Schedule 1 FORM ECSRC – K ANNUAL REPORT

PURSUANT TO SECTION 98(1) OF THE SECURITIES ACT, 2001

For the financial year ended **JUNE 30, 2017**

Issuer Registration number

ST.KITTS-NEVIS-ANGUILLA NATIONAL BANK LTD

(Exact name of reporting issuer as specified in its charter)

ST.KITTS AND NEVIS

(Territory of incorporation)

CENTRAL STREET, BASSETRRE, ST KITTS

(Address of principal office)

REPORTING ISSUER'S:

Telephone number (including area code): **(869) 465-2204**

Fax number: **(869) 465-1050**

Email address: **webmaster@sknanb.com**

(Provide information stipulated in paragraphs 1 to 14 hereunder)

Indicate whether the reporting issuer has filed all reports required to be filed by section 98 of the Securities Act, 2001 during the preceding 12 months

Yes x No______

Indicate the number of outstanding shares of each of the reporting issuer's classes of common stock, as of the date of completion of this report.

CLASS	NUMBER
ORDINARY SHARES	**135,000,000**

SIGNATURES

A Director, the Chief Executive Officer and Chief Financial Officer of the company shall sign this Annual Report on behalf of the company. By so doing each certifies that he has made diligent efforts to verify the material accuracy and completeness of the information herein contained.

The Chief Financial Officer by signing this form is hereby certifying that the financial statements submitted fairly state the company's financial position and results of operations, or receipts and disbursements, as of the dates and period(s) indicated. The Chief Financial Officer further certifies that all financial statements submitted herewith are prepared in accordance with International Accounting Standards consistently applied (except as stated in the notes thereto) and (with respect to year-end figures) including all adjustments necessary for fair presentation under the circumstances.

Name of Chief Executive Officer (Acting):

DONALD THOMPSON

SIGNED AND CERTIFIED

25-5-18

Date

Name of Director:

ALEXIS NISBETT

SIGNED AND CERTIFIED

25/5/18

Date

Name of Chief Financial Officer:

A. ANTHONY GALLOWAY

SIGNED AND CERTIFIED

May 25, 2018

Date

INFORMATION TO BE INCLUDED IN FORM ECSRC-K

1. Business.

Provide a description of the developments in the main line of business including accomplishments and future plans. The discussion of the development of the reporting issuer's business need only include developments since the beginning of the financial year for which this report is filed.

The National Bank Group has established a comprehensive and effective Enterprise Risk Management (ERM) programme which is embedded into business processes to facilitate risk identification and mitigation. The Group's risk management programme has been transformed over the past five years, in response to regulations and best practices that emerged from the global financial crisis.
These risk management efforts will continue to improve as the Group continues to adjust to the inevitable changes in the next five years to include technological innovations as they emerge and to new risk management techniques to improve business decisions.

In the 2018 financial year, strong emphasis will be placed on efficiency, productivity, safety and soundness. The Group's market share of total loans and advances in the Federation of St Kitts and Nevis increased 40 basis points from 39.6% in 2016 to 40.0% in 2017 and when compared to the ECCU, moved up 20 basis points from 5.6% to 5.8% over the same period. Loan growth in all major categories will be a key area of focus.

We will continue to invest substantially in technology that will bring enhanced benefits to our customers and in human capacity building. We believe that this focus will enable us to successfully combat the challenges ahead and remain profitable.

2. Properties.

Provide a list of properties owned by the reporting entity, detailing the productive capacity and future prospects of the facilities. Identify properties acquired or disposed of since the beginning of the financial year for which this report is filed.

- **National Bank Headquarters, Central and West Square Streets**

- **Branch Offices**
  Main Street, Charlestown Nevis
  Main Street, Sandy Point (Branch Office)
  Main Street, Saddlers

- **Sandy Point Post Office**

- **Land**
  West Square Street (Davis Property)
  Rosemary Lane (Queely Property)
  Rosemary Lane (Archibald Property)

  Land is for future expansion of Head Quarters.

3. Legal Proceedings.

Furnish information on any proceedings that were commenced or were terminated during the current financial year. Information should include date of commencement or termination of proceedings. Also include a description of the disposition thereof with respect to the reporting issuer and its subsidiaries.

None

4. Submission of Matters to a Vote of Security Holders.

If any matter was submitted to a vote of security holders through the solicitation of proxies or otherwise during the financial year covered by this report, furnish the following information:

(a) The date of the meeting and whether it was an annual or special meeting.

The Company held its Forty-sixth Annual General Meeting on Thursday 27th April 2017.

(b) If the meeting involved the election of directors, the name of each director elected at the meeting and the name of each other director whose term of office as a director continued after the meeting.

At the 46th Annual General meeting, the following retiring directors were re-elected:
Mr. Theodore Hobson
Ms. Talibah Byron
Mr. Lionel Benjamin

Other directors who continued their term in office after the Annual General Meeting were:
Mr. Howard McEachrane
Mr. Norton A. Bailey
Mr. Alexis Nisbett
Mrs. Elreter Simpson-Browne
Mr. William Liburd
Dr. Cardell Rawlins
Mr. Wallis Wilkin

Mr. Howard Mc Eachrane, Chairman of the Board at the financial reporting date June 2017, retired at the end of August 2017, shortly after the start of the Financial year 2017/2018.
Similarly, Mr. Theodore Hobson, a member of the Board of Directors, retired at the end of September 2017.

(c) A brief description of each other matter voted upon at the meeting and a statement of the number of votes cast for or against as well as the number of abstentions as to each such matter, including a separate tabulation with respect to each nominee for office.

Other matters voted upon at the 46th Annual General Meeting are:
1) The Declaration of a dividend
2) The Appointment of Auditors for the year ended June 30, 2017

The votes were unanimous.

(d) A description of the terms of any settlement between the registrant and any other participant.

None

(e) Relevant details of any matter where a decision was taken otherwise than at a meeting of such security holders.

None

5. Market for Reporting issuer's Common Equity and Related Stockholder Matters.

Furnish information regarding all equity securities of the reporting issuer sold by the reporting issuer during the period covered by the report.

None

6. **Financial Statements and Selected Financial Data.**

Attach Audited Financial Statements, which comprise the following:

For the most recent financial year

(i) Auditor's report; and
(ii) Statement of Financial Position;

For the most recent financial year and for each of the two financial years preceding the date of the most recent audited Statement of Financial Position being filed

(iii) Statement of Profit or Loss and other Comprehensive Income;
(iv) Statement of Cash Flows;
(v) Statement of Changes in Equity; and (vi) Notes to the Financial Statements.

7. **Disclosure about Risk Factors.**

Provide a discussion of the risk factors that may have an impact on the results from operations or on the financial conditions. Avoid generalised statements. Typical risk factors include untested products, cash flow and liquidity problems, dependence on a key supplier or customer, management inexperience, nature of business, absence of a trading market (specific to the securities of the reporting issuer), etc. Indicate if any risk factors have increased or decreased in the time interval between the previous and current filing.

The Group's activities expose it to a variety of financial risks, as taking risk is core to the commercial banking and insurance business. Management is aware that operational risks are an inevitable consequence of being in business, and hence risk management policies are designed to identify and analyse risks in order to set appropriate levels and controls to monitor and mitigate risks. Risk management is carried out by the Credit and Comptroller Divisions under policies approved by the Board of Directors. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The types of risks that affect the Group are credit risk, liquidity risk, market risk (interest rate and currency risk), insurance risk and other operational risks. Credit risks can have a great impact on the results from operations or on financial conditions due to the industry in which we operate. The Group takes on exposure to credit risk, which is the risk that counterparties will cause financial losses for the Group by failing to discharge their obligations. Credit exposure arises principally in lending activities that lead to loans and advances and investment activities that bring debt securities and other bills into the Group's asset portfolio. The Group's exposure to credit risk is managed through regular analysis of the ability of its borrowers to meet obligations as well as taking collateral and corporate and personal guarantees as securities on advances.

The Group is exposed to market risk, which is the risk that fair values or future cash flows will fluctuate because of changes in market prices. The Group holds investments in open positions in interest rate and equity products, all of which are exposed to general and specific market movements and changes in market rates or prices such as interest rates, equity prices and foreign exchange rates. Exposure to market risk is managed by diversifying the investment portfolio.

Liquidity risk, to which the Group is also exposed, is the risk that the Group is unable to meet its payment obligations when they fall due and fulfill commitments to lend. Sources of liquidity are regularly monitored and the Group holds a diversified portfolio of cash and investment securities to support payment obligations.

The Group also manages insurance risk, the risk of an insured event occurring, by limiting its exposure to potential loss on insurance policies by ceding certain levels of risk to reinsurers.

8. Changes in Securities and Use of Proceeds.

(a) Where the rights of the holders of any class of registered securities have been materially modified, give the title of the class of securities involved. State briefly the general effect of such modification upon the rights of holders of such securities.

Not Applicable

(b) Where the use of proceeds of a security issue is different from that which is stated in the registration statement, provide the following:

- Offer opening date (provide explanation if different from date disclosed in the registration statement)
  Not Applicable

- Offer closing date (provide explanation if different from date disclosed in the registration statement)
  Not Applicable

- Name and address of underwriter(s)
  None

- Amount of expenses incurred in connection with the offer **None**

- Net proceeds of the issue and a schedule of its use
  None

- Payments to associated persons and the purpose for such payments
  None

(c) Report any working capital restrictions and other limitations upon the payment of dividends.

None

9. **Defaults upon Senior Securities.**

(a) If there has been any material default in the payment of principal, interest, a sinking or purchase fund instalment, or any other material default not satisfied within 30 days, with respect to any indebtedness of the reporting issuer or any of its significant subsidiaries exceeding 5 per cent of the total assets of the reporting issuer and its consolidated subsidiaries, identify the indebtedness. Indicate the nature of the default. In the case of default in the payment of principal, interest, or a sinking or purchase fund instalment, state the amount of the default and the total arrears on the date of filing this report.

None

(b) If any material arrears in the payment of dividends have occurred or if there has been any other material delinquency not satisfied within 30 days, give the title of the class and state the amount and nature of the arrears or delinquency.

None

10. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Discuss the reporting issuer's financial condition covering aspects such as liquidity, capital resources, changes in financial condition and results of operations during the financial year of the filing. Discussions of liquidity and capital resources may be combined whenever the two topics are interrelated.

The Management's Discussion and Analysis should disclose sufficient information to enable investors to judge:

1. The quality of earnings;
2. The likelihood that past performance is indicative of future performance; and
3. The issuer's general financial condition and outlook.

It should disclose information over and above that which is provided in the management accounts and should not be merely a description of the movements in the financial statements in narrative form or an otherwise uninformative series of technical responses. It should provide management's perspective of the company that enables investors to view the business from the vantage point of management.

The discussion should focus on aspects such as liquidity; capital resources; changes in financial condition; results of operations; material trends and uncertainties and measures taken or to be taken to address unfavourable trends; key performance indicators; and nonfinancial indicators.

General Discussion and Analysis of Financial Condition

The National Bank Group of Companies reports another successful year of operations with a net income after tax of $39.4 million, an increase of $11.0 million from the $28.4 million reported at the end of June 2016. Total income earned from usual and ordinary events and transactions of the Group for the financial year was $181.7 million.

The Financial condition of the Group at the end of June 2017 is as follows:

- **The total asset base of the Group grew by $81.3 million, which is 2.20% higher than the $3.697 billion reported at June 2016.**
- **Net Loans and advances increased by $1.4 million or 0.2% when compared with $703.9 million at June 2016.**
- **Customers' deposits decreased by $17.2 million or 0.6% when compared with $3.049 billion at June 2016.**
- **Shareholders' Equity increased by $81.9 million or 17.5% when compared with $467.6 million at June 2016, which is evidence that the company continues to realize its goal of providing satisfactory returns to shareholders, thus increasing the value of their investments.**
- **The Return on Equity of 7.8% at June 2017 shows an improvement from the 6.0% reported at June 2016.**

Liquidity and Capital Resources

Provide a narrative explanation of the following (but not limited to):

i) The reporting issuer's financial condition covering aspects such as liquidity, capital resources, changes in financial condition and results of operations.

ii) Any known trends, demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, the issuer's liquidity increasing or decreasing in any material way. If a deficiency is identified, indicate the course of action that the reporting issuer has taken or proposes to take to remedy the deficiency.

iii) The issuer's internal and external sources of liquidity and any material unused sources of liquid assets.

iv) Provisions contained in financial guarantees or commitments, debt or lease agreements or other arrangements that could trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation such as adverse changes in the issuer's financial ratios, earnings, cash flows or stock price or changes in the value of underlying, linked or indexed assets.

v) Circumstances that could impair the issuer's ability to continue to engage in transactions that have been integral to historical operations or are financially or operationally essential or that could render that activity commercially impracticable such as the inability to maintain a specified level of earnings, earnings per share, financial ratios or collateral.

vi) Factors specific to the issuer and its markets that the issuer expects will affect its ability to raise short-term and long-term financing, guarantees of debt or other commitment to third parties, and written options on non-financial assets.

vii) The relevant maturity grouping of assets and liabilities based on the remaining period at the balance sheet date to the contractual maturity date. Commentary should provide information about effective periods and the way the risks associated with different maturity and interest profiles are managed and controlled.

viii) The issuer's material commitments for capital expenditures as of the end of the latest fiscal period, and indicate the general purposes of such commitments and the anticipated source of funds needed to fulfil such commitments.

ix) Any known material trends, favorable or unfavorable, in the issuer's capital resources, including any expected material changes in the mix and relative cost of capital resources, considering changes between debt, equity and any off-balance sheet financing arrangements.

Discussion of Liquidity and Capital Resources

LIQUIDITY

The Group's liquidity is managed and monitored on a daily basis by management to ensure that there is sufficient liquidity to meet its liabilities when they fall due, both under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group maintains a portfolio of marketable assets that can be easily liquidated as protection against unforeseen liquidity problems, as well as cash and balances with the Central Bank and other financial institutions.

The Group remained highly liquid and maintained a higher level of liquid assets during the period. Total liquid assets maturing within one (1) year were $3.3 billion in 2017 (2016 – $2.3 billion), equal to 87.2% of total assets versus 63.4% the previous year. These assets consist of cash, deposits and securities.

CAPITAL RESOURCES

The Group's policy is to manage the capital levels based on the underlying risk of its business. Capital adequacy is monitored to ensure compliance with the ECCB's risk based capital guidelines, which require a minimum ratio for Tier 1 or core capital of 4% to risk weighted assets. Tier 1 Capital is comprised of share capital, statutory reserves, general reserves and retained earnings.

The Group continued to hold a very strong capital position in financial year 2017 as evidenced by the end of period Tier 1 capital ratio of 29.0% and Total capital ratio of 35.0%. These ratios are well above regulatory minimums and strong by international standards.
This strong capital position has enabled the Group to continually pay dividends (of $0.10 per share) to shareholders. As well, Shareholders' equity has risen by $81.9 million or 17.5% in 2017, Return on equity moved higher to 7.8% in 2017 from 6.0% in 2016 and Return on assets rose from 0.8% in 2016 to 1.1% in 2017.

Off Balance Sheet Arrangements

Provide a narrative explanation of the following (but not limited to):

i) Disclosures concerning transactions, arrangements and other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of, or requirements for capital resources.

ii) The extent of the issuer's reliance on off-balance sheet arrangements should be described fully and clearly where those entities provide financing, liquidity, market or credit risk support, or expose the issuer to liability that is not reflected on the face of the financial statements.

iii) Off-balance sheet arrangements such as their business purposes and activities, their economic substance, the key terms and conditions of any commitments, the initial on-going relationship with the issuer and its affiliates and the potential risk exposures resulting from its contractual or other commitments involving the offbalance sheet arrangements.

iv) The effects on the issuer's business and financial condition of the entity's termination if it has a finite life or it is reasonably likely that the issuer's arrangements with the entity may be discontinued in the foreseeable future.

At the end of the financial year, June 30 2017, the Bank had contractual commitments to extend credit to customers, guarantee and other facilities, totaling $24.0 million.

<u>Results of Operations</u>

In discussing results of operations, issuers should highlight the company's products and services, facilities and future direction. There should be a discussion of operating considerations and unusual events, which have influenced results for the reporting period. Additionally, any trends or uncertainties that might materially affect operating results in the future should be discussed.

Provide a narrative explanation of the following (but not limited to):

i) Any unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from continuing operations and, in each case, the extent to which income was so affected.

ii) Significant components of revenues or expenses that should, in the company's judgment, be described in order to understand the issuer's results of operations.

iii) Known trends or uncertainties that have had or that the issuer reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.

iv) Known events that will cause a material change in the relationship between costs and revenues (such as price increases, costs of labour or materials), and changes in relationships should be disclosed.

v) The extent to which material increases in net sales or revenues are attributable to increases in prices or to increases in the volume or amount of goods or services being sold or to the introduction of new products or services.

vi) Matters that will have an impact on future operations and have not had an impact in the past.

vii) Matters that have had an impact on reported operations and are not expected to have an impact upon future operations

viii) Off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships that have or are reasonably likely to have a current or future effect on the registrant's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

ix) Performance goals, systems and, controls, *Overview of Results of Operations*

At the end of the financial year June 2017, the Group recorded total income of $181.7 million, which was $20.5 million or 12.7% higher than the $161.2 million earned at the end of June 2016.
This increase was the net effect of a decrease in interest income on loans and advances of $6.7 million; offset by a significant increase in other income of $27.2 million.

