.6
Electricity, gas, steam and air conditioning	**24,299,442**	4.0	24,846,468	4.1
Water supply, sewerage and waste management	**12,647,817**	2.1	12,810,898	2.1
Construction and land development	**51,870,904**	8.5	49,349,463	8.1
Wholesale & retail trade, repair of motor vehicles and motorcycles	**61,139,946**	10.0	59,687,000	9.7
Transport and storage	**31,010,992**	5.1	36,618,634	6.0
Accommodation and food service activities	**44,383,701**	7.3	43,939,444	7.2
Information and communication	**11,493,553**	1.9	13,634,273	2.2
Financial intermediation	**60,071,915**	9.8	55,542,917	9.1
Real estate activities	**209,555,299**	34.4	211,241,463	34.4
Professional, scientific and technical services	**5,120,470**	0.8	6,192,067	1.0
Administrative and support services activities	**682,071**	0.1	497,440	0.1
Public administration and social security	**54,917,282**	9.0	56,142,545	9.1
Education (including Student Loans)	**8,568,200**	1.4	8,271,902	1.3
Human health and social work activities	**1,579,932**	0.3	848,539	0.1
Arts, entertainment and recreation	**349,477**	0.1	426,954	0.1
Other service activities	**3,566,485**	0.6	3,509,688	0.6
Private households	**17,272,034**	2.8	17,628,506	2.9
	609,945,046	100.0	612,904,603	100.0

(b) *Syndicated loans and advances*

The Group, as part of its strategic initiatives has entered into syndicated arrangements for the funding of loan facilities domestically where the exposure exceeds the Tier I requirement. These loans are backed by commercial paper.

The weighted average effective interest rate for the year in respect of syndicated loans at amortized cost was 5% (2017 – Nil).

(ii) Sectoral Analysis

	2018		2017	
	$	**%**	**$**	**%**
Utilities	**30,000,000**	100	-	-

See Note 5(a) for geographical analysis.

(Expressed in Eastern Caribbean Dollars)

12. Investment securities

	2018 $	2017 $
Held-to-maturity	**93,562,107**	56,119,122
Available-for-sale	**26,869,797**	27,855,997
At fair value through profit or loss	**130,540,360**	83,727,164
	250,972,264	167,702,283

A. Held-to-maturity investment securities

	2018 $	2017 $
Government bonds	**85,259,447**	46,986,731
Corporate bonds	**11,316,628**	10,643,988
Asset-backed securities	**6,986,032**	8,488,403
	103,562,107	66,119,122
Less individual allowance for impairment	**(10,000,000)**	(10,000,000)
Debt securities	**93,562,107**	56,119,122

B. Available-for-sale investment securities

	2018 $	2017 $
Government bonds	**5,063,256**	5,798,580
Corporate bonds	**-**	-
Asset-backed securities	**4,206,312**	4,046,272
	9,269,568	9,844,852
Equity securities available-for-sale	**12,892,444**	13,488,237
Less: impairment	**(7,432,094)**	(7,616,971)
Unquoted equity securities measured at cost	**22,151,285**	22,151,285
Less: impairment	**(10,011,406)**	(10,011,406)
	26,869,797	27,855,997

Impairment loss on available-for-sale investment securities

	2018 $	2017 $
Balance at beginning of the year	**17,628,377**	18,065,281
Impairment charge for the year	**-**	579,605
Recovery of investment security measured at cost	**(184,877)**	(1,016,509)
	17,443,500	17,628,377
Balance at end of the year	**17,443,500**	17,628,377

(Expressed in Eastern Caribbean Dollars)

12. Investment securities (cont'd)

C. Investment securities measured at fair value through profit or loss

	2018 $	2017 $
Corporate bonds	**24,201,114**	19,846,680
Debt securities	**51,417,927**	48,790,924
Asset-backed securities	**10,026**	10,741
Equities	**54,911,293**	15,078,819
	130,540,360	83,727,164