Net-Interest Income

Net interest income earned at the end of June 2017 was $32.0 million, compared with net interest income of $32.2 million in 2016, a slight decrease of $0.2 million. The Group continues to operate strategies to manage the cost of funds, which has led to a reduction in interest expense by 11.9% below the previous year. The Group will continue its campaigns and efforts to grow the loan portfolio so as to improve interest income.

Non-Interest Income

Non-interest income increased by 27.2 million or 39.5% from $68.8 million in 2016 to $96.0 million in 2017. Excluding the impact of foreign exchange translation, all categories of non-interest income showed year-over-year growth.

The largest contributor to this growth was higher net gains on AFS investments. The Bank took advantage of the turnaround in the United States financial markets during the year and this gave rise to a 203.4% increase in gains over the prior period. These results together with increased dividend income on these and other investments and higher insurance premium income led to an increase in the non-interest income base.

Gains and dividends from Investments now constitute 43.6% (2016 - $22.7%) of total non-interest income, Insurance premiums - 33.4% (2016 – 45.2%) and foreign business transactions – 15.6% (2016 - 19.6%). All other operating and fee-based income account for the remaining 7.4% (2016 – 12.5%).

Non-Interest Expenses

Non-interest expenses totaled $92.2 million in 2017. This represents an increase of $21.2 million or 29.9% from 2016. Growth in non-interest expenses was due mainly to an increase in the provision for losses on loans and equity, an adjustment to the Group's Contribution Scheme, additional insurance, normal growth in employee salaries, the payment of gratuity and pension to long serving employees who retired during the year and an increase in insurance claims.

11. Changes in and Disagreements with Auditors on Accounting and Financial Disclosure.

Describe any changes in auditors or disagreements with auditors, if any, on financial disclosure.

12. Directors and Executive Officers of the Reporting Issuer. (*Complete Biographical Data Form attached in Appendix 1 and Appendix 1(a) for each director and executive officer*)

Furnish biographical information on directors and executive officers indicating the nature of their expertise.

13. Other Information.

The reporting issuer may, at its option, report under this item any information, not previously reported in a Form ECSRC – MC report provided that the material change occurred within seven days of the due date of the Form ECSRC – K report. If disclosure of such information is made under this item, it need not be repeated in a Form ECSRC – MC report which would otherwise be required to be filed with respect to such information.

14. List of Exhibits

List all exhibits, financial statements, and all other documents filed with this report.

Financial Statements filed with this report:

1. **Auditor's Report**
2. **Statement of Financial Position**
3. **Statement of Profit or Loss and Other Comprehensive Income**
4. **Statement of Cash Flows**
5. **Statement of Changes in Equity**
6. **Notes to the Financial Statements**

APPENDIX 1 – BIOGRAPHICAL DATA FORMS

DIRECTORS OF THE COMPANY

Name: **ALEXIS NISBETT** Position: **CHAIRMAN**

Age: **36**

Mailing Address: **P O BOX 1585, MATTINGLEY HEIGHTS**
BASSETERRE
ST. KITTS

Telephone No.: **(869) 465-7382**

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

Employer	*Position(s)*	*Responsibilities*
St. Kitts Bio-Medical Research Foundation	*General Manager*	*Manage and direct all aspects of the operations of St Kitts Bio-Medical Research Foundation*

Education (degrees or other academic qualifications, schools attended, and dates):

Institution	*Degree/Qualification*	*Year Qualification was awarded*
Quinnipiac University	*MSc. Accounting*	*2007*
St Mary's University	*B.Comm. Accounting*	*2004*

Name: DR. N. ANALDO BAILEY

Position: 1ST VICE CHAIRMAN

Age: 64

Mailing Address: PARADISE HEIGHTS
BASSETERRE
ST. KITTS

Telephone No.: (869) 465-8493

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

Employer	***Position***	***Responsibilities***
Eastern Caribbean Institute of Banking (ECIB)	*CEO/Banker*	*Manage and direct all aspects of the operations of ECIB*

Education (degrees or other academic qualifications, schools attended, and dates):

Institution	***Degree/Qualification***	***Year Qualification was awarded***
Christ Life Bible Institute and Seminary	*Doctorate in Divinity*	*2017*
ICSA, Canada	*Accredited Director (ACC DIR)*	*2015*
University of the West Indies, Cave Hill Campus	*MBA*	*1999*
University of the West Indies, Cave Hill Campus	*EDM*	*1998*

Name: **LIONEL BENJAMIN** Title : **MEMBER**

Age: **61**

Mailing Address: **ROMNEY GROUND**
SANDY POINT
ST KITTS

Telephone No.: **(869) 465-4606**

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

Employer	***Position***	***Responsibilities***
Self Employed	*Businessman*	*Manage and direct all aspects of the operations of B's Enterprises*

Education (degrees or other academic qualifications, schools attended, and dates):

Institution	***Degree/Qualification***	***Year Qualification was awarded***
ICSA, Canada	*Accredited Director (ACC DIR)*	*2015*
Aldermaston College, England	*Certificate – Business Management*	*1981*

Name: **TALIBAH BYRON** Title : **MEMBER**

Age: **29**

Mailing Address: **12 MOUNT ROYAL CRESCENT**
FRIGATE BAY
ST KITTS

Telephone No.: **(869) 465-3434**

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

Employer	*Position*	*Responsibilities*
Byron & Byron Barristers-At-Law & Solicitors	*Attorney-at-Law*	*To provide legal services and legal counsel to clients*

Education (degrees or other academic qualifications, schools attended, and dates

Institution	*Degree/Qualification*	*Year Qualification was awarded*
ICSA, Canada	*Accredited Director (ACC DIR)*	*2015*
University of Bristol	*LLM (Merit)*	*2012*
Norman Manley Law School	*Legal Education Certificate*	*2011*
University of Leicester	*LLB (Hons)*	*2009*

Name: **DR. CARDELL RAWLINS**

Title : **MEMBER**

Age: **54**

Mailing Address: **P O BOX 95**
CADES BAY
NEVIS

Telephone No.: **(869) 469-4020**

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

Employer	***Position***	***Responsibilities***
Alexandra Hospital/Self Employed	*Medical Doctor/Surgeon*	*To provide Medical Services*

Education (degrees or other academic qualifications, schools attended, and dates):

Institution	***Degree/Qualification***	***Year Qualification was awarded***
New York Hospital, Queens	*Bachelor of Surgery (B.S)*	*2000*
Mount Sinai School of Medicine	*Doctor of Medicine (M.D.)*	*1994*

Name: **WILLIAM G. LIBURD**

Title : **MEMBER**

Age: **72**

Mailing Address: **NORTH PELICAN DRIVE, P O BOX 1232**
BIRD ROCK
ST KITTS

Telephone No.: **(869) 465-8111**

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

Employer	***Position***	***Responsibilities***
Democrat Printing Co Ltd	*Newspaper Consultant*	

Education (degrees or other academic qualifications, schools attended, and dates):

Institution	***Degree/Qualification***	***Year Qualification was awarded***
University of the West Indies	*BSc. Economics and History*	*1969*

Name: **ELRETER SIMPSON-BROWNE** Title : **MEMBER**

Age: **48**

Mailing Address: **LOT #1 LEMON HILL HOUSING DEVELOPMENT**
BOURRYEAU
ST KITTS

Telephone No.: **(869) 466-1780**

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

Employer	*Position*	*Responsibilities*
National Housing Corporation (NHC)	*General Manager (2015)*	*Manage and direct all aspects of the operations of NHC*
National Housing Corporation (NHC)	*Manager – Customer Services Dept.*	*To provide exemplary service to customers*

Education (degrees or other academic qualifications, schools attended, and dates):

Institution	*Degree/Qualification*	*Year Qualification was awarded*
ICSA, Canada	*Accredited Director (ACC DIR)*	*2015*
University of the West Indies, Mona Campus	*BSc. Management – (Major in HRM)*	*2012*

Name: **WALLIS WILKIN**

Title : **MEMBER**

Age: **43**

Mailing Address: **HARBOUR VIEW, BIRD ROCK**
BASSETERRE
ST KITTS

Telephone No.: **(869) 465-8269**

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

Employer	***Position***	***Responsibilities***
S L Horsford & Co Ltd	*Marketing Manager*	*Responsible for all marketing and related activities for the entire group of companies*

Education (degrees or other academic qualifications, schools attended, and dates):

Institution	***Degree/Qualification***	***Year Qualification was awarded***
ICSA, Canada	*Accredited Director (ACC DIR)*	*2015*
Wentworth Institute of Technology, Boston	*BSc. Management Studies*	*2002*
Wentworth Institute of Technology, Boston	*Professional Certificate - Communications*	*2002*
Wentworth Institute of Technology, Boston,	*AAS – Architectural Engineering*	*1999*

Use additional sheets if necessary

APPENDIX 1(a) – BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Position: **CHIEF EXECUTIVE OFFICER (Ag.)**

Name: **DONALD THOMPSON** Age: **56**

Mailing Address: **P O BOX 957, BIRD ROCK EXTENSION**

BASSETERRE

ST KITTS

Telephone No.: **(869) 466-8203**

List jobs held during past five years (including names of employers and dates of employment). Give brief description of current responsibilities.

Employer	***Position***	***Responsibilities***
St Kitts-Nevis-Anguilla National Bank Ltd.	*CEO (Ag.)*	*Manage and direct all aspects of operations of St Kitts-Nevis-Anguilla National Bank Group of Companies.*
	Chief Retail Banking Officer	*Lead all aspects of Retail Banking of St Kitts-Nevis-Anguilla National Bank*
	Assistant Managing Director	*Lead all aspects of General Banking Division of St Kitts-Nevis-Anguilla National Bank*

Education (degrees or other academic qualifications, schools attended, and dates)

Institution	***Degree/Qualification***	***Year Qualification was awarded***
ICSA, Canada	*Accredited Director (ACC DIR)*	*2015*
University of Manchester	*International Diploma in Compliance*	*2006*
Morehead State University	*MBA*	*2004*
IIA, Florida, USA	*Certified Internal Auditor (CIA)*	*1999*
AICPA, USA	*Certified Public Accountant (CPA)*	*1995*
San Francisco State University	*BSc. Accounting*	*1992*

Also a Director of the company [ ] Yes [*X*] No
If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

Name: **STEPHEN HECTOR** Position: **COMPANY SECRETARY**

Age: **45**

Mailing Address: **SOUTH PELICAN DRIVE**
BIRD ROCK
BASSETERRE, ST. KITTS

Telephone No.: **(869) 662-2733**

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

Employer	***Position***	***Responsibilities***
Law Office of Stephen O Hector	*Lawyer/Owner*	*To provide legal services and legal counsel to clients*
St. Kitts-Nevis-Anguilla National Bank Ltd	*Chief Legal Counsel*	*To provide legal services and manage all aspects of operations of the Legal Unit*
St Kitts-Nevis-Anguilla National Bank Ltd	*Assistant Managing Director*	*To provide legal services and manage all aspects of operations of the Legal Unit*

Education (degrees, schools, and dates):

Institution	***Degree/Qualification***	***Year Qualification was awarded***
ICSA, Canada	*Accredited Director (ACC DIR)*	*2015*
Norman Manley Law School, UWI Jamaica	*Legal Education Certificate*	*2003*
University of The West Indies, Barbados	*LLB Honours*	*2001*
University of the West Indies, Barbados	*BA Honours History*	*1998*

Also a Director of the company [ ] Yes [**X**] No

If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

Use Additional Sheets if Necessary

Name: **ANTHONY GALLOWAY** Age: **47**

Mailing Address: **P O BOX 1549, SEA MIST DRIVE,**

HALF MOON HEIGHTS

FRIGATE BAY, ST KITTS

Telephone No.: **(869) 465-7576**

List jobs held during past five years (including names of employers and dates of employment). Give brief description of current responsibilities.

Employer	***Position***	***Responsibilities***
St Kitts-Nevis-Anguilla National Bank Ltd.	*Chief Financial Officer* *Chief Internal Auditor*	*Manage and direct all aspects of financial operations of St Kitts-Nevis-Anguilla National Bank.* *Lead all aspects of Internal Audit Department of St Kitts-Nevis-Anguilla National Bank*

Education (degrees or other academic qualifications, schools attended, and dates)

Institution	***Degree/Qualification***	***Year Qualification was awarded***
ILA	*Certified Internal Auditor (CIA)*	*2013*
Florida International Bankers Association (FIBA)	*Anti-Money Laundering Certified Associate (AML/CA)*	*2010*
ACCA	*Fellow of the Association of Chartered Certified Accountants (FCCA)*	*2008*
ACCA	*Qualified Member of the Association of Chartered Certified Accountants*	*2003*
University of Sheffield Hallam	*Masters in Banking and Finance*	*1999*
University of Leeds	*Bachelor of Science Combined (Hons) in Accounting and Data Processing*	*1993*

Also a Director of the company [ ] Yes [*X*] No

If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

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Name: **JACQUELINE HEWLETT** Age: **58**

Mailing Address: **P O BOX 147, # 7 OCEAN GARDENS,**

CAMPS ESTATE

ST KITTS

Telephone No.: **(869) 465-4033**

List jobs held during past five years (including names of employers and dates of employment). Give brief description of current responsibilities.

Employer	***Position***	***Responsibilities***
1. Feb. 2016 – Present: St Kitts-Nevis-Anguilla National Bank Ltd. *2. Jan. 2008 – Jan. 2016: Antigua Commercial Bank*	*1. Chief Risk & Compliance Officer* *2. Compliance Specialist*	*1. AML/CFT Compliance and Enterprise Risk Management*

Education (degrees or other academic qualifications, schools attended, and dates)

Institution	***Degree/Qualification***	***Year Qualification was awarded***
Certified Information Security	*CICRA – Certified Internal Controls Risk Analyst*	*2017*
Global Association of Risk Professionals	*ICBRR – International Certificate in Banking Risk and Regulations*	*2012*
International Association of Risk & Compliance Professionals	*CRCMP - Certified Risk and Compliance Management Professional*	*2011*
Association of Certified Fraud Examiners	*CFE – Certified Fraud Examiner*	*2011*
Floridq International Bankers' Association	*CP/AML – Certified Professional in AML*	*2010*
Association of Certified Anti-Money Laundering Specialists	*CAMS – Certified Anti-Money Laundering Specialist*	*2007*
University of the West Indies	*MBA – Masters in Business Administration*	*2002*
University of the West Indies	*EDM – Executive Diploma in Management Studies*	*1999*
University of the West Indies	*BA – Bachelor of Arts*	*1981*

Also a Director of the company [ ] Yes [*X*] No

Name: **BERNICE GRANT-KELLY** Age: **55**

Mailing Address: **P O BOX 1405,**

FRIGATE BAY

ST KITTS

Telephone No.: **(869) 465-5438**

List jobs held during past five years (including names of employers and dates of employment). Give brief description of current responsibilities.

Employer	***Position***	***Responsibilities***
St Kitts-Nevis-Anguilla National Bank Ltd.	*Chief Electronic Services Officer*	*Develop Strategic plans to ensure profitability of the Cards Program* *Responsible for development of all aspects of the issuing and acquiring programs yet mitigating risks* *Reporting and Analyzing merchant and card developments*

Education (degrees or other academic qualifications, schools attended, and dates)

Institution	***Degree/Qualification***	***Year Qualification was awarded***
Graduate School of Banking	*Diploma in Banking*	*2011*
University of Leicester	*MSc Finance*	*2008*
University of the Virgin Island	*BA Accounting*	*1987*

Also a Director of the company [ ] Yes [*X*] No
If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

____

Name: **ERMELIN SEBASTIAN-DUGGINS** Age: **35**

Mailing Address: **P O BOX 192**

#6 CAYON STREET, BASSETERRE

ST KITTS

Telephone No.: **(869) 465-2344**

List jobs held during past five years (including names of employers and dates of employment).
Give brief description of current responsibilities.

Employer	***Position***	***Responsibilities***
St Kitts-Nevis-Anguilla National Bank Ltd.	*Chief Legal Counsel* *Senior Manager, Legal Unit*	*Provide legal services* *Set strategies for the Legal Unit* *Manage all aspects of operations of the Legal Unit*

Education (degrees or other academic qualifications, schools attended, and dates)

Institution	***Degree/Qualification***	***Year Qualification was awarded***
Hugh Wooding Law School	*L.E.C.*	*2008*
University of the West Indies	*L.L.B (Hons.)*	*2006*
St. Mary's University	*B.A. (English Major)*	*2001*

Also a Director of the company [ ] Yes [*X*] No
If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

____

Name: **DAVID GORDON WALTERS** Age: **53**

Mailing Address: **P O BOX 1139**

#105 BAYVIEW HOUSING DEVELOPMENT

ST KITTS

Telephone No.: **(869) 466-7908**

List jobs held during past five years (including names of employers and dates of employment). Give brief description of current responsibilities.

Employer	***Position***	***Responsibilities***
St Kitts-Nevis-Anguilla National Bank Ltd.	*Officer in Charge, Internal Audit Unit* *Senior Manager, Internal Audit Unit*	*Leading the Internal Audit Team* *Planning the audit of the various areas of the Group* *Conducting risk based audits* *Correspond with Audit Committee* *Liaise with External Auditors*

Education (degrees or other academic qualifications, schools attended, and dates)

Institution	***Degree/Qualification***	***Year Qualification was awarded***
Certified Information Security	*Certified Business Continuity Strategist (CBCS)*	*2017*
Certified Information Security	*Certified Internal Controls Risk Analyst (CICRA)*	*2017*
Florida International University / Florida International Bankers Association	*Anti-Money Laundering Certified Associate*	*2010*
University of the Virgin Islands	*Associate of Arts – Business Management*	*1992*
University of the Virgin Islands	*Bachelor of Arts – Accounting*	*1992*

Also a Director of the company [ ] Yes [*X*] No
If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

____

Name: **JUNIOR JULES** Age: **46**

Mailing Address: **STATION STREET**

ST PAULS

ST KITTS

Telephone No.: **(869) 662-3238**

List jobs held during past five years (including names of employers and dates of employment). Give brief description of current responsibilities.

Employer	***Position***	***Responsibilities***
St Kitts-Nevis-Anguilla National Bank Ltd.	*Officer in Charge, MIS Unit* *Executive Manager, MIS Unit* *Senior Manager, MIS Unit*	*Set objectives and strategies for the IT department.* *Direct and organize IT-related projects.* *Design and customize technological systems and platforms to improve customer experience.*

Education (degrees or other academic qualifications, schools attended, and dates)

Institution	***Degree/Qualification***	***Year Qualification was awarded***
Alabama State University	*BS. Computer Science*	*1996*

Also a Director of the company [ ] Yes [*X*] No

If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

____

Name: **PANSYNA BAILEY** Age: **59**

Mailing Address: **P O BOX 583, PARADISE HEIGHTS**

CONAREE

ST KITTS

Telephone No.: **(869) 465-8493**

List jobs held during past five years (including names of employers and dates of employment). Give brief description of current responsibilities.

Employer	*Position*	*Responsibilities*
St Kitts-Nevis-Anguilla National Bank Ltd.	*Chief Human Resources Officer, Human Resources Unit*	*Plan, direct, coordinate and control the activities and functions of the HR Unit.* *Assist in the development and implementation of a Modern HR Development Policy and Strategy tailored to the needs of the Group.*
	Manager, Human Resources Unit	*Manage the HR Unit* *Maintain and complete records in connection with all employees in the Group.*

Education (degrees or other academic qualifications, schools attended, and dates)

Institution	*Degree/Qualification*	*Year Qualification was awarded*
Cohen and Klein	*Certification in Advanced Human Resource Management*	*2018*
University of the West Indies (UWI)	*Certification in Human Resource Management*	*2013*
University of the West Indies (UWI)	*Executive Diploma in Management*	*2001*

Also a Director of the company [ ] Yes [*X*] No

If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Financial Statements
June 30, 2017
(expressed in Eastern Caribbean dollars)

St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Statement of Financial Position

As of June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2017 $	2016 $
Assets			
Cash and balances with Central Bank	5	**207,707**	269,155
Treasury bills	6	**120,756**	147,197
Deposits with other financial institutions	7	**755,345**	897,625
Loans and receivables – Loans and advances to customers	8	**705,312**	703,897
– Originated debt	9	**113,209**	114,164
Investment securities – available-for-sale	10	**916,845**	614,422
Financial asset	32	**823,124**	798,480
Property inventory	11	**7,902**	7,954
Investment property	12	**4,040**	4,040
Income tax recoverable	19	**30,134**	4,541
Property, plant and equipment	13	**36,543**	37,177
Intangible assets	14	**299**	479
Other assets	15	**57,113**	60,212
Deferred tax asset	19	**–**	37,716
Total assets		**3,778,329**	3,697,059
Liabilities			
Customers' deposits	16	**3,032,091**	3,049,273
Other borrowed funds	17	**7,456**	7,968
Accumulated provisions, creditors and accruals	18	**178,987**	172,246
Income tax liability	19	**3,624**	–
Deferred tax liability	19	**6,732**	–
Total liabilities		**3,228,890**	3,229,487
Shareholders' equity			
Issued share capital	20	**135,000**	135,000
Share premium		**3,877**	3,877
Retained earnings		**49,509**	32,366
Reserves	21	**361,053**	296,329
Total shareholders' equity		**549,439**	467,572
Total liabilities and shareholders' equity		**3,778,329**	3,697,059

The notes on pages 1 to 92 are an integral part of these consolidated financial statements.

Approved for issue by the Board of Directors on

Chairman **Director**

St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Statement of Income

For the year ended June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2017 $	2016 $
Interest income		**85,643**	92,372
Interest expense		**(53,614)**	(60,188)
Net interest income	22	**32,029**	32,184
Fees and commission income		**16,652**	16,649
Fees expense		**(11,351)**	(9,890)
Net fees and commission income	23	**5,301**	6,759
Other income	24	**79,381**	52,215
Operating income		**116,711**	91,158
Non-interest expenses			
Administrative and general expenses	25	**44,845**	38,039
Other expenses	27	**24,920**	22,743
Impairment expense	26	**11,091**	304
Total operating expenses		**80,856**	61,086
Net income before tax		**35,855**	30,072
Income tax credit/(expense)	19	**3,595**	(1,698)
Net income for the year		**39,450**	28,374
Earnings per share (basic and diluted)	28	**0.29**	0.21

The notes on pages 1 to 92 are an integral part of these consolidated financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited
Consolidated Statement of Comprehensive Income
For the year ended June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2017 $	2016 $
Net income for the year		**39,450**	28,374
Other comprehensive income:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale financial assets:			
Unrealised fair value gains/(losses) on investment securities, net of tax		**53,586**	(48,170)
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year		**(238)**	25,876
	21	**53,348**	(22,294)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gain/(loss) on defined benefit asset, net of tax	21	**2,569**	(825)
Net other comprehensive income/(loss)		**55,917**	(23,119)
Total comprehensive income for the year		**95,367**	5,255

The notes on pages 1 to 92 are an integral part of these consolidated financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Statement of Changes in Shareholders' Equity

For the year ended June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

	Notes	Issued share capital $	Share premium $	Statutory reserves $	Other reserves $	Revaluation reserves $	Retained earnings $	Total $
Balance at July 1, 2015		**135,000**	**3,877**	**111,674**	**213,748**	**(12,406)**	**23,924**	**475,817**
Net income for the year		–	–	–	–	–	28,374	28,374
Other comprehensive income		–	–	–	(825)	(22,294)	–	(23,119)
Total comprehensive income for the year		–	–	–	(825)	(22,294)	28,374	5,255
Transfer to reserves	21	–	–	4,775	1,657	–	(6,432)	–
Transaction with owners:								
Dividends	29	–	–	–	–	–	(13,500)	(13,500)
Balance at June 30, 2016		**135,000**	**3,877**	**116,449**	**214,580**	**(34,700)**	**32,366**	**467,572**
Net income for the year		–	–	–	–	–	39,450	39,450
Other comprehensive income		–	–	–	2,569	53,348	–	55,917
Total comprehensive income for the year		–	–	–	**2,569**	**53,348**	**39,450**	95,367
Transfer to reserves	21	–	–	7,317	1,490	–	(8,807)	–
Transaction with owners:								
Dividends	29	–	–	–	–	–	(13,500)	(13,500)
Balance at June 30, 2017		**135,000**	**3,877**	**123,766**	**218,639**	**18,648**	**49,509**	**549,439**

The notes on pages 1 to 92 are an integral part of these consolidated financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Statement of Cash Flows

For the year ended June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2017 $	2016 $
Cash flows from operating activities			
Net income before tax		**35,855**	30,072
Adjustments for:			
Interest expense		**53,614**	60,188
Impairment expense		**11,091**	304
Depreciation and amortisation		**3,079**	2,801
Write-off of projects ongoing to expense		**202**	389
Loss/(gain) on disposal of equipment and intangible assets		**160**	(18)
Retirement benefit expense/(credit)		**518**	(134)
Dividend income		**(5,822)**	(3,760)
Interest income		**(85,643)**	(92,372)
Operating income/(loss) before changes in operating assets and liabilities		**13,054**	(2,530)
(Increase)/decrease in operating assets:			
Loans and advances to customers		**(9,066)**	(56,146)
Mandatory deposits with Central Bank		**2,301**	8,576
Financial asset		**1,750**	–
Other assets		**5,901**	2,772
Increase/(decrease) in operating liabilities:			
Customers' deposits		**(15,783)**	58,526
Accumulated provisions, creditors and accruals		**6,740**	2,423
Cash generated from operations		**4,897**	13,621
Interest received		**44,892**	72,444
Pension contributions paid		**(486)**	(461)
Income tax paid		**(1,517)**	(1,271)
Interest paid		**(55,012)**	(65,534)
Net cash (used in)/from operating activities		**(7,226)**	18,799
Cash flows from investing activities			
Proceeds from sale of investment securities and originated debts		**973,568**	930,607
Decrease in restricted term deposits and treasury bills		**40,197**	7,879
Interest received		**14,336**	19,969
Dividends received		**5,822**	3,760
Proceeds from disposal of equipment and intangible assets		**7**	18
Purchase of equipment and intangible assets		**(2,634)**	(1,971)
Purchase of investment securities and originated debt		**(1,198,833)**	(1,199,475)
Net cash used in investing activities		**(167,537)**	(239,213)
Subtotal carried forward		**(174,763)**	(220,414)

St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Statement of Cash Flows *...continunued*

For the year ended June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2017 $	2016 $
Subtotal brought forward		**(174,763)**	(220,414)
Cash flows from financing activities			
(Decrease)/increase in other borrowed funds		**(512)**	472
Dividends paid	29	**(13,500)**	(13,500)
Net cash used in financing activities		**(14,012)**	(13,028)
Net decrease in cash and cash equivalents		**(188,775)**	(233,442)
Cash and cash equivalents, beginning of year		**952,871**	1,186,313
Cash and cash equivalents, end of year	33	**764,096**	952,871

The notes on pages 1 to 92 are an integral part of these consolidated financial statements.

(expressed in thousands of Eastern Caribbean dollars)

1 Incorporation and principal activity

St. Kitts-Nevis-Anguilla National Bank Limited (the "Bank") was incorporated as a public limited company on February 15, 1971 under the Companies Act Chapter 335, and was re-registered under the new Companies Act No. 22 of 1996 on April 14, 1999. The Bank operates in both St. Kitts and Nevis and is subject to the provisions of the Banking Act of 2015. The Bank is listed on the Eastern Caribbean Securities Exchange.

The Bank's registered office is at Central Street, Basseterre, St. Kitts. The principal activities of the Bank and its subsidiaries (the "Group") are described below.

The Bank is principally involved in the provision of financial services.

The Bank's subsidiaries and their activities are as follows:

- *National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited ("Trust Company")*

  The Trust Company was incorporated on the 26th day of January, 1972 under the Companies Act chapter 335, but was re-registered under the new Companies Act No. 22 of 1996 on the 14th day of April 1999.

  The principal activity of the Trust Company is the provision of long-term mortgage financing, raising long-term investment funds, real estate development, property management and the provision of trustee services.

- *National Caribbean Insurance Company Limited ("Insurance Company")*

  The Insurance Company was incorporated on the 20th day of June, 1973 under the Companies Act chapter 335, but was re-registered under the new Companies Act No. 22 of 1996 on the 14th day of April 1999.

  The Insurance Company provides coverage of life assurance, non-life assurance and pension schemes.

- *St. Kitts and Nevis Mortgage and Investment Company Limited ("MICO")*

  MICO was incorporated on the 25th day of May, 2001 under the Companies Act No. 22 of 1996 and commenced operations on the 13th day of May, 2002.

  MICO acts as the real estate arm of the Bank with its main operating activities being the acquisition and sale of properties.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments.

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

2.2 Changes in accounting policies

New and revised standards that are effective for annual periods beginning on or after July 1, 2016

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year.

- IAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative*. The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

New and revised standards that are effective for annual periods beginning on or after July 1, 2016 *...continued*

- IAS 16 (Amendment), *Property, Plant and Equipment*, and IAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization*. The amendment in IAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to IAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

- Annual Improvements to IFRS (2012-2014 Cycle) (effective from January 1, 2016). Among the improvements, the following amendments are relevant to the Group but management does not expect these to have material impact on the Group's consolidated financial statements:

  - IFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to "service" financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of IFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

  - IAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

These new and amendments to standards do not have a significant impact on these consolidated financial statements and therefore disclosures have not been made.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these consolidated financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Group. Information on those expected to be relevant to the Group's consolidated financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11, *Construction Contracts,* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition.

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group *...continued*

IFRS 15, *Revenue from Contracts with Customers* *...continued*

The directors have not yet fully assessed the impact of IFRS 15 in these financial statements, and are not yet in a position to provide quantified information. It is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

IFRS 9, *Financial Instruments* (2014)

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are in the scope of IAS 39, *Financial Instruments: Recognition and Measurement,* are required to be substantially at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are sole payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group *...continued*

IFRS 9, *Financial Instruments* (2014) *...continued*

- With regard to the measurement of financial liabilities designated as fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

  Under IAS 39, the entire amount of the change in the fair value in the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transaction eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the type of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the application of IFRS 9 in the future may have a material impact on the disclosures or on the amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group undertakes a detailed review. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

***Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group** ...continued*

Amendments to IFRS 4 – Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*

In September 2016, the IASB published Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* which makes narrow scope amendments to IFRS 4, *Insurance Contracts*. The IASB issued the amendments to address the temporary accounting consequences of the different effective dates of IFRS 9, *Financial Instruments,* and the new insurance contracts Standard, IFRS 17. The new insurance contracts Standard is yet to be finalised and will have an effective date January 1, 2021. Therefore, its mandatory effective date will be after the 2018 effective date of IFRS 9. Considerable concerns were raised over the practical challenges of insurance companies implementing both new standards on different dates as a result of the significant accounting changes. Further concerns were raised over the potential for increased volatility in profit or loss if IFRS 9's new requirements for financial instruments come into force before the new insurance accounting rules. To address these concerns while still fulfilling the needs of users of financial statements, the IASB has responded by amending IFRS 4 and introducing the following alternatives:

- an overlay approach – an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of IFRS 9; and
- a temporary exemption – an optional temporary exemption from applying IFRS 9 for entities whose activities are predominantly connected with insurance. These entities will be permitted to continue to apply the existing financial instrument requirements of IAS 39 until the application of IFRS 17 on January 1, 2021.

The amendments are effective as follows:

- the overlay approach is applied when entities first apply IFRS 9 from its effective date of January 1, 2018; and
- a temporary exemption from IFRS 9 is applied for accounting periods on or after January 1, 2018.

The Group does not plan to elect the use of temporary exemption from IFRS 9 on its effective date, as the Group's activities overall are not predominantly connected with insurance.

IFRS 17, *Insurance Contracts*

The IASB has recently published IFRS 17, *Insurance Contracts*. The new Standard replaces IFRS 4 which was published in 2004. IFRS 17 requires all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values instead of historical cost, ending the practice of using data from when a policy was taken out.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group *...continued*

IFRS 17, *Insurance Contracts* *...continued*

The Standard introduces insurance contract measurement principles requiring:

- current, explicit and unbiased estimates of future cash flows;
- discount rates that reflect the characteristics of the contracts' cash flows; and
- explicit adjustment for non-financial risk.

Day one profits should be deferred as a contractual service margin and allocated systematically to profit or loss as entities provide coverage and are released from risk. Revenue is no longer equal to written premiums but to the change in the contract liability covered by consideration. A separate measurement model applies to reinsurance contracts held. Modifications are allowed for qualifying short-term contracts and participating contracts. Increased disclosure requirements also apply.

IFRS 17 is effective for reporting periods beginning on or after January 1, 2021 but may be applied earlier. The directors anticipate that the application of IFRS 17 in the future may have a material impact on the amounts reported and the disclosures made in the consolidated financial statements. However, management has not yet fully assessed the impact of IFRS 17 on these consolidated financial statements.

IFRS 16, *Leases*

IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-statement of financial position finance leases and off-statement of financial position operating leases. Instead, there is a single, on-statement of financial position accounting model that is similar to current finance lease accounting.

Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. For lessees, the lease becomes an on-statement of financial position liability that attracts interest, together with a right-of-use assets also being recognized on the statement of financial position. In other words, lessees will appear to become more asset-rich but also more heavily indebted.