	Available-for-sale					
	Listed $	Unlisted $	Total available-for-sale $	Held-to-maturity $	Financial assets at fair value through profit or loss $	Total $
Opening balance - 2017	8,383,745	17,378,464	25,762,209	59,454,896	54,610,109	139,827,214
Additions	279,450	108,666	388,116	171,340	23,647,552	24,207,008
Reclassification	-	3,542,927	3,542,927	-	-	3,542,927
Disposals	(675,000)	(1,016,509)	(1,691,509)	(3,507,114)	-	(5,198,623)
Fair value loss	(582,650)	-	(582,650)	-	5,469,503	4,886,853
Impairment recovery on investment securities	-	436,904	436,904	-	-	436,904
	7,405,545	20,450,452	27,855,997	56,119,122	83,727,164	167,702,283
Opening balance - 2018	**7,405,545**	**20,450,452**	**27,855,997**	**56,119,122**	**83,727,164**	**167,702,283**
Additions	**-**	**105,214**	**105,214**	**59,029,402**	**45,209,678**	**104,344,294**
Reclassification						
Disposals	**(675,000)**	**(190,375)**	**(865,375)**	**(21,586,417)**	**-**	**(22,451,792)**
Fair value loss	**(410,916)**	**-**	**(410,916)**	**-**	**1,603,518**	**1,192,602**
Impairment recovery on investment securities	**-**	**184,877**	**184,877**	**-**	**-**	**184,877**
	6,319,629	**20,550,168**	**26,869,797**	**93,562,107**	**130,540,360**	**250,972,264**

The weighted average effective interest rate for the year in respect of available-for-sale securities at fair value was 5.04% (2017 - 5.31%). The weighted average effective interest rate for the year in respect of held-to-maturity securities at amortized cost was 3.77% (2017 - 4.63%).

12. Investment securities (cont'd)

CL Financial Group placements

As at June 30, 2018, the Group held investments with members of the CL Financial Group as follows:

	Maturity date $	Investment amount $	Provision 2018 $	Investment amount $	Provision 2017 $
CLICO International Life Insurance Company - Barbados	January 26, 2015	10,000,000	10,000,000	10,000,000	10,000,000

13. Other assets

	2018 $	2017 $
Prepayments and advances	**1,581,436**	822,197
Clearings	**4,644,189**	471,441
Stationery	**734,919**	883,650
Merchant settlements	**5,032,270**	2,988,421
Other receivable	**13,273,126**	13,869,609
	25,265,940	19,035,318

The amounts classified as "Other receivable" relate to amounts due from another financial institution. The financial institution was placed in receivership in November 2015. The Group continues to work through its regulator to arrive at a satisfactory resolution.

14. Property and equipment

Under Section 55 of the Banking Act No. 4 of 2015, the Group is required to dispose of all immoveable property surplus to its operational needs within three (3) years from November 12, 2015. Consequently, freehold land was previously reclassified as "Property held for sale". In the prior year this amount was reclassified to property and equipment as it is unlikely that sale will be realized within the next year. The Group continues to seek to effect this sale to be in line with statutory requirements.

(Expressed in Eastern Caribbean Dollars)