The impacts are not limited to the consolidated statement of financial position. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. The standard is effective for annual periods beginning on or after January 1, 2019. The impact of IFRS 16 is being assessed by the directors of the Group.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.3 Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of June 30, 2017. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of June 30. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.4 Cash and cash equivalents

Cash comprises cash on hand and demand and call deposits with banks. Cash equivalents are short-term, highly liquid investments with original maturities of ninety (90) days or less that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Cash and cash equivalents are subject to an insignificant risk of change in value. Cash and cash equivalents exclude balances held to meet statutory requirements and restricted deposits.

2.5 Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – are recognised in the statement of financial position and measured in accordance with their assigned category.

Financial assets

The Group allocates its financial assets to the IAS 39 category of: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) 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 Group intends to sell immediately or in the short term, which are classified or held for trading and those that the entity upon initial recognition designates at fair value through profit or loss; (b) those that the Group upon initial recognition designates as available-for-sale; and (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Financial assets *...continued*

(i) Loans and receivables ...continued

Loans and receivable are recognised when cash or the right to cash is advanced to a borrower and are carried at amortised cost using the effective interest method. The Group's loans and receivables include cash in bank and cash equivalents, treasury bills, deposits with other financial institutions, loans and advances to customers, originated debt, financial asset and other receivables within "other assets".

(ii) Available-for-sale financial assets

Available-for-sale financial assets are those 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.

Purchases and sales of available-for-sale financial assets are recognised on settlement date – the date that an asset is delivered to or received by the Group.

Available-for-sale financial assets are initially recognised at fair value being the transaction price less transaction cost. Available-for-sale financial assets are subsequently measured at fair value based on the current bid prices of quoted investments in active market. If the market for available-for-sale financial assets is not active (such as investments in unlisted entities) and the fair value cannot be reliably measured, they are measured at cost less any impairment loss. Gains and losses arising from the fair value of available-for-sale financial assets are recognised though other comprehensive income until the financial assets are derecognised or impaired, at which time, the cumulative gain or loss previously recognised through other comprehensive income is transferred and recognised in the profit or loss.

Interest calculated using the effective interest method, dividend income and foreign currency gains and losses on financial assets classified as available-for-sale are recognised in the consolidated statement of income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of income when the right to receive payment is established.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

The Group's available-for-sale financial assets are separately presented in the consolidated statement of financial position.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Financial liabilities

Financial liabilities are classified as 'financial liabilities at amortised cost' and are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities include customers' deposits, other borrowed funds and accumulated provisions, creditors and accruals.

Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

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 amortised 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.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.6 Classes of financial instruments

The Group classifies the financial instruments into classes that reflect the nature of information disclosed and take into account the characteristics of those financial instruments. The classification hierarchy can be seen in the table below:

<table>
<tr><td rowspan="4">Financial assets</td><td rowspan="3">Loans and receivables</td><td colspan="2">Cash and cash equivalents and deposits with other financial institutions</td><td>Bank accounts</td></tr>
<tr><td colspan="2">Treasury bills and originated loans</td><td>Government fixed rated bonds and long term note</td></tr>
<tr><td colspan="2">Loans and advances to customers</td><td>Primary lenders</td></tr>
<tr><td>Available-for-sale financial assets</td><td>Investment securities – Available-for-sale investments</td><td colspan="2">Equity and debt securities</td></tr>
<tr><td rowspan="2">Financial liabilities</td><td rowspan="2">Financial liabilities at amortised cost</td><td colspan="3">Customers’ deposits and other borrowed funds</td></tr>
<tr><td colspan="3">Other accumulated provisions, creditors and accruals</td></tr>
</table>

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.7 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

- Cash flow difficulties experienced by the borrower;
- Delinquency in contractual payments of principal and interest;
- Breach of loan covenants or conditions;
- Deterioration in the value of collateral;
- Deterioration of the borrower's competitive position; and
- Initiation of bankruptcy proceedings.

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.7 Impairment of financial assets *...continued*

(a) Assets carried at amortised cost ...continued

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

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

(b) Assets classified as available-for-sale

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 recognised in profit or loss – is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of income.

(c) Renegotiated loans

Loans and advances 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. Management continuously reviews these accounts to ensure that all criteria are met and that future payments are likely to occur.

2.8 Offsetting financial instruments

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

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.9 Employee benefits

(a) Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in accumulated provisions, creditors and accruals, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

(b) Gratuity

The Group provides a gratuity plan to its employees after fifteen (15) years of employment. The amount of the gratuity payment to eligible employees at retirement is computed with reference to final salary and calibrated percentage rates based on the number of years of service. Provisions for these amounts are included in the consolidated statement of financial position.

(c) Pension plan

The Group operates a defined benefit plan. The administration of the plan is conducted by National Caribbean Insurance Company Limited, one of the subsidiaries. The plan is funded through payments to trustee-administered deposit funds determined by periodic actuarial calculations. A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement based on factors such as age, years of service and final salary. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period.

The asset figure recognised in the consolidated statement of financial position in respect of net defined benefit asset is the fair value of the plan assets less the present value of the defined benefit obligation at the reporting date. The retirement benefit asset recognised in the consolidated statement of financial position represents the actual surplus in the defined benefit plan. Re-measurements comprising of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognised immediately in the consolidated statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Re-measurement recorded in other comprehensive income is not recycled. However, the Group may transfer those amounts recognised in other comprehensive income within equity.

2.10 Property, plant and equipment

Land and buildings held for use in the rendering of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity, usually every five (5) years, such that the carrying amount does not differ materially from that which would be determined using fair values at the year end.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.10 Property, plant and equipment *...continued*

Any revaluation increase arising on the revaluation of such land and buildings is credited in equity to revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in income, in which case the increase is credited to income to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to income to the extent that it exceeds the balance, if any, held in the fixed asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income. On the subsequent sale or retirement of a revalued property, any revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the fixed asset revaluation reserve to retained earnings except when an asset is derecognised.

Projects ongoing represents structures under construction and project development not yet completed and is stated at cost. This includes the costs of construction and other direct costs. Projects ongoing is not depreciated until such time that the relevant assets are ready for use.

Freehold land is not depreciated. Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on the following basis:

Buildings:	25 – 45 years
Leasehold improvements:	25 years, or over the period of lease if less than 25 years
Equipment, fixtures and fittings and motor vehicles:	3 – 10 years

Depreciation is charged so as to write off the cost or valuation of assets, other than freehold land, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

All repairs and maintenance are charged to income during the financial period in which they are incurred.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

2.11 Intangible assets

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and to bring into use the specific software. These costs are amortized on the basis of the expected useful life of such software which is three to five years.

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.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.12 Impairment of non-financial assets

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

2.13 Insurance contracts

i) Classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk.

ii) Recognition and measurement

Insurance contracts issued are classified as short-term insurance contracts and long-term insurance contracts with fixed and guaranteed payments.

Short-term insurance contracts

Property and casualty insurance business

- Property and casualty insurance contracts are generally one year renewable contracts issued by the Group covering insurance risks over property, motor, accident and marine.

  Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of the property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

  Casualty insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damages (public liability).

  Premiums are recognized as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the reporting date is reported as the unexpired insurance risk. Premiums are shown before deduction of commissions.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.13 Insurance contracts *...continued*

ii) Recognition and measurement *...continued*

Short-term insurance contracts ...continued

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the reporting date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using:

- the input of assessments for individual cases reported to the Group; and
- statistical analyses for the claims incurred but not reported.

These are used to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

- Health insurance business

Health insurance contracts are generally one year renewable contracts issued by the Group covering insurance risks for medical expenses of insured persons. The liabilities of health insurance policies are estimated in respect of claims that have been incurred but not reported and claims that have been reported but not yet paid, due to the time taken to process the claim.

Long-term insurance contracts with fixed and guaranteed terms

- Life insurance business

These contracts insure events associated with human life (for example, death and survival) over a long duration. Premiums are recognized as revenue when they are received or become receivable from the policyholder. Premiums are shown before deduction of commission. Benefits are recorded as an expense when they are incurred.

The determination of actuarial liabilities on life policies is based on the Net Level Premium ("NLP") reserve method. This reserve method uses net premiums as opposed to calculating reserves on a first principles gross premium valuation. The NLP reserve method does not use lapse rates or expenses and takes into consideration only the bonus additions allocated to the policy to date. Future bonus additions are not considered in the valuation. The Group utilises an actuary for the determination of the actuarial liabilities. These liabilities consist of amounts that together with future premiums and investment income are required to provide for policy benefits, expenses and taxes on life insurance contracts. The process of calculating actuarial liabilities for future policy benefits involves the use of estimates concerning factors such as mortality and morbidity rates, future investment yields and future expense levels and persistency.

The liabilities are recalculated at each end of the reporting period using the assumptions established at inception of the contracts.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies…*continued*

2.13 Insurance contracts…*continued*

iii) Reinsurance contracts held

The Group obtains reinsurance contracts coverage for insurance risks underwritten. The Group cedes insurance premiums and risk related to property and casualty contracts in the normal course of business in order to limit the potential for losses arising from its exposures. Reinsurance does not relieve the Group of its liability. The benefits to which the Group are entitled under reinsurance contracts held are recognised as reinsurance assets. Reinsurance assets are assessed for impairment and if evidence that the asset is impaired exists, the impairment is recorded in the consolidated statement of income. The obligations of the Group under reinsurance contracts held are included under insurance contract liabilities.

iv) Liability adequacy test

At the end of the reporting period, liability adequacy tests are performed by the Group to ensure the adequacy of insurance contract liabilities, using current estimates of the related expected future cash flows.

If a test indicates that the carrying value of insurance contract liabilities is inadequate, then the liabilities are adjusted to correct the deficiency. The deficiency is included in the consolidated statement of income under claims and benefits.

v) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the consolidated statement of income. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated under the same method used for these financial assets.

vi) Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets until the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.13 Insurance contracts *...continued*

vi) Salvage and subrogation reimbursements *...continued*

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets until the liability is settled. The allowance is the amount of the assets that can be recovered from the action against the liable third party.

2.14 Borrowings

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

2.15 Guarantees and letters of credit

Guarantees and letters of credit comprise undertaking 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.

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17 Leases – Group as a Lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the Group are primarily operating leases. The total payments made under the operating leases are charged to income on a straight-line basis over the period of the lease.

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

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.18 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services rendered, stated net of discounts and taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities as described below.

a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the consolidated statement of income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, estimates of cash flows that consider all contractual terms of the financial instrument are included (for example, repayment options), except future credit losses. The calculation includes all fees and points 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 impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

b) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. 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 business – are recognised on completion of the underlying transaction.

c) Dividend income

Dividends are recognised in the consolidated statement of income when the right to receive payment is established.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.18 Revenue recognition *...continued*

d) Premiums

Written premiums for non-life insurance relate to contracts beginning in the financial year and are stated gross of commissions payable to intermediaries and exclusive of taxes levied on premiums. Written premiums for life contracts are recognised when due from the policyholder. Unearned premiums are those proportions of the premium which relate to periods of risk after the reporting date.

e) Property sales

Revenue from property sales are recognized when title of the properties has passed to the buyer.

2.19 Operating expenses and fees expenses

Operating expenses and fees expenses are recognised in the consolidated statement of income upon utilisation of the services or as incurred.

2.20 Foreign currency translation

(i) Functional and presentation currency
Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates (the “functional currency”). The consolidated financial statements are presented in Eastern Caribbean dollars, which is the Group’s functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of income within ‘Other income’.

2.21 Equity, reserves and dividend payments

(a) Issued share capital and share premium
Issued share capital represents the nominal (par) value of shares that have been issued. Share premium includes any premiums received on issued share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are paid by the Board of Directors and or approved by the Bank’s shareholders.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies*...continued*

2.21 Equity, reserves and dividend payments *...continued*

(c) *Other components of equity*
Other components of equity include the following:

- Statutory reserve – comprises of reserve fund for regulatory requirement;
- Revaluation reserves – comprises of:
  - unrealized gains and losses from the fair value of available-for-sale investment securities,
  - gains and losses from the revaluation of land and buildings, and
- Other reserves – comprises the defined benefit pension plan reserve, regulatory reserve for loan impairment, regulatory reserve for interest accrued collected on non-performing loans, insurance and claims equalization reserves and general reserve.

(d) *Retained earnings*
Retained earnings include cumulative balance of net income or loss, dividend distributions, effect of changes in accounting policy and other capital adjustments.

2.22 Current and deferred income tax

Income tax payable on profits, based on applicable tax law in St. Kitts and Nevis is recognised as an expense in the period in which profits arise, except to the extent that it relates to items recognised directly in equity. In such cases, the tax is recognised in a deferred tax liability account. The tax expense for the period comprises current and deferred tax.

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

The principal temporary differences arise from depreciation of property, plant and equipment and revaluation of certain financial assets. However, deferred tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. The rates enacted or substantively enacted at the reporting date are used to determine deferred income tax.

Deferred tax asset is recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. This is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of available-for-sale investment securities) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.22 Current and deferred income tax *...continued*

The Group is subjected to the following tax rates:

(i) Income tax rates
The Group is subject to corporate income taxes at a rate of 33%.

(ii) Premium tax rates
Insurers are subject to tax on premium revenues generated in certain jurisdictions. The principal rate of premium tax is 5% for general insurance and nil for life insurance.

2.23 Deposit funds

Deposit administration contracts are issued by the Group to registered pension schemes for the deposit of pension plan assets with the Group.

Deposit administration liabilities are recognised initially at fair value and are subsequently stated at:

- amortised cost where the insurer is obligated to provide investment returns to the pension scheme in the form of interest;

- fair value through income where the Group is obligated to provide investment returns to the pension scheme in direct proportion to the investment returns on specified blocks of assets.

Deposit administration contributions are recorded directly as liabilities. Withdrawals are deducted directly from the liability. The interest or investment return provided is recorded as an interest expense.

2.24 Investment property

Investment property is property held to earn rental and/or for capital appreciation, including property under construction for such purposes. Investment property is measured at cost, including transaction cost.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property is included in income in the period in which the property is derecognised.

2.25 Property inventory

Property inventory is measured at the lower of cost and net realizable value (NRV). The cost of property inventory comprises all costs incurred in bringing the properties to their present condition. NRV represents the estimated selling price less all estimated costs necessary to make the sale.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies...*continued*

2.26 Business segments

Business segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

2.27 Events after the financial reporting date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting (non-adjusting events) are disclosed in the notes to the financial statements when material.

3 Management of financial and insurance risk

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

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

Risk management is carried out by the Credit Division and Comptroller Division under policies approved by the Board of Directors. Management identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management, as well as approved policies covering specific areas, such as foreign exchange, interest rate, insurance and credit risks. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important types of risk are credit risk, liquidity risk, market risk, insurance risk (property, casual and life insurance risk) and other operational risk. Market risk includes currency risk, interest rate risk and other price risk.

3.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparties will cause financial losses for the Group by failing to discharge their obligations. 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 such credit risks. Credit exposure arises principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Group's asset portfolio.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk *...continued*

3.1 Credit risk *...continued*

There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised and reported to the Board of Directors.

The Group's exposure to credit risk is managed through regular analysis of the ability of its borrowers and potential borrowers to meet interest and capital repayment obligations. Credit risk is managed also in part by the taking of collateral and corporate and personal guarantees as securities on advances.

(a) Loans and advances

The prudential guidelines of the Group's regulators are included in the daily credit operational management of the Group. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the reporting date (the 'incurred loss model').

The Group assesses the probability of default of individual borrowers using internal rating tools tailored to the various categories of the counterparty. These rating tools are fashioned from the guidelines of the commercial bank's regulators. Advances made by the Group are segmented into five rating classes that reflect the range of default probabilities for each rating class. The rating tools are kept under review and upgraded as necessary.

Group's rating	Description of the classifications
1	Pass
2	Special mention
3	Sub-standard
4	Doubtful
5	Loss

(b) Debt securities and other bills

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

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

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk...*continued*

3.1.1 Risk limit control and mitigation policies...*continued*

The exposure to any one borrower, including banks and other financial institutions, is further restricted by sub-limits covering on-balance sheet and off-balance sheet exposures. Actual exposures against limits are monitored. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Other specific controls and mitigation measures are outlined below:

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or 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;
- Charges over financial instruments such as debt securities and equities.

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

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

(b) Credit-related commitments

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans and advances, guarantees or letters of credit. With respect to credit risk, 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 of maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.1.2 Impairment and provisioning

The impairment provision shown in the consolidated statement of financial position at year-end is derived from each of the five internal rating grades. The table below shows the percentage of the Group's on-balance sheet and off-balance sheet items relating to loans and advances to customers and associated impairment provision for each of the Group's internal categories:

		2017		2016	
		Loans and advances (%)	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
	Group's rating				
1	Pass	**39.95**	**1.08**	**53.41**	–
2	Special mention	**0.96**	**0.14**	**16.10**	**0.01**
3	Sub-standard	**51.87**	**42.71**	**22.70**	**31.87**
4	Doubtful	**6.21**	**48.93**	**3.50**	**26.51**
5	Loss	**1.01**	**7.14**	**4.29**	**41.61**
		100.00	**100.00**	**100.00**	**100.00**

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

(i) Loans

- Cash flow difficulties experienced by the borrower;
- Delinquency in contractual payments of principal and interest;
- Breach of loan covenants or conditions; and
- Deterioration in the value of collateral.

(ii) Advances (overdrafts)

- Approval limit has been exceeded for three months;
- Interest charges for three (3) months or more have not been covered by deposits; and
- Account has developed a hardcode which was not converted.

The Group requires the review of individual financial assets that are above materiality thresholds on an annual basis 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 where necessary. Assessments take into account collateral held and anticipated cash receipts for individually assessed accounts.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk...*continued*

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

Credit risk exposure relating to on/off balance sheet assets is as follows:

	Maximum exposure	
	2017	**2016**
	$	**$**
Cash and balances with Central Bank*	**15,742**	74,742
Treasury bills	**120,756**	147,197
Deposits with other financial institutions	**755,345**	897,625
Loans and receivable:		
Overdrafts	**169,673**	163,841
Corporate customers	**281,609**	289,387
Term loans	**102,133**	101,894
Mortgages (personal)	**151,897**	148,775
Originated debt	**113,209**	114,164
Available-for-sale debt investments	**352,559**	150,348
Financial asset	**823,124**	798,480
Other assets	**32,078**	49,793
Credit risk exposures relating to off-balance sheet assets are as follows:		
Credit commitments	**24,045**	63,076
Total	**2,942,170**	2,999,322

**Excluding cash on hand and mandatory deposits with Central Bank.*

The above table represents a worst case scenario of credit risk exposure at end of reporting period, 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 statement of financial position. As shown above 24% (2016: 24%) of the total maximum exposure is derived from loans and advances to customers. Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loans and advances portfolio and debt securities based on the following:

- 41% (2016: 70%) of the loans and advances portfolio are categorized in the top two grades of the internal rating system;
- Corporate customers, which represent the largest group in the portfolio, are backed by security – cash and real estate collateral and/or guarantees;
- 34% (2016: 63%) of the loans and advances portfolio are considered to be neither past due nor impaired;
- The Group continues to grant loans and advances in accordance with its lending policies and guidelines; and
- A number of issuers and debt instruments in the region are not rated; consequently 40% (2016: 63%) of these investments are not rated (Government securities – treasury bills, etc.).

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk...*continued*

3.1.4 Loans and advances

Loans and advances to customers are summarized as follows:

	2017 $	2016 $
Loans and advances to customers		
Neither past due nor impaired	**264,639**	478,934
Past due not impaired	**46,622**	78,770
Impaired	**456,116**	200,637
	767,377	758,341
Interest receivable	**1,474**	1,372
Less allowance for impairment loss	**(63,539)**	(55,816)
Net	**705,312**	703,897

The total allowance for impairment losses on loans and advances is $63,539 (2016: $55,816). Further information of the allowance for impairment losses on loans and advances to customers is provided in note 8.

(a) Loans and advances to customers neither past due nor impaired

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

As of June 30, 2017	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total $
Classifications:					
1. Pass	16,635	22,936	102,778	114,693	257,042
2. Special mention	757	496	1,717	2,543	5,513
3. Sub-standard	150	320	407	1,207	2,084
Gross	**17,542**	**23,752**	**104,902**	**118,443**	**264,639**
As of June 30, 2016					
Classifications:					
1. Pass	15,499	21,952	99,898	186,445	323,794
2. Special mention	79,784	37,928	2,263	2,759	122,734
3. Sub-standard	160	31,363	883	–	32,406
Gross	**95,443**	**91,243**	**103,044**	**189,204**	**478,934**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.1.4 Loans and advances*...continued*

(b) Loans and advances to customers past due but not impaired

Loans and advances less than ninety (90) days past due are not considered impaired, unless other information is available to indicate the contrary. Loans and advances ninety (90) days past due but not impaired are those with special arrangements.

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Term loans $	Mortgages $	Corporate customers $	Total $
As of June 30, 2017				
Past due up to 30 days	1,581	11,556	15,270	28,407
Past due 31 – 60 days	420	3,683	–	4,103
Past due 61 – 90 days	776	429	–	1,205
Over 90 days	15	131	12,761	12,907
Gross	**2,792**	**15,799**	**28,031**	**46,622**
Fair value of collateral	**10,983**	**30,161**	**74,438**	**115,582**

	Term loans $	Mortgages $	Corporate customers $	Total $
As of June 30, 2016				
Past due up to 30 days	1,833	10,473	61,999	74,305
Past due 31 – 60 days	511	2,503	–	3,014
Past due 61 – 90 days	139	1,245	–	1,384
Over 90 days	67	–	–	67
Gross	**2,550**	**14,221**	**61,999**	**78,770**
Fair value of collateral	**11,161**	**27,958**	**119,836**	**158,955**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.1.4 Loans and advances*...continued*

(b) Loans and advances to customers past due but not impaired*...continued*

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets sales in the same geographical area.

(c) Loans and advances to customers individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $456,116 (2016: $200,637).

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

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total $
As of June 30, 2017					
Individually impaired	166,765	76,052	23,477	118,173	384,467
Interest receivable	12,099	4,250	16,177	39,123	71,649
Gross	**178,864**	**80,302**	**39,654**	**157,296**	**456,116**
Fair value of collateral	**65,415**	**39,705**	**39,237**	**270,115**	**414,472**
As of June 30, 2016					
Individually impaired	78,271	4,795	26,718	20,684	130,468
Interest receivable	12,031	4,266	16,825	37,047	70,169
Gross	**90,302**	**9,061**	**43,543**	**57,731**	**200,637**
Fair value of collateral	**66,095**	**12,574**	**42,302**	**59,648**	**180,619**

(d) Loans and advances to customers 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 policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans at the reporting date stood at $4,813 (2016: $6,830).

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.1.5 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 the reporting date and based on Standard & Poor's ratings or equivalent:

As of June 30, 2017	Treasury bills $	Available-for-sale debt investments $	Loans and Receivables – originated debt $	Total $
AA- to AA+	–	3,122	–	3,122
A- to A+	–	9,771	–	9,771
Lower than A-	–	28,665	–	28,665
Unrated/internally rated	120,756	311,001	113,209	544,966
	120,756	**352,559**	**113,209**	**586,524**

As of June 30, 2016	Treasury bills $	Available-for-sale debt investments $	Loans and Receivables – originated debts $	Total $
AA- to AA+	–	10,768	–	10,768
A- to A+	–	12,576	–	12,576
Lower than A-	–	48,959	–	48,959
Unrated/internally rated	147,197	78,045	114,164	339,406
	147,197	**150,348**	**114,164**	**411,709**

As of June 30, 2017, the loans and receivables – originated debt includes certificates of participation in Government of Antigua and Barbuda long term notes, which were past due amounting to $36,243. Refer to note 9.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.1.6 Geographical concentrations of on balance sheet and off balance sheet assets with credit risk exposure

The Group operates three (3) business segments as follows:

- commercial and retail banking;
- insurance coverage, investment and real estates; and
- long term financing and trust services.

These are predominantly localised to St. Kitts and Nevis. Commercial banking activities, however, account for a significant portion of credit risk exposure.

The credit risk exposure is, therefore, spread geographically and over a diversity of personal and commercial customers.

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean States $	Total $
As of June 30, 2017					
Cash and balances with Central Bank	15,742	–	–	–	15,742
Treasury bills	102,334	–	–	18,422	120,756
Deposits with other financial institutions	21,488	681,838	24,879	27,140	755,345
Loans and advances to customers	600,600	96,522	4,519	3,671	705,312
Originated debt	19,712	11,183	–	82,314	113,209
Available-for-sale debt investments	–	352,559	–	–	352,559
Financial asset	823,124	–	–	–	823,124
Other assets	25,401	6,677	–	–	32,078
	1,608,401	**1,148,779**	**29,398**	**131,547**	**2,918,125**
As of June 30, 2016					
Cash and balances with the Central Bank	74,742	–	–	–	74,742
Treasury bills	100,708	–	–	46,489	147,197
Deposits with other financial institutions	15,448	808,094	48,526	25,557	897,625
Loans and advances to customers	603,526	88,937	2,223	9,211	703,897
Originated debt	19,386	11,183	–	83,595	114,164
Available-for-sale debt investments	2,286	148,062	–	–	150,348
Financial asset	798,480	–	–	–	798,480
Other assets	41,776	7,422	–	595	49,793
	1,656,352	**1,063,698**	**50,749**	**165,447**	**2,936,246**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk...*continued*

3.1.7 Concentration of risks of financial assets with credit exposure

The following tables break down the Group's main credit exposure at their carrying amounts, as categorised by industry sectors of our counterparties:

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2017							
Cash and balances with Central Bank	–	–	–	15,742	–	–	15,742
Treasury Bills	120,756	–	–	–	–	–	120,756
Deposits with other financial institutions	15,221	–	–	740,091	33	–	755,345
Loans and receivables:							
Originated debt	102,026	–	–	11,183	–	–	113,209
Loans and advances	156,117	114,108	171,850	6,758	171,207	85,272	705,312
Available-for-sale debt investments	2,348	–	686	301,174	–	48,351	352,559
Financial asset	823,124	–	–	–	–	–	823,124
Other assets	3,380	–	–	16,300	1,139	11,259	32,078
	1,222,972	**114,108**	**172,536**	**1,091,248**	**172,379**	**144,882**	**2,918,125**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk *...continued*

3.1.7 Concentration of risks of financial assets with credit exposure *...continued*

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2016							
Cash and balances with Central Bank	–	–	–	74,742	–	–	74,742
Treasury bills	147,197	–	–	–	–	–	147,197
Deposit with financial institutions	–	–	–	897,459	166	–	897,625
Loans and receivables:							
Loans and advances	147,781	124,114	159,939	16,560	168,329	87,174	703,897
Originated debts	102,678			11,486			114,164
Available-for-sale debt investments	2,417	–	697	82,568	–	64,666	150,348
Financial asset	798,480	–	–	–	–	–	798,480
Other assets	–	–	–	12,899	226	36,668	49,793
	1,198,553	**124,114**	**160,636**	**1,095,714**	**168,721**	**188,508**	**2,936,246**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk *...continued*

3.1.7 Concentration of risks of financial assets with credit exposure *...continued*

The Government of St. Kitts and Nevis accounts for $1,222,972 (2016: $1,198,533) or 42% (2016: 41%) of $2,918,125 (2016: $2,936,246) the total credit exposure, which represents a significant concentration of credit risk. The amounts due from the Government are included in the Public Sector category.

3.2 Market risk

The Group is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of the market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Group's exposure to market risks primarily arise from the interest rate management of the Group's retail and commercial banking assets and liabilities, debt investment securities and equity risks arising from its available-for-sale investments.

3.2.1 Price risk

The Group is exposed to equities price risk because of investments held by the Group and classified on the consolidated statement of financial position as available-for-sale. To manage this price risk arising from investments in equity securities, the Group diversifies its investment portfolio.

3.2.2 Foreign exchange risk

The Group is exposed to foreign exchange risk through fluctuation in certain prevailing foreign exchange rates on its financial position and cash flows. The Board of Directors limits the level of exposure by currency and in total 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 Group uses the mid-rate of exchange ruling on that day to convert all assets and liabilities in foreign currencies to Eastern Caribbean dollars (EC$). The Group has set the mid-rate of exchange rate of the Eastern Caribbean (EC$) to the United States dollar (US$) at EC$2.7026 = US$1.00 since 1976.

The following table summarises the Group's exposure to foreign currency exchange rate risk at the reporting date. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk...*continued*

3.2.2 Foreign exchange risk...*continued*

Concentration of currency risk

As of June 30, 2017	ECD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	202,432	5,156	36	58	10	15	–	207,707
Treasury bills	120,756	–	–	–	–	–	–	120,756
Deposits with other financial institutions	24,382	724,217	3,152	1,830	833	923	8	755,345
Loans and receivables:								
Loans and advances to customers	476,928	228,384	–	–	–	–	–	705,312
Originated debt	60,970	52,239	–	–	–	–	–	113,209
Available-for-sale debt investments	9,490	907,355	–	–	–	–	–	916,845
Financial asset	823,124	–	–	–	–	–	–	823,124
Other assets	25,401	6,677	–	–	–	–	–	32,078
Total financial assets	**1,743,483**	**1,924,028**	**3,188**	**1,888**	**843**	**938**	**8**	**3,674,376**
Liabilities								
Customers' deposits	2,321,030	709,002	133	89	1,837	–	–	3,032,091
Other borrowed funds	7,456	–	–	–	–	–	–	7,456
Other liabilities	157,550	11,017	43	480	40	128	–	169,258
Total financial liabilities	**2,486,036**	**720,019**	**176**	**569**	**1,877**	**128**	**–**	**3,208,805**
Net on-consolidated statement of financial position	**(742,553)**	**1,204,009**	**3,012**	**1,319**	**(1,034)**	**810**	**8**	**465,571**
Credit commitments	**24,045**	–	–	–	–	–	–	**24,045**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk *...continued*

3.2.2 Foreign exchange risk *...continued*

Concentration of currency risk *...continued*

As of June 30, 2016	ECD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	263,523	5,536	33	30	20	13	–	269,155
Treasury bills	147,197	–	–	–	–	–	–	147,197
Deposits with other financial institutions	19,291	873,005	1,393	1,743	1,780	389	24	897,625
Loans and receivables:								
Loans and advances to customers	480,518	223,379	–	–	–	–	–	703,897
Originated debt	61,936	52,228	–	–	–	–	–	114,164
Available-for-sale debt investments	10,851	603,571	–	–	–	–	–	614,422
Financial asset	798,480	–	–	–	–	–	–	798,480
Other assets	40,517	9,276	–	–	–	–	–	49,793
Total financial assets	**1,822,313**	**1,766,995**	**1,426**	**1,773**	**1,800**	**402**	**24**	**3,594,733**
Liabilities								
Customers' deposits	2,347,560	699,628	155	2	1,928	–	–	3,049,273
Other borrowed funds	–	7,968	–	–	–	–	–	7,968
Other liabilities	148,919	8,602	42	478	43	119	–	158,203
Total financial liabilities	**2,496,479**	**716,198**	**197**	**480**	**1,971**	**119**	**–**	**3,215,444**
Net on-consolidated statement of financial position	**(674,166)**	**1,050,797**	**1,229**	**1,293**	**(171)**	**283**	**24**	**379,289**
Credit commitment	**63,076**	**–**	**–**	**–**	**–**	**–**	**–**	**63,076**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk *...continued*

3.2.3 Interest rate risk

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

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk...*continued*

3.2.3 Interest rate risk...*continued*

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates:

As of June 30, 2017	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
Assets							
Cash and balances with Central Bank	–	–	–	–	–	207,707	207,707
Treasury bills	10,255	3,069	106,722	–	–	710	120,756
Deposit with other financial institutions	364,965	67,565	17,170	20,270	–	285,375	755,345
Loans and receivables:							
Loans and advances to customers	393,366	995	49,072	64,381	197,498	–	705,312
Originated debt	13,524	–	4,093	74,084	20,601	907	113,209
Available-for-sale debt investments	351,778	–	–	–	–	565,067	916,845
Financial asset	–	–	794,270	–	–	28,854	823,124
Other assets	4,197	–	3,680	7,221	–	16,980	32,078
Total assets	**1,138,085**	**71,629**	**975,007**	**165,956**	**218,099**	**1,105,600**	**3,674,376**
Liabilities							
Customers' deposits	1,045,921	201,706	878,107	–	–	906,357	3,032,091
Other borrowed funds	–	–	–	–	–	7,456	7,456
Other liabilities	1	–	–	–	42,622	126,635	169,258
Total liabilities	**1,045,922**	**201,706**	**878,107**	**–**	**42,622**	**1,040,448**	**3,208,805**
Total interest repricing gap	**92,163**	**(130,077)**	**96,900**	**165,956**	**175,477**	**65,152**	**465,571**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk...*continued*

3.2.3 Interest rate risk ...*continued*

As of June 30, 2016	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
Assets							
Cash and balances with Central Bank	–	–	–	–	–	269,155	269,155
Treasury bills	28,486	3,066	113,601	–	–	2,044	147,197
Deposits with other financial institutions	497,722	135,130	3,232	20,270	–	241,271	897,625
Loans and receivables:							
Loans and advances to customers	277,397	118,660	12,813	104,514	190,513	–	703,897
Originated debt	5	25,374	9	67,231	20,661	884	114,164
Available-for-sale debt investments	146,074	–	–	–	2,010	466,338	614,422
Financial asset	–	–	–	796,020	–	2,460	798,480
Other asset	3,598	–	14,074	7,055	–	25,066	49,793
Total assets	**953,282**	**282,230**	**143,729**	**995,090**	**213,184**	**1,007,218**	**3,594,733**
Liabilities							
Customers' deposits	1,010,464	239,046	868,770	455	–	930,538	3,049,273
Other borrowed funds	7,968	–	–	–	–	–	7,968
Other liabilities	2	–	–	–	42,041	116,160	158,203
Total liabilities	**1,018,434**	**239,046**	**868,770**	**455**	**42,041**	**1,046,698**	**3,215,444**
Total interest repricing gap	**(65,152)**	**43,184**	**(725,041)**	**994,635**	**171,143**	**(39,480)**	**379,289**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.3 Liquidity risk

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

3.3.1 Liquidity risk management

The Group's liquidity is managed and monitored by the Comptroller Division with guidance, where necessary, from the Board of Directors. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This includes:

- Daily monitoring of the Group's liquidity position to ensure that requirements can be met. These include the replenishment of funds as they mature and/or are borrowed by customers.
- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against unforeseen liquidity problems. Additionally, the investment portfolio is diversified by geography, product, industry and term.
- Daily monitoring of the statement of financial position liquidity ratios against internal and regulatory requirements.
- Managing the concentration and profile of debt maturities.
- Formalised arrangements with non-regional financial institutions to fund any liquidity needs that may arise.