14. Property and equipment (cont'd)

	Land $	Building $	Leasehold improvement $	Computer equipment $	Furniture & equipment $	Motor vehicles $	Total $
COST							
Balance at July 1, 2016	1,715,541	8,727,716	1,202,837	7,412,975	15,185,465	1,001,650	35,246,184
Additions	-	10,878	6,500	447,901	399,272	-	864,551
Transfer to held for sale	2,541,142	-	-	-	-	-	2,541,142
Disposals	-	-	-	-	(32,436)	-	(32,436)
Balance at June 30, 2017	**4,256,683**	**8,738,594**	**1,209,337**	**7,860,876**	**15,552,301**	**1,001,650**	**38,619,441**
Additions	**-**	**4,573**	**45,618**	**723,219**	**516,473**	**-**	**1,289,883**
Transfer from held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**-**	**-**	**(111,540)**	**-**	**(111,540)**
Balance at June 30, 2018	**4,256,683**	**8,743,167**	**1,254,955**	**8,584,095**	**15,957,234**	**1,001,650**	**39,797,784**
ACCUMULATED DEPRECIATION							
Balance at July 1, 2016	-	(3,866,825)	(1,202,467)	(6,954,500)	(13,207,333)	(547,673)	(25,778,798)
Charge for the period	-	(230,672)	(1,968)	(382,978)	(931,840)	(127,631)	(1,675,089)
Depreciation eliminated on disposals	-	-	-	-	32,436	-	32,436
Balance at June 30, 2017	-	(4,097,497)	(1,204,435)	(7,337,478)	(14,106,737)	(675,304)	(27,421,451)
Charge for the period	-	**(212,332)**	**(1,192)**	**(237,806)**	**(545,041)**	**(116,995)**	**(1,113,366)**
Depreciation eliminated on disposals	-	-	-	-	-	-	-
Balance at June 30, 2018	**-**	**(4,309,829)**	**(1,205,627)**	**(7,575,284)**	**(14,651,778)**	**(792,299)**	**(28,534,817)**
Carrying Values							
Balance as at June 30, 2018	**4,256,683**	**4,433,338**	**49,328**	**1,008,811**	**1,305,456**	**209,351**	**11,262,967**
Balance as at June 30, 2017	4,256,683	4,641,097	4,902	523,398	1,445,564	326,346	11,197,990
Balance as at June 30, 2016	1,715,541	4,860,891	370	458,475	1,978,132	453,977	9,467,386

15. Intangible assets

	Total $
COST	
Balance at July 1, 2016	7,624,039
Additions	145,517
Balance at June 30, 2017	7,769,556
Additions	**20,388**
Balance at June 30, 2018	**7,789,944**
ACCUMULATED DEPRECIATION	
Balance at July 1, 2016	7,388,552
Charge for the year	194,810
Balance at June 30, 2017	7,583,362
Charge for the year	**61,803**
Balance at June 30, 2018	**7,645,165**
Carrying Values	
Balance at June 30, 2018	**144,779**
Balance as at June 30, 2017	186,194
Balance as at July 1, 2016	235,487

(Expressed in Eastern Caribbean Dollars)

16. Income tax recoverable

The income tax recoverable recognized in the consolidated statement of financial position for the financial year 2017 represents an overpayment of taxes for periods up to June 30, 2000. The balance was applied against the tax liability in the current year.

17. Deposits from customers

	2018 $	2017 $
Demand deposits	**504,995,214**	491,582,510
Savings accounts	**673,620,810**	552,737,198
Term deposits	**290,119,992**	290,678,864
	1,468,736,016	1,334,998,572
Current	**1,295,787,744**	1,139,831,245
Non-current	**172,948,272**	195,167,327
	1,468,736,016	1,334,998,572

The weighted average effective interest rate for the year in respect of customers' deposits was 1.71% (2017 - 1.83 %).

18. Other liabilities

	2018 $	2017 $
Manager's cheques	**3,187,129**	2,412,310
Bankers' payments	**4,320,211**	2,716,197
Provision for staff gratuities	**3,065,197**	3,029,402
Unclaimed dividends	**328,220**	326,160
Uncleared funds	**14,754,351**	25,724,839
Other accounts payable and accrued liabilities	**11,754,550**	4,853,916
	37,409,658	39,062,824

The provision for staff gratuities is pursuant to a union agreement to provide employees with a gratuity upon termination. The gratuity is provided by the Group to staff with a minimum of 10 years of service. The funds are being held by the Group. Uncleared funds represents amounts received on behalf of customers which were in the process of clearing at year end. These funds are not available for the Group's use in its normal operations until processed.

(Expressed in Eastern Caribbean Dollars)

19. Commercial paper

The Group entered into syndicated loan arrangements for which funding exceeded the statutory Tier 1 requirement. To comply with this requirement, the Group issued commercial paper in order to fund these facilities. The commercial paper is issued for a maximum period of three years with the option of renewal. As at the reporting date, the Group had commercial paper of $31,621,268 (2017 - $20,461,249).

The effective interest rates are 3.60% (2017 - 5.63%).

20. Share capital

	Number of shares	2018 $	2017 $
Authorized			
40,000,000 ordinary shares of no par value			
Issued and fully paid			
Ordinary shares at beginning of year	24,000,000	**20,000,000**	11,000,000
Bonus Share Issue	-	**-**	9,000,000
Ordinary Shares at end of year	24,000,000	**20,000,000**	20,000,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group.