3.3.2 Funding approach

Sources of liquidity are regularly reviewed to maintain a wide diversification of geography, currency, providers, products and terms. The Group holds a diversified portfolio of cash loans and investment securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets held for managing liquidity risk include the following:

- Cash and balances with Central Bank;
- Deposits with other financial institutions;
- Loans and advances to customers
- Treasury bills; and
- Available-for-sale investment securities

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.3.3 Cash flows

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

As of June 30, 2017	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $
Financial liabilities						
Customers' deposits	1,939,176	205,391	912,116	–	–	3,056,683
Other borrowed funds	–	–	7,456	–	–	7,456
Other liabilities	160,457	8,788	13	–	–	169,258
Total financial liabilities	**2,099,633**	**214,179**	**919,585**	–	–	**3,233,397**
Assets held to manage liquidity risk	**2,238,498**	**71,629**	**983,853**	**165,348**	**218,099**	**3,677,427**
As of June 30, 2016						
Financial liabilities						
Customers' deposits	1,913,610	218,751	896,928	–	–	3,029,289
Other borrowed funds	693	6,803	–	–	–	7,496
Other liabilities	103,146	2,892	4,035	43,932	–	154,005
Total financial assets	**2,017,449**	**228,446**	**900,963**	**43,932**	–	**3,190,790**
Assets held to manage liquidity risk	**1,975,079**	**207,023**	**162,683**	**995,920**	**210,295**	**3,551,000**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk...*continued*

3.3.4 Off-balance sheet items

Loan commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (note 31), are summarised in the table below.

As of June 30, 2017	Up to 1 year $	1 to 3 years $	Over 3 years $	Total $
Loan commitments	8,806	461	6,191	15,458
Credit card commitments	8,587	–	–	8,587
	17,393	**461**	**6,191**	**24,045**
As of June 30, 2016				
Loan commitments	46,855	512	6,706	54,073
Credit card commitments	9,003	–	–	9,003
	55,858	**512**	**6,706**	**63,076**

3.4 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

To limit the Group's exposure of potential loss on an insurance policy, the Group ceded certain levels of risk to a reinsurer. The Group selects reinsurers which have a well-established capability to meet their contractual obligations and which generally have high credit ratings.

For its property risks, the Group uses quota share and excess of loss catastrophe reinsurance treaties to obtain reinsurance coverage. Catastrophe reinsurance is obtained for multiple claims arising from one event or occurring within a specified time period. However, treaty limits may apply and may expose the insurer to further claim exposure.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefits payments exceed the carrying amount of the insurance liabilities. This could occur because of the frequency or severity of claims and if benefits payments are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate.

(expressed in thousands of Eastern Caribbean dollars)

Management of financial and insurance risk *...continued*

3.4 Insurance risk *...continued*

The concentration of insurance risk before and after reinsurance by risk category is summarised below, with reference to the carrying amount of the insurance liabilities (gross and net of reinsurance) arising from insurance contracts:

	Gross liability		**Reinsurers' share**		**Net liability**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**	**$**	**$**
St. Kitts	**5,007**	5,402	–	–	**5,007**	5,402
Nevis	**136**	242	–	–	**136**	242
Anguilla	**91**	368	–	–	**91**	368
	5,234	6,012	–	–	**5,234**	6,012
Motor	**2,528**	3,032	–	–	**2,528**	3,032
Health & Life	**2,326**	2,616	–	–	**2,326**	2,616
Property	**332**	332	–	–	**332**	332
Liability	**48**	32	–	–	**48**	32
	5,234	6,012	–	–	**5,234**	6,012

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk *...continued*

3.4 Insurance risk *…continued*

i) Property insurance

Property insurance contracts are underwritten using the following main risk categories: fire, business interruption, weather damage and theft.

Frequency and severity of claims
For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, flooding, hurricanes, earthquake, etc), increase the frequency and severity of claims and their consequences. The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The Group has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from fire, hurricane and earthquake damage. The Group has reinsurance cover for such damage to limit losses to $500 in any one occurrence, per individual property risk.

Sources of uncertainty in the estimation of future claim payments
Claims on property contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract even if the loss is discovered after the end of the contract term. There are several variables that affect the amount and timing of cash flows from these contracts. The compensation paid on these contracts is the monetary awards granted for property damage caused by insured perils as stated in the contract of insurance.

The estimated costs of claims include direct expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Property claims are less sensitive as the shorter settlement period for these claims allows the Group to achieve a higher degree of certainty about the estimated cost of claims. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for incurred but not reported (IBNR) and a provision for reported claims not yet paid (outstanding claims) at the reporting date.

ii) Casualty insurance

The Group's casualty insurance is motor, marine and liability insurance.

Frequency and severity of claims
The frequency and severity of claims can be affected by several factors. The most significant is the number of cases coming to Court that have been inactive or latent for a long period of time. Estimated inflation is also a significant factor due to the long period required to settle these cases.

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk *...continued*

3.4 Insurance risk *...continued*

ii) Casualty insurance *...continued*

Frequency and severity of claims*...continued*
Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Furthermore, the Group's strategy limits the total exposure to the Group only by the use of reinsurance treaty arrangements. The reinsurance arrangements include excess of loss cover. The effect of such reinsurance arrangements is that the Group should not suffer total net insurance loss of more than $750 per risk for casualty insurance.

Sources of uncertainty in the estimation of future claim payments
Claims on casualty contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract even if the loss is discovered after the end of the contract term. As a result, casualty and financial risk claims are settled over a longer period of time. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employers' liability covers). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur because of the accident.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for incurred but not reported (IBNR) and a provision for reported claims not yet paid (outstanding claims) and a provision for unexpired risks at the reporting date. The Group's IBNR loss reserves are derived using paid loss development estimation method (triangular method). Each business classes' IBNR was calculated using claims data and loss history. The quantum of casualty claims is particularly sensitive to the level of Court awards and to the development of legal precedent on matters of contract and tort.

iii) Life insurance contracts

The Group is exposed to potential loss on its life insurance policies from the possibility that an insured event occurs. The Group has no reinsurance on its life insurance contracts. Hence, this risk is fully borne by the Group.

iv) Claims development

The Group employs loss (claims) development tables as a means of measuring actual claims compared with previous estimates. Claims are typically resolved within one year and are assessed on a case-by-case basis. The claims that tend to extend beyond one year are normally from the Accident line of business and to a lesser extent, the Motor line.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk *...continued*

3.4 Insurance risk *...continued*

iv) Claims development *...continued*

Claims reserve for the individual accident years at the respective reporting dates (gross)

EC$	**Accident year**										
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Date	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
30/6/2008	5,568	–	–	–	–	–	–	–	–	–	**5,568**
30/6/2009	3,838	14,797	–	–	–	–	–	–	–	–	**18,635**
30/6/2010	3,442	13,167	1,646	–	–	–	–	–	–	–	**18,255**
30/6/2011	3,237	12,573	267	2,698	–	–	–	–	–	–	**18,775**
30/6/2012	2,011	12,113	198	542	2,526	–	–	–	–	–	**17,390**
30/6/2013	830	1,196	195	521	747	4,422	–	–	–	–	**7,911**
30/6/2014	246	752	195	505	693	1,571	2,707	–	–	–	**6,669**
30/6/2015	110	195	175	461	523	1,307	358	3,384	–	–	**6,513**
30/6/2016	93	–	–	355	432	758	561	358	3,455	–	**6,012**
30/6/2017	93	–	–	–	374	675	380	212	256	3,244	**5,234**

Claims reserves are made up as follows:

	$
Outstanding claims – life	**168**
Non-life	**2,754**
Claims IBNR – non-life	**2,312**
	5,234

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk *...continued*

3.5 Fair values of financial assets and liabilities

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

The fair values of cash resources, other assets and liabilities, items in transit are assumed to approximate their carrying values due to their short term nature. The fair values of off balance sheet commitments are also assumed to approximate the amount disclosed in note 31. Fair values of financial assets and financial liabilities are also determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with pricing models based on discounted cash flow analysis using prices from observable current market transactions.

(a) Treasury bills
Treasury bills are assumed to approximate their carrying value due to their short term nature.

(b) Deposits with other financial institutions
Deposits with other financial institutions include cash on operating accounts fixed deposits. These deposits are estimated to approximate their carrying values due to their short-term nature.

(c) Loans and advances to customers
The estimated fair values of loans and advances represent the discounted amount of estimated future cash flow expected to be received. Expected cash flows are discounted at current market rate to determine fair value. Initial loan values are taken as fair value and where observed values are different, adjustments are made.

(d) Originated debt
Originated debt securities include only interest bearing financial assets.

(e) Customers' deposits
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 and are at rates which reflect market conditions, are assumed to have fair values which approximate carrying values.

(f) Due to financial institutions
The estimated fair value of 'due to financial institutions' is the amount payable on demand which is the amount recorded.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk *...continued*

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

(g) Other borrowed funds
Other borrowed funds are short-term in nature therefore fair value in this category is estimated to approximate carrying value.

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

	Carrying value		Fair value	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with Central Bank	**207,707**	269,155	**207,707**	269,155
Treasury bills	**120,756**	147,197	**120,756**	147,197
Deposits with other financial institutions	**755,345**	897,625	**755,345**	897,625
Financial asset	**823,124**	798,480	**823,124**	798,480
Loans and advances:				
Overdrafts	**169,673**	163,841	**200,870**	192,146
Corporate	**281,609**	289,387	**695,811**	431,861
Mortgage	**151,897**	148,775	**309,608**	277,217
Term	**102,133**	101,894	**224,493**	154,314
Originated debt	**113,209**	114,164	**113,209**	114,164
Other assets	**32,078**	49,793	**32,078**	49,793
	2,757,531	2,980,311	**3,483,001**	3,331,952
Financial liabilities				
Customers' deposits	**3,032,091**	3,049,273	**3,032,091**	3,049,273
Other borrowed funds	**7,456**	7,968	**7,456**	7,968
Other liabilities	**169,258**	158,203	**169,258**	158,203
	3,208,805	3,215,444	**3,208,805**	3,215,444

3.5.1 Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observed.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair values measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk *...continued*

3.5.1 Fair value measurements recognised in the consolidated statement of financial position *...continued*

Available-for-sale financial assets

	Level 1	Level 2	Level 3	Total
As of June 30, 2017	**$**	**$**	**$**	**$**
Debt securities	341,680	4,555	5,543	351,778
Equities	555,820	543	12,929	569,292
	897,500	**5,098**	**18,472**	**921,070**
As of June 30, 2016				
Debt securities	137,515	2,343	10,490	150,348
Equities	456,102	49	–	456,151
	593,617	**2,392**	**10,490**	**606,499**

3.6 Fair value measurement of non-financial assets

The following table shows the level within the hierarchy of non-financial assets measured at fair value:

	Level 1	Level 2	Level 3	Total
	$	**$**	**$**	**$**
As of June 30, 2017				
Land and property	**–**	**30,921**	**–**	**30,921**
As of June 30, 2016				
Land and property	–	30,921	–	30,921

The fair value of the Group's land and buildings included in property, plant and equipment is estimated based on appraisals performed by an independent property valuer. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the Board of Directors. The appraisal was carried out primarily using a market based approach that reflects the selling prices for similar properties and incorporates adjustments for factors specific to the properties in question, including square footage, location and current condition/use.

3.7 Capital management

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

- To comply with the capital requirement set by the Eastern Caribbean Central Bank (the "Central Bank" or "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 Central Bank for supervisory purposes.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk *...continued*

3.7 Capital management *...continued*

In addition, there are also capital requirements for the insurance business based on the Insurance Act No. 8 of 2009. According to the Act, the required paid-up capital is $2,000 (2016: $2,000). The Group has met this capital requirement for its insurance business.

The Central Bank requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of $20,000 and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the international agreed minimum of 8%.

The commercial bank's regulatory capital as managed by management is divided into two tiers:

- Tier 1 Capital: share capital, retained earnings and reserves created by appropriation of retained earnings.
- Tier 2 Capital: qualifying subordinated loan capital, collective impairment allowance and unrealised gains arising on the fair valuation of security instruments held as available for sale.

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the two-year presentation. During those two years, the commercial bank complied with all of the externally imposed capital requirements to which it must comply.

	2017	**2016**
	$	**$**
Tier 1 capital		
Share capital	**135,000**	135,000
Issued bonus shares from capitalisation of unrealised assets revaluation gain reserve	**(4,500)**	(4,500)
Share premium	**3,877**	3,877
Reserves	**361,053**	296,329
Less reserve for interest accrued collected on non-performing loans (note 21)	**(57,157)**	(46,240)
Retained earnings	**49,509**	32,366
Total qualifying Tier 1 capital	**487,782**	416,832
Tier 2 capital		
Revaluation reserve – available-for-sale investment securities	**(1,013)**	(54,361)
Revaluation reserve – property, plant and equipment	**19,661**	19,661
Bonus shares capitalisation	**4,500**	4,500
Accumulated impairment allowance	**63,539**	55,816
Total qualifying Tier 2 capital	**86,687**	25,616
Total regulatory capital	**574,469**	442,448

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk *...continued*

3.7 Capital management *...continued*

	2017 $	2016 $
Risk-weighted assets:		
On-balance sheet	**1,625,035**	1,365,867
Off-balance sheet	**29,938**	54,073
Total risk-weighted assets	**1,654,973**	1,419,940
Tier 1 capital ratio	**29%**	29%
Basel ratio	**35%**	31%

4 Critical accounting estimates and judgements

The Group's consolidated financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates that have a significant risk of causing material adjustments to the carrying amounts of assets within the next financial year are discussed below:

(a) Impairment losses on investment securities

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

(b) Impairment losses on loans and advances

The Group reviews its loan portfolio of assets for impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences in estimates and actual loss experienced. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated as $3,992 lower or $4,208 higher.

(expressed in thousands of Eastern Caribbean dollars)

4 Critical accounting estimates and judgements *...continued*

(c) Pension benefits

The present value of the pension benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash flows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 34.

(d) Estimate of insurance actuarial liabilities

The Group issues whole life, limited payment life, endowment, term insurance, health and medical insurance policies. The estimation of the actuarial liabilities arising under these insurance contracts is dependent on estimates made by the Group. The estimate is subject to several sources of uncertainty that need to be considered in determining the future benefit payments.

Mortality – Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to the risk. The Group bases these estimates on the UK A67/70 for assured lives. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments. An increase in the rate of mortality will lead to a larger number of claims, resulting in lower income. Were the mortality rate to differ by 10% from management's estimate, the actuarial liabilities would increase by approximately $4,601 or decrease by approximately $4,615.

Discount rate – Estimates are also made as to the discount rate use in the valuation of the insurance plans to determine the actuarial liabilities. A net rate of 2.9% (2016 – 2.9%) was used as the discount rate in the valuation of insurance plans having a reversionary bonus, which is used to distribute profits to the policies. A net rate of 3.65% (2016 – 3.65%) is used in the valuation for plans which do not participate in profits. Were the discount rate to differ by +/-50 basis points from management's estimate, the actuarial liabilities would decrease by approximately $10,828 or increase by approximately $15,348.

The estimation of the ultimate liability arising from claims incurred under property and casualty insurance contracts is subject to several sources of uncertainty that need to be considered in determining the amount that the insurer will ultimately pay for such claims. Provisions are made at the year-end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. These are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions, economic conditions and changes in medical condition of claimants.

(expressed in thousands of Eastern Caribbean dollars)

4 Critical accounting estimates and judgements *...continued*

(d) Estimate of insurance actuarial liabilities ...continued

However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claims has happened.

If the IBNR rates were adjusted by +/-1%, the change in the statement of income would be to decrease or increase reported profits by approximately -/+$238.

Management engages loss adjusters and independent actuaries, either to assist in making or to confirm the estimate of claim liabilities. The ultimate liability arising from claims incurred under property and casualty insurance contracts may be mitigated by recovery arising from reinsurance contracts held.

(e) Fair value measurement of land and buildings

Management uses valuation techniques to determine the fair value of its non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the asset. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 13). Additional information is disclosed in note 3.6.