In 2017, to meet the requirements of the Banking Act No. 4 of 2015, which requires that the Bank hold a minimum level of paid up capital of $20,000,000, the shareholders approved an 11 for 1 bonus issue, which resulted in the issue of 2,000,000 ordinary shares to qualifying shareholders. Issued share capital subsequently increased by $9,000,000. It is the Bank's intention to raise new capital in the medium term.

21. Statutory reserve

Pursuant to Section 45 of the Banking Act No. 4 of 2015, the Group shall, out of its net profits of each year, transfer to a reserve "not less than 20% of the annual net earnings of the Group to a reserve fund whenever the fund is less than one hundred percent of the issued and paid-up capital of the Group". At the reporting date, the Group's reserve was less than the issued and paid-up capital. However, on the basis that the Group incurred a loss for the year ended June 30, 2018 no transfer was made to statutory reserve.

22. Loan loss reserve

In 2014, the Directors declared the creation of a loan loss reserve as a transfer from retained earnings. The declaration of this reserve is in anticipation of the adoption of IFRS 9, *Financial Instruments*, in future years. The standard proposes a change in the framework for the provision for loan losses from the "incurred loss" model to the "expected credit loss" model and it is expected that there will be a significant increase in the provision when it is effective. Loans and advances currently in the Group's portfolio are expected to contribute to this increase in the loan loss provision. As such the loan loss reserve is intended to give a reasonable estimate of what the true Tier 2 capital is in light of these future changes in the determination of the impairment allowance.

(Expressed in Eastern Caribbean Dollars)

23. Available-for-sale reserve

Unrealized gains or losses on investment securities reflect the difference between the available-for-sale investments at cost and their fair value.

	2018 $	2017 $
Balance at beginning of year	**986,316**	1,568,966
Loss on changes in fair values	**(410,916)**	(582,650)
Balance at end of year	**575,400**	986,316

24. Dividends

The following dividends were declared and paid by the Group:

	Issued and outstanding shares	2018 $	2017 $
$0.03 cents (2017 – 0 cents) per qualifying ordinary share	-	720,000	-
Ordinary shares at the end of the year	24,000,000	-	-

25. Net interest income

	2018 $	2017 $
Interest income		
Loans and overdrafts	**40,765,810**	39,671,163
Treasury bills, investment securities and bonds	**9,027,516**	6,033,257
Deposits with banks	**674,693**	1,186,004
	50,468,019	46,890,424
Interest expense		
Time deposits, commercial paper and syndicated arrangements	**9,884,419**	10,822,530
Saving deposits	**12,268,441**	10,488,337
Demand deposits	**351,267**	1,099,879
Correspondent banks	**20,105**	51,324
	22,524,232	22,462,070
Net interest income	**27,943,787**	24,428,354

(Expressed in Eastern Caribbean Dollars)

26. Net commission and other income

	2018 $	2017 $
Dividend income	**928,014**	583,451
Foreign currency account commission	**822,521**	966,529
Loan fees	**1,089,620**	1,255,292
Net credit card revenue	**157,982**	35,199
Others	**2,437,852**	1,898,506
Services charges	**1,825,981**	2,214,569
	7,261,970	6,953,546

27. (Recovery of)/impairment loss on investment securities

	Note	2018 $	2017 $
Impairment on available-for–sale investment securities		**-**	579,605
Investment recovered during the year		**(184,877)**	(1,016,509)
	12	**(184,877)**	(436,904)

Impairment losses are reflected in the consolidated statement of profit or loss for the year ended June 30, 2018 and represent management’s assessment of impairment of investment securities classified as available-for-sale and at fair value through profit or loss, based on the existence of objective evidence of impairment at that date.

See note 12 for the effect of the impairment on the consolidated statement of financial position.