(f) Current and deferred income taxes

Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The extent to which deferred tax assets and tax credits can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. The estimated deferred tax asset and tax credit may vary from the actual amounts recovered in the future.

(expressed in thousands of Eastern Caribbean dollars)

5 Cash and balances with Central Bank

	2017 $	2016 $
Cash on hand	**17,383**	17,530
Balances with Central Bank other than mandatory deposits	**15,742**	74,742
Included in cash and cash equivalents (note 33)	**33,125**	92,272
Mandatory deposits with Central Bank	**174,582**	176,883
	207,707	269,155

The Group is required to maintain an Automated Clearing Housing (ACH) collateral amount with the Central Bank. This amount can be in the form of cash and/or ECCU member Government securities issued on the Regional Government Securities Market. The Bank's collateral amount held with the Central Bank at June 30, 2017 amounted to $5,482 (2016: 5,496).

Commercial banks are also required under Section 57 of the Banking Act, 2015 to maintain a reserve deposit with the Central Bank equivalent to 6 percent of their total customer deposits. This reserve deposit is not available to finance the Bank's day-to-day operations.

Cash and balances with Central Bank, which include mandatory and ACH collateral deposits are not interest bearing.

(expressed in thousands of Eastern Caribbean dollars)

6 Treasury bills

	2017 $	2016 $
Government of Antigua and Barbuda		
Term of one year, matured on July 1, 2016 at 5% interest	–	9,525
Term of one year, matured on October 8, 2016 at 5.95% interest	–	6,879
Government of St. Lucia		
Term of one year, maturing on May 21, 2018 (2016: matured on May 21, 2017) at 5% interest	**4,750**	4,750
Term of one year, maturing on May 2, 2018 (2016: matured on May 2, 2017) at 4.5% interest	**11,530**	11,530
Term of one year, maturing on June 5, 2018 (2016: matured on June 5, 2017) at 4.5% interest (2016: 5%)	**2,025**	2,025
Government of Grenada		
Term of one year, matured on July 16, 2016 at 5% interest	–	10,307
Government of St. Kitts and Nevis		
Term of one year, maturing on May 15, 2018 (2016: matured on May 15, 2017) at 4% interest	**88,417**	88,417
Term of 90 days, maturing on August 9, 2017 at 3.75% interest	**198**	198
Term of one year, maturing on August 14, 2017 (2016: matured on August 14, 2016) at 4% interest (2016: 5%)	**2,871**	2,868
Nevis Island Administration		
Term of 90 days, maturing on July 12, 2017 at 5.5% interest matured on July 12, 2016 at 5.5% interest	**10,255**	1,380
Term of 90 days, matured on July 12, 2016 at 5.5% interest	–	7,274
	120,046	145,153
Interest receivable	**710**	2,044
	120,756	147,197

	2017 $	2016 $
Treasury bills with original maturities of 3 months or less	**10,453**	8,852
Interest receivable	**128**	107
Treasury bills included in cash and cash equivalents (note 33)	**10,581**	8,959
Treasury bills with original maturities of more than 3 months	**109,593**	136,301
Interest receivable	**582**	1,937
	120,756	147,197

(expressed in thousands of Eastern Caribbean dollars)

7 Deposits with other financial institutions

	2017 **$**	**2016** **$**
Operating cash balances	**362,264**	503,876
Items in the course of collection	**3,131**	7,848
Interest bearing term deposits	**354,995**	339,916
Included in cash and cash equivalents (note 33)	**720,390**	851,640
Special term deposits	**21,065**	21,065
Restricted term deposits	**12,129**	25,597
	753,584	898,302
Provision for impairment	**(796)**	(796)
	752,788	897,506
Interest receivable	**2,557**	119
	755,345	897,625

The operating balances earn interest at rates of 0.05% to 4% (2016: 1% to 3%). The amounts held in these accounts are to facilitate the short-term commitments and day-to-day operations of the Group.

Special term deposits are interest bearing fixed deposits with a maturity period longer than 3 months.

Restricted term deposits are interest bearing fixed deposits collateral used in the Group's international business operations. These deposits are not available for use in the day-to-day operations of the Group.

Interest earned on both 'Special term deposits' and 'Restricted term deposits' is credited to income. The effective interest rate on 'Deposits with other financial institutions' at June 30, 2017 was 0.1836% (2016: 0.0256%).

(expressed in thousands of Eastern Caribbean dollars)

8 Loans and advances to customers

	2017 $	2016 $
Demand	**166,088**	305,074
Special term	**–**	31,796
Mortgages	**98,848**	95,033
Overdrafts	**10,723**	90,183
Other secured	**22,957**	23,790
Consumer	**5,828**	6,568
Credit cards	**6,817**	5,260
Performing loans and advances	**311,261**	557,704
Impaired loans and advances	**456,116**	200,637
Less: allowance for impairment	**(63,539)**	(55,816)
	703,838	702,525
Interest receivable	**1,474**	1,372
	705,312	703,897
Current	**443,433**	408,888
Non-current	**261,879**	295,009
	705,312	703,897

The weighted average effective interest rate on performing loans and advances excluding overdrafts at June 30, 2017 was 7.03% (2016: 8.1%) and overdrafts were 10.04% (2016: 10.1%).

Allowance for loan impairment

The movement in allowance for loan impairment is as follows:

	2017 $	2016 $
Beginning balance	**55,816**	57,979
Current year impairment losses/(recoveries), net (note 26)	**7,753**	(1,228)
Write-offs during the year	**(30)**	(935)
Ending balance	**63,539**	55,816

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to $68,665 (2016: $50,986). When the ECCB loan loss provision is greater than the loan loss provision calculated under IAS 39, the difference is set aside as a non-distributable reserve through equity. As of June 30, 2017, the loan loss provision calculated under IAS 39 was less than the ECCB provision. Therefore, a non-distributable reserve reserve through equity was required at the reporting date and is included in other reserves in equity (note 21). The gross carrying value of impaired loans at the year-end was $456,116 (2016: $200,637).

Interest receivable on loans that would not be recognised under ECCB guidelines amounted to $57,157 (2016: $46,240) and is included in other reserves in equity (note 21).

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debt

	2017 **$**	2016 $
Certificates of participation in Government of Antigua and Barbuda 7-year long-term notes at 6.7% interest	**36,243**	37,535
Government of St. Lucia USD Fixed Rate Note maturing on September 5, 2018 at 5.0% interest (2016: September 1, 2016 at 4.5% interest)	**25,404**	25,369
Government of St. Kitts and Nevis bonds maturing on April 18, 2057 at 1.5% interest	**19,680**	19,052
Government of St. Lucia USD Fixed Rate Note maturing on July 18, 2019 at 5.0% interest (2016: 5.5%)	**13,513**	13,513
Wells Fargo Corporate Bonds maturing between January 1, 2018 and April 2019 at rates ranging from 1.5% to 6.3% interest	**11,094**	11,094
Government of St. Vincent & the Grenadines 10-year bond maturing on December 17, 2019 at 7.5% interest	**5,000**	5,000
Antigua Commercial Bank 9% interest rate Series A bond maturing on September 30, 2025	**1,368**	1,417
Caribbean Credit Card Corporation unsecured loan at 10.0% interest with no specific terms of repayment	**–**	300
	112,302	113,280
Interest receivable	**907**	884
	113,209	114,164
Current	**50,663**	34,568
Non-current	**62,546**	79,596
	113,209	114,164

The movement in originated debt during the year is as follows:

	2017 **$**	**2016** **$**
Balance, beginning of year	**114,164**	108,556
Additions	**26,033**	13,289
Disposals (sales/redemptions)	**(27,011)**	(6,949)
Movement in interest receivable	**23**	(732)
Balance, end of year	**113,209**	114,164

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debt *...continued*

Certificates of participation in Government of Antigua and Barbuda 7-Year Long Term Note

The Bank placed funds on deposit with ABI Bank Limited (ABIB). These deposits were placed with ABIB, which at the time was facing a serious liquidity challenges, at the request of the ECCB, having regard to the contagion effect on the ECCU and the Bank that would result if ABIB were unable to mitigate its liquidity risks.

By April 28, 2010, the Bank had placed total deposits of $32,000 with ABIB. On May 7, 2010, these deposits, along with an additional $6,710 were used to purchase from ABIB a series of certificates of participation (COPs) in the cash flows from a Long-Term Note issued by the Government of Antigua and Barbuda (GoAB), which had been securitized by ABIB.

On July 22, 2011, ECCB was directed by the Monetary Council to exercise the special emergency powers conferred on it by Part IIA, Article 5B of the ECCB Agreement Act 1983 to assume control of the ABIB. During the years of ECCB's control of ABIB, the Bank received an annual confirmation from ECCB of the total outstanding amounts of the COPs, with the stated objective of stabilizing the operations of ABIB so that all obligations would be settled in the normal course of business. ABIB was placed in receivership on November 27, 2015 by ECCB.

On March 2, 2017, the Monetary Council of the ECCU decided that ECCB would work in conjunction with the GoAB towards finding a resolution of the matter in the best interest and mutual benefit of all parties involved, including the Bank and that all efforts would be made to ensure that the Bank would not incur any impairment loss on the amount of the COPs it holds. The ECCB advised that the Monetary Council deemed the resolution of this matter as a priority for all stakeholders and indicated its intention to ensure that the matter was resolved expeditiously.

As of June 30, 2017, the Bank's interest under the COP's amounted to $36,243 (2016: $37,535). All of the COP's have now matured and are past due. During the current financial year, $1,292 was received from the Receiver in respect of the COPs. As at the date of approval of these consolidated financial statements, the Bank has not been advised of any time frame for payment of the outstanding balance.

As mandated by the Monetary Council, ECCB engaged with the GoAB and, on the July 25, 2017, advised the Bank that the GoAB offered the Bank a settlement of $11,900 to be serviced with a 2%, 20-year bond with semi-annual payments, with the remaining balance of $25,700 to be resolved by ABIB (in receivership). The Bank responded to the offer presented by the ECCB on July 28, 2017 indicating that, while it appreciated their efforts to obtain a resolution to this matter, the Bank was dissatisfied with the GoAB offer.

Discussions are ongoing between the Bank and the ECCB to find a resolution which, as mandated by the Monetary Council, is in the best interest and mutual benefit of all parties, including the Bank. The Bank is continuing to pursue its entitlement under the COPs, and is of the view that it would not be appropriate for the COPs to be written down at the reporting date.

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities – available-for-sale

	2017 $	2016 $
(A) Available-for-sale securities		
Securities at fair value		
Listed	**897,999**	593,695
Unlisted	**23,071**	23,468
Total available-for-sale securities, gross	**921,070**	617,163
Less provision for impairment	**(5,006)**	(5,006)
	916,064	612,157
Interest receivable	**781**	2,265
Total available-for-sale securities, net	**916,845**	614,422

(B) The movement in available-for-sale during the year is as follows:

	2017 $	2016 $
Balance, beginning of year	**614,422**	384,758
Additions	**1,172,800**	1,187,802
Disposals (sales/redemption)	**(946,508)**	(926,598)
Fair value gains/(losses)	**79,625**	(33,273)
Impairment losses	**(2,286)**	(532)
Interest receivable	**(1,208)**	2,265
Balance, end of year	**916,845**	614,422

(C) Provision for impairment – available-for-sale investment securities include:

	2017 $	2016 $
Beginning balance	**5,006**	6,333
Addition for the year (note 26)	**2,286**	532
Reversal of allowance	–	(151)
Write-offs during the year	**(2,286)**	(1,708)
Ending balance	**5,006**	5,006

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities *...continued*

(D) Available-for-sale investment securities are as follows:

	2017 $	2016 $
Listed securities:		
- Equity securities – US	**554,752**	451,576
- Debt securities – US	**341,680**	137,593
- Equity securities – Caribbean	**1,567**	4,526
Total listed securities	**897,999**	593,695
Unlisted securities:		
- Equity securities – Caribbean	**12,929**	12,929
- Debt securities – US	**10,098**	8,480
- Equity securities – US	**44**	49
- Debt securities – Caribbean	**–**	2,010
Total unlisted securities	**23,071**	23,468
Total available-for-sale investment securities, gross	**921,070**	617,163
Provision for impairment	**(5,006)**	(5,006)
	916,064	612,157
Interest receivable	**781**	2,265
Total available-for-sale investment securities, net	**916,845**	614,422

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities *...continued*

(E) Available-for-sale investment securities are denominated in the following currencies:

	2017 $	2016 $
Listed:		
US dollars	**896,432**	589,169
EC dollars	**1,567**	4,526
Total listed securities	**897,999**	593,695
Unlisted:		
US dollars	**10,142**	8,529
EC dollars	**12,929**	14,939
Total unlisted securities	**23,071**	23,468
Total available-for-sale investment securities, gross	**921,070**	617,163
Less: Provision for impairment loss	**(5,006)**	(5,006)
	916,064	612,157
Interest receivable	**781**	2,265
Total available-for-sale investment securities, net	**916,845**	614,422

11 Property inventory

	2017 $	2016 $
Balance at beginning of year	**7,954**	7,954
Provision for impairment (note 26)	**(52)**	–
Balance at end of year	**7,902**	7,954

Property inventory relates mainly to land and buildings held for sale by certain companies within the Group and, is measured at the lower of cost and net realisable value.

	2017 $	2016 $
Cost	**8,193**	8,193
Net realisable value	**7,902**	7,954

(expressed in thousands of Eastern Caribbean dollars)

12 Investment property

	2017 $	2016 $
Land at Camps	**2,021**	2,021
Land at Brighton	**2,019**	2,019
	4,040	4,040

All of the Group's investment property is held under freehold interests. The estimated fair market value of the investment property is $4,573 based on an independent valuation that was performed in 2015.

(expressed in thousands of Eastern Caribbean dollars)

13 Property, plant and equipment

	Land and Buildings $	Equipment, furniture and fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
Year ended June 30, 2016						
Opening net book value	31,723	3,350	526	1	2,696	38,296
Additions	106	224	126	–	1,348	1,804
Transfers	–	2,916	–	–	(2,916)	–
Write-off of projects ongoing to expense	–	–	–	–	(389)	(389)
Disposals	–	–	(88)	–	–	(88)
Depreciation charge	(1,106)	(1,214)	(214)	–	–	(2,534)
Write-back on disposals	–	–	88	–	–	88
Closing net book value	**30,723**	**5,276**	**438**	**1**	**739**	**37,177**
At June 30, 2016						
Cost or valuation	32,779	25,736	1,328	161	739	60,743
Accumulated depreciation	(2,056)	(20,460)	(890)	(160)	–	(23,566)
Net book value	**30,723**	**5,276**	**438**	**1**	**739**	**37,177**

(expressed in thousands of Eastern Caribbean dollars)

13 Property, plant and equipment *...continued*

	Land and Buildings $	Equipment, furniture and fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
Year ended June 30, 2017						
Opening net book value	**30,723**	**5,276**	**438**	**1**	**739**	**37,177**
Additions	277	1,234	137	–	871	2,519
Write-off of projects ongoing to expense	–	–	–	–	(202)	(202)
Disposals	–	(6,009)	(442)	–	–	(6,451)
Depreciation charge	(1,109)	(1,549)	(126)	–	–	(2,784)
Write-back on disposals	–	5,991	293	–	–	6,284
Closing net book value	**29,891**	**4,943**	**300**	**1**	**1,408**	**36,543**
At June 30, 2017						
Cost or valuation	33,056	20,961	1,023	161	1,408	56,609
Accumulated depreciation	(3,165)	(16,018)	(723)	(160)	–	(20,066)
Net book value	**29,891**	**4,943**	**300**	**1**	**1,408**	**36,543**

(expressed in thousands of Eastern Caribbean dollars)

13 Property, plant and equipment *...continued*

In 2015, the Group's land and buildings were revalued based on the appraisal made by an independent firm of appraisers. Valuations were made on the basis of comparative recent market transactions on arm's length terms. The revaluation surplus was credited to 'revaluation reserve' in shareholders' equity.

The following is the historical cost carrying amount of land and buildings carried at revalued amounts.