(Expressed in Eastern Caribbean Dollars)

28. Operating expenses

	Notes	2018 $	2017 $
Audit fees		**210,000**	210,200
Audit expenses		**65,403**	50,735
Depreciation and amortization		**1,175,169**	1,869,899
Directors' expenses		**12,970**	87,935
Directors' fees		**202,318**	268,700
Directors' training and development		**31,426**	60,967
Employee benefit expenses	30	**10,591,307**	10,746,511
Insurance		**236,053**	421,415
Legal and other professional fees		**764,376**	1,136,816
Office expenses		**741,359**	864,933
Other expenses	29	**3,330,205**	2,804,127
Rental of premises and equipment		**547,593**	713,733
Repairs and maintenance:			
- *Building*		**740,052**	897,797
- *Computer*		**1,381,225**	1,721,149
- *Other*		**625,284**	484,089
Utilities			
- *Electricity and water*		**620,379**	786,901
- *Telephone*		**562,825**	565,886
		21,837,944	23,691,793

29. Other expenses

	Note	2018 $	2017 $
Advertising and promotions		**505,582**	914,543
Agency fees		**1,263,683**	1,036,067
Collateral revaluation		**49,557**	21,328
Meetings and conferences		**53,680**	143,618
Miscellaneous		**171,210**	167,471
Scholarships expenses		**10,695**	10,138
Security – cash in transit		**102,527**	102,148
Subscription and levies		**343,023**	208,283
Sundry losses		**830,248**	200,531
	28	**3,330,205**	2,804,127

(Expressed in Eastern Caribbean Dollars)

30. Compensation

	Note	2018 $	2017 $
Employees			
Wages and salaries		**8,139,935**	8,320,135
Other staff costs		**689,154**	601,365
Training		**123,506**	358,309
Social security cost		**517,069**	521,251
Retirement benefit and gratuity		**636,124**	439,597
Group insurance		**346,482**	305,714
Staff uniform		**139,037**	200,140
	28	**10,591,307**	10,746,511
Key Management Compensation			
Salaries and other short-term benefits		**1,245,192**	1,374,168
Post-employment benefits		**208,359**	258,654
		1,453,551	1,632,822
Directors' fees		**202,318**	268,700

31. Income tax expense

	2018 $	2017 $
Current	**492,539**	-
Deferred	**-**	-
	492,539	-

The tax on the operating profit differs from the theoretical amount that would arise by applying the basic tax rate of 25% to the consolidated loss, as follows:-

	2018 $	2017 $
(Loss)/ profit before tax	**(4,846,222)**	1,674,544
Tax credit calculated at the applicable tax rate of 25% (2017 – 25%)	**(1,211,556)**	418,636
Tax impact of non-deductible expenses	**5,176,694**	6,631,799
Tax impact of exempt income	**(3,672,599)**	(4,727,584)
Tax impact of current year tax losses	**-**	(2,322,851)
	492,539	-

(Expressed in Eastern Caribbean Dollars)

32. Income tax losses

At the end of the year, the Group had income tax losses of $0 (2017 – $9,869,318) to carry forward against future tax liabilities. These losses, which have not been confirmed or agreed by the Inland Revenue Department, will expire as follows if not utilised:

Income Year	Expiry year	(Profit)/ Losses arising $	Losses expired/utilised $	Losses b/f $	Accumulated losses c/f $
2013	2018	1,988,644	2,291,237	20,984,829	20,682,236
2014	2019	2,718,211	9,795,272	20,682,236	13,605,175
2015	2020	5,797,325	9,039,586	13,605,175	10,362,914
2016	2021	10,645,186	(141,266)	10,362,914	21,149,366
2017	2022	(9,291,404)	1,988,644	21,149,366	9,869,318
2018	-	-	(9,869,318)	-	-

33. Basic and diluted profit/(loss) per share

The calculation of loss per share is based on the loss attributable to ordinary shareholders for the year of $5,338,761 (2017 – profit of $1,674,544) divided by 24,000,000 (2017 - 24,000,000), being the weighted average number of ordinary shares in issue during the year.

34. Related party transactions and balances

A related party is a person or entity that is related to the Group.

A party is related to the Group, if:

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled, or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

A related party transaction is a transfer of resources, services or obligations between the Group and a related party, regardless of whether a price is charged.

(Expressed in Eastern Caribbean Dollars)

34. Related party transactions and balances (cont'd)

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

	2018		2017	
	Income $	Expense $	Income $	Expense $
Government of Dominica	**3,232,351**	**589,261**	2,833,781	600,976
Statutory bodies	**1,273,754**	**3,374,254**	1,029,065	3,457,730
Directors and related entities	**629,073**	**134,101**	629,073	39,540
Key management	**66,117**	**21,499**	82,593	19,590

At June 30, 2018, related parties had the following balances with the Group:

	2018		2017	
	Loans $	Deposits $	Loans $	Deposits $
Government of Dominica	**54,803,849**	**214,998,742**	55,163,963	307,830,867
Statutory bodies	**15,661,754**	**145,507,525**	16,953,981	142,358,832
Directors and related entities	**13,295,327**	**1,170,683**	13,439,267	1,392,259
Key management	**1,340,886**	**1,038,985**	1,728,230	958,814

As at the reporting date, the Group's single largest shareholder was the Government of the Commonwealth of Dominica holding directly 48.93% (2017 - 48.93%) of the issued share capital, and 55.09% (2017 - 55.09%) when considered in concert with other shareholding entities owned and controlled by the Government. In addition, the loan balances of the Government of Dominica at $54,803,849 (2017 - $55,163,963) constituted 9% (2017 – 9%) of the loans and advances outstanding from customers at June 30, 2018.

Directors' shareholdings as at the end of the financial year are as follows: 22,416 shares or 0.09% (2017 – 10,608 shares or 0.04%).

(Expressed in Eastern Caribbean Dollars)

35. Commitments and contingencies

Loans and advances committed but not yet drawn at the year-end totaled $51 million (2017 - $61 million).

Sectoral analysis

	2018 $	2017 $
Construction and land development	**593,000**	2,756,134
Business financing	**28,261,646**	9,230,735
Home construction and renovation	**10,454,633**	9,529,155
Education	**1,587,946**	636,346
Other personal	**1,003,249**	1,693,217
Tourism	**200,000**	6,832,112
Utilities	**9,000,000**	30,000,000
	51,100,474	60,677,699

Acceptances, guarantees and letters of credit that remain open at the year-end amounted to $3,781,704 (2017 - $3,966,899).

36. Future lease commitments

There were no commitments for capital works or real properties at the reporting date. However, there were operating lease commitments in respect of which the minimum future payments were as follows:

	2018 $	2017 $
Within one year	**537,132**	570,773
Within two to five years	**494,232**	988,464
	1,031,364	1,559,237

37. Human capital management

The following data serves as a selection of the Group's performance measurement indicators for the last two years:

		2018 $	2017 $
Number of employees		**138**	143
Staff costs/total revenue		**15.25%**	16.04%
Interest revenue per employee		**365,710**	327,905
Assets per employee	$	**11,798,045**	10,529,527

(Expressed in Eastern Caribbean Dollars)

38. Hurricane impact

The Group's operations were negatively impacted by the passage of Hurricane Maria in late 2017. There were damages to its property, plant and equipment, for which adequate compensation was received from insurers. Its credit portfolio was also impacted as customers' properties, stock and equipment, which were either collateral held for debt or source of income for debt servicing sustained varying levels of damage. Assessments were therefore conducted of the operational status of business clients, the level of damage sustained to mortgaged properties, and the adequacy of insurance coverage over secured assets. Overall, insurances have been settled for the majority of accounts and negotiations continue with insurers in the remaining cases. For the most part, settlements were adequate to reinstate property and in circumstances where settlement was inadequate, customers were able to obtain additional funding either from loans or support from international supporting agencies. Furthermore, an assessment was conducted of the real estate collateral values supporting non-performing loans and the Group revised the forced sale values in computing loan loss provisions based on discussions with experienced valuers.

Based on the aforementioned, during the year ended June 30, 2018, Management performed an overall assessment on the adequacy of the provision for loan losses across the loans and advances portfolio, including specifically considering the estimated hurricane related credit risk losses. The adjustment to the provision was recorded within the credit losses, net of recoveries, in the consolidated statement of profit or loss. Management will continue to assess this provision as actual losses materialize.