	Land $	Buildings $	Total $
Cost	3,792	17,935	21,727
Accumulated depreciation	–	(5,408)	(5,408)
Net book value as of June 30, 2017	**3,792**	**12,527**	**16,319**
Net book value as of June 30, 2016	**3,792**	**12,762**	**16,554**

(expressed in thousands of Eastern Caribbean dollars)

14 Intangible assets

	Computer software $
At June 30, 2015	
Cost or valuation	7,198
Accumulated amortisation	(6,619)
Net book value	**579**
Year ended June 30, 2016	
Opening balance	579
Additions	167
Amortisation charge	(267)
Net book amount	**479**
At June 30, 2016	
Cost or valuation	7,365
Accumulated amortisation	(6,886)
Net book value	**479**
Year ended June 30, 2017	
Opening balance	479
Additions	115
Disposal	(2,375)
Amortisation charge	(295)
Write-back amortisation on disposal	2,375
Net book amount	**299**
At June 30, 2017	
Cost or valuation	5,105
Accumulated amortisation	(4,806)
Net book value	**299**

(expressed in thousands of Eastern Caribbean dollars)

15 Other assets

	2017 $	2016 $
Net defined benefit asset (note 34)	**20,832**	17,664
Insurance and other receivables	**19,427**	24,318
Customer's liability under acceptances, guarantees and letters of credit	**7,456**	7,744
ePassporte receivable	**7,108**	8,108
Prepayments	**2,601**	2,487
Stationery and card stock	**689**	891
	58,113	61,212
Less: provision for impairment	**(1,000)**	(1,000)
	57,113	60,212
Current	**32,663**	37,658
Non-current	**24,450**	22,554
	57,113	60,212

Provision for impairment

The movement in the provision for impairment during the year is as follows:

	2017 $	2016 $
Balance, beginning of year	**1,000**	–
Provision during the year (note 26)	**1,000**	1,000
Write-down	**(1,000)**	–
Balance, end of year	**1,000**	1,000

(expressed in thousands of Eastern Caribbean dollars)

16 Customers' deposits

	2017 $	2016 $
Fixed deposit accounts	**1,388,013**	1,441,900
Direct demand accounts	**899,653**	910,638
Savings accounts	**452,295**	407,665
Call accounts	**275,848**	271,390
	3,015,809	3,013,593
Interest payable	**16,282**	17,680
	3,032,091	3,049,273
Current	**3,032,091**	3,048,818
Non-current	**–**	455
	3,032,091	3,049,273

Customers' deposits represent all types of deposit accounts held by the Group on behalf of customers. The deposits include demand deposit accounts, call accounts, savings accounts and fixed deposits. All balances that comprise 'Customers' deposits' at the reporting date represent current amounts.

As of the reporting date, total interest paid on deposit accounts for the year amounted to $59,338 (2016: $65,534). The average effective rate of interest paid on customers' deposits was 2.17% (2016: 2.2%).

17 Other borrowed funds

	2017 $	2016 $
Acceptances guarantees and letters of credit	**7,456**	7,744
Due to other financial institutions	**–**	224
	7,456	7,968

All balances that comprise 'Other borrowed funds' at the reporting date represent current amounts.

Total interest expense during the year amounted to $nil (2016: $nil).

(expressed in thousands of Eastern Caribbean dollars)

18 Accumulated provisions, creditors and accruals

	2017 $	2016 $
Actuarial liabilities	**85,608**	80,965
Deposit pension funds	**42,622**	42,041
Insurance contract liabilities	**18,508**	23,277
Other payables	**28,687**	21,098
Unpaid drafts on other banks	**1,939**	1,855
Managers' cheques and bankers' payments	**1,623**	3,010
	178,987	172,246

	2017 $	2016 $
Current	**136,365**	128,722
Non-current	**42,622**	43,524
	178,987	172,246

Actuarial liabilities

Actuarial liabilities comprise the reserves maintained on the Group's individual life insurance business. The actuarial liabilities are calculated using the Net Level Premium (NLP) reserve method. This reserve method is a net premium reserve method that does not use lapse rates or expenses.

	2017 $	2016 $
Whole life plans	**73,715**	69,900
Endowment plans	**7,456**	6,941
Limited payment life plans	**3,132**	2,829
Other plans	**1,305**	1,295
Total actuarial liabilities	**85,608**	80,965

The actuarial liabilities are largely backed by short-term deposits, cash and treasury bills. The valuation rate for insurance plans is based on an expected ultimate short-term (one year or less) reinvestment rate assumption. Non-participating plans use an ultimate rate of 3.65% (2016: 3.65%). A spread of 0.75% is deducted for the plans with reversionary bonuses in support of bonus payments for a net rate of 2.9% (2016: 2.9%).

(expressed in thousands of Eastern Caribbean dollars)

18 Accumulated provisions, creditors and accruals *...continued*

Insurance contract liabilities
The insurance contract liabilities primarily relate to the non-life insurance business and are comprised of the following:

	2017 $	2016 $
Life		
Outstanding claims	**168**	290
Non-life		
Unexpired risks	**8,783**	12,732
Reinsurance premiums payable	**3,545**	3,332
Outstanding claims	**2,754**	3,587
IBNR	**2,312**	2,135
Premiums received in advance	**946**	1,201
	18,340	22,987
	18,508	23,277

Deposit pension funds
The deposit pension funds represent pension funds which the Group manages for its employees and certain other entities. The fund provides a guaranteed minimum rate of 5% (2016: 5%). The fund balance represents the amount standing on account of the contributors to the fund and those liabilities are supported by term deposits and treasury bills.

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation

	2017 $	2016 $
Net income before tax	**35,855**	30,072
Income tax expense at rate of 33%	**11,832**	9,924
Adjustment to deferred tax asset from prior years	**17,183**	–
Non-deductible expenses and other permanent differences	**12,829**	7,183
Prior year's current income tax	**87**	–
Effect of losses utilised	**43**	(39)
Deferred tax movement not recorded	**25**	1,624
Effect of capital allowances carried forward	–	(1)
Prior year's deferred income tax	**(11)**	–
Income not subject to tax	**(6,330)**	(16,993)
Tax credit from discounted interest on government loans	**(15,704)**	–
Adjustment to income tax recoverable from prior years	**(23,549)**	–
Income tax (credit)/expense	**(3,595)**	1,698
Represented as follows:		
Current income tax (credit)/expense		
Current year's income tax expense	**18,750**	2,087
Tax credit from discounted interest on government loans	**(15,704)**	–
Adjustment to income tax recoverable from prior years	**(23,549)**	–
	(20,503)	2,087
Deferred tax expense/(credit)	**16,908**	(389)
	(3,595)	1,698

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation *...continued*

Deferred tax (liability)/ asset

The net deferred tax (liability)/asset is comprised as follows:

	2017 $	2016 $
Items recognized in profit or loss:		
Tax loss carried forward	–	15,128
Capital loss allowance carried forward	–	2,055
Accelerated depreciation	**(127)**	(402)
	(127)	16,781
Items recognized directly in other comprehensive income:		
Unrealised loss on AFS securities	**488**	26,764
Net defined benefit asset	**(7,093)**	(5,829)
	(6,605)	20,935
	(6,732)	37,716

The movements on deferred tax (liability)/asset are as follows:

	2017 $	2016 $
Balance, beginning of year	**37,716**	25,940
Current year change	**(17,060)**	586
Net unrealised gain/(loss) in movement for the year	**(26,276)**	10,980
Deferred tax movement for pension asset in profit and loss	**59**	–
Deferred taxes on depreciation of property and equipment	**93**	–
Re-measurement (gain)/loss of defined benefit asset	**(1,264)**	210
Balance, ending of year	**(6,732)**	37,716

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation *...continued*

The movement in the current income tax liability is as follows:

	2017 $	2016 $
Balance at beginning of year	–	–
Tax expense for the year (not offset against the income tax recoverable)	**3,618**	2,087
Tax paid during the year	**(45)**	(1,271)
Income tax penalties and interest	**51**	–
Excess payment transferred to income tax recoverable	–	(816)
Balance at end of year	**3,624**	–

Tax losses

The Group has incurred income tax losses amounting to $12,958 (2016: $54,316) which may be carried forward and applied to reduce taxable income by an amount not exceeding one half of taxable income in any one year of assessment within 5 years following the year in which the losses were incurred. The losses are based on income tax returns, which have not yet been assessed by the IRD.

During the prior year, the Bank refiled its tax returns for the years 2012 to 2016 as a result of a change in the treatment of the tax free Government loans. The refiled tax returns were agreed and accepted by the IRD subsequent to the year end on April 27, 2018. The change in treatment of the tax free loans resulted in the elimination of the brought forward tax losses from the prior years. The calculation of the estimate of the current income tax expense of the subsidiaries has not changed during the year.

The losses expire as follows:

	$
2018	883
2019	1,785
2020	2,674
2021	3,522
2022	4,094
	12,958

Income tax recoverable

Included in the consolidated statement of financial position is an amount of $30,134 (2016: $4,541) that relate to income tax credits/advance tax payments due from the IRD in respect of tax assessments that were finalised up to the year ended June 30, 2016 and the change in the Bank's estimate of the current income tax expense based on a settlement agreement with the IRD. This resulted in a net tax credit of $20,503, primarily arising from the benefit received by the Government as a result of the reduced interest rate on tax free Government loans. The amount may be applied against any future taxes payable by the Bank. The amount may be applied against any future taxes payable by the Group, with certain agreed restrictions.

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation *...continued*

The movement in the income tax recoverable is as follows during the year:

	2017 $	2016 $
Balance, beginning of year	**4,541**	4,541
Tax credit under accrued in prior years	**23,549**	–
Current year's income tax credit	**15,704**	–
Tax paid during the year	**1,472**	–
Current year's income tax expense offset (limited to 80%)	**(15,132)**	–
Balance, end of year	**30,134**	4,541

20 Issued share capital

	2017 $	2016 $
Authorised		
270,000,000 ordinary shares of $1 each	**270,000**	270,000
Issued and fully paid		
135,000,000 ordinary shares of $1 each	**135,000**	135,000

21 Reserves

The reserves are comprised as follows:

	2017 $	2016 $
Statutory reserve	**123,766**	116,449
Revaluation reserve	**18,648**	(34,700)
Other reserves	**218,639**	214,580
	361,053	296,329

(expressed in thousands of Eastern Caribbean dollars)

21 Reserves ...*continued*

a) Statutory reserve

	2017 $	2016 $
Balance at beginning of year	**116,449**	111,674
Addition	**7,317**	4,775
Balance at end of year	**123,766**	116,449

In accordance with Section 45 (1) of Saint Christopher and Nevis Banking Act, 2015, the Bank is required to maintain a reserve fund into which it shall transfer not less than 20% of its net income of each year whenever the reserve fund is less than the Bank's paid-up capital.

b) Revaluation reserve

	2017 $	2016 $
Balance at beginning of year	**(34,700)**	(12,406)
Movement in market value of investment securities available-for-sale, net	**53,348**	(22,294)
Balance at end of year	**18,648**	(34,700)
Revaluation reserve is represented by:		
Properties (note 13)	**19,661**	19,661
Investment securities – available-for-sale (note 10)	**(1,013)**	(54,361)
Balance at end of year	**18,648**	(34,700)

c) Other reserves

	2017 $	2016 $
Balance at beginning of year	**214,580**	213,748
Transfers from retained earnings	**1,490**	1,657
Other comprehensive income	**2,569**	(825)
Balance at end of year	**218,639**	214,580
Other reserves is represented by:		
General reserve	**112,269**	129,264
Insurance and claims equalization reserves	**33,652**	32,162
Regulatory reserve for loan impairment (note 8)	**6,078**	–
Regulatory reserve for interest accrued collected on non-performing loans (note 8)	**57,157**	46,240
Defined benefit pension plan reserve	**9,483**	6,914
	218,639	214,580

(expressed in thousands of Eastern Caribbean dollars)

21 Reserves *...continued*

c) Other reserves *...continued*

Insurance and claims equalization reserves
The insurance reserve is a discretionary reserve for the health and public liability insurance business. The underlying assets are included in the Group's cash balances which form part of 'Cash and cash equivalents' (note 33).

Claims equalisation reserves represent cumulative amounts appropriated from retained earnings based on the discretion of the Board of Directors as part of the subsidiary's risk management strategies to mitigate against catastrophic events. Annually the claims equalisation reserves are assessed and transfers made as considered necessary by the Board of Directors. These reserves are in addition to the catastrophe reinsurance cover.

General reserve
General reserve is used from time to time to transfer profits from retained earnings. There is no policy of regular transfer.

Regulatory reserve for loan impairment
Regulatory reserve represents cumulative amounts appropriated from retained earnings based on the prudential guidelines of the ECCB. When the ECCB loan for provision is greater than the loan provision calculated under IAS 39, the difference is set aside in equity

Reserve for interest accrued collected on non-performing loans
This reserve is created to set aside interest accrued on non-performing loans where certain conditions are met in accordance with paragraph AG93 of IAS 39. The prudential guidelines of the ECCB do not allow for the accrual of such interest. As a result, the interest is set aside in a reserve and it is not available for distribution to shareholders until received.

Defined benefit pension plan reserve
This reserve is used to record the actuarial re-measurement of the defined benefit pension asset in other comprehensive income.

(expressed in thousands of Eastern Caribbean dollars)

22 Net interest income

	2017 $	2016 $
Interest income		
Loans and advances	**41,412**	43,361
Financial asset (note 32)	**27,493**	27,864
Deposits with other financial institutions	**4,921**	1,438
Others	**4,701**	7,168
Originated debts	**4,078**	4,499
Available-for-sale investments	**3,038**	8,042
Interest income for the year	**85,643**	92,372
Interest expense		
Fixed deposits	**44,131**	50,558
Savings accounts	**8,623**	8,715
Current and other deposit accounts	**491**	585
Call accounts	**369**	330
Interest expense for the year	**53,614**	60,188
Net interest income	**32,029**	32,184

23 Net fees and commission income

	2017 $	2016 $
Fees and commission income		
International business and foreign exchange	**10,515**	8,604
Brokerage and other fees and commission	**3,799**	4,158
Credit related fees and commission	**2,338**	3,887
Fees and commission income for year	**16,652**	16,649
Fee expenses		
International business and foreign exchange	**7,607**	7,046
Other fee expenses	**2,271**	1,455
Brokerage and other related fee expenses	**1,473**	1,389
Fee expenses for year	**11,351**	9,890
Net fees and commission income	**5,301**	6,759

(expressed in thousands of Eastern Caribbean dollars)

24 Other income

	2017 $	2016 $
Net gain on AFS investments at fair value	**36,062**	11,892
Net insurance premium income	**32,068**	31,103
Dividend income	**5,822**	3,760
Foreign exchange gain	**4,418**	4,863
Other operating income	**1,011**	597
	79,381	52,215

25 Administrative and general expenses

	2017 $	2016 $
Employee cost	**31,507**	25,225
Repairs and maintenance	**5,713**	5,650
Sundry losses	**1,627**	564
Communication	**899**	926
Utilities	**778**	720
Stationery and supplies	**753**	703
Other general	**748**	1,507
Rent and occupancy	**692**	641
Insurance	**545**	589
Advertisement and marketing	**526**	530
Legal fees and expenses	**357**	324
Security services	**334**	301
Shareholders' expenses	**189**	196
Taxes and licences	**156**	116
Premises upkeep	**44**	43
Property management	**7**	4
	44,875	38,039

(expressed in thousands of Eastern Caribbean dollars)

25 Administrative and general expenses *...continued*

Employee cost

	2017 $	2016 $
Salaries and wages	**19,131**	16,869
Insurance and other benefits	**7,572**	3,977
Other staff cost	**4,286**	4,513
Pension expense/(credit) (note 34)	**518**	(134)
	31,507	25,225

26 Impairment expense

	2017 $	2016 $
Loans and advances to customers, net (note 8)	**7,753**	(1,228)
Investment securities – available-for-sale (note 10)	**2,286**	532
Other assets (note 15)	**1,000**	1,000
Property inventory (note 11)	**52**	–
	11,091	304

27 Other expenses

	2017 $	2016 $
Net claims incurred	**20,115**	18,595
Depreciation and amortisation	**3,079**	2,801
Directors fees and expenses	**902**	821
Professional fees and expenses	**824**	526
	24,920	22,743

(expressed in thousands of Eastern Caribbean dollars)

28 Earnings per share

'Earnings per share' is calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2017 $	2016 $
Net income attributable to shareholders	**39,450**	28,374
Weighted average number of ordinary shares in issue (in thousands)	**135,000**	135,000
Basic and diluted earnings per share	**0.29**	0.21

29 Dividend

The consolidated financial statements reflect dividends of $13,500 or $0.10 per share for the financial year ended June 30, 2017 (2016: $13,500 or $0.10 per share). Approval of the payment was given at the Forty-sixth Annual General Meeting held on April 27, 2017 and was subsequently paid.

30 Related parties balances and transactions

Government of St. Kitts and Nevis

The Government of St. Kitts and Nevis holds 51% of the Group issued share capital. The remaining 49% of the issued share capital is held by individuals and other institutions (over 5,200 shareholders). The Government is a customer of the Group and, as such, all transactions executed by the Group on behalf of the government are performed on strict commercial banking terms at existing market rates.

(expressed in thousands of Eastern Caribbean dollars)

30 Related parties balances and transactions *...continued*

	2017 $	2016 $
Public sector		
Loans and advances	**282,580**	255,250
Deposits	**1,663,594**	1,590,504
Interest on deposits	**37,717**	42,257
Interest on loans, advances and other	**11,736**	11,026
Interest on special financial asset	**27,493**	27,864
Insurance contract liabilities	**1,125**	2,962
Gross premium written	**16,076**	15,954
Gross claims incurred	**8,101**	7,352
Associated companies		
Loans and advances	**70,008**	70,295
Deposits	**11,847**	11,402
Interest on deposits	**139**	87
Interest from loans and advances	**11**	30
Directors and associates		
Loans and advances	**1,045**	1,059
Deposits	**332**	367
Interest on deposits	**6**	6
Interest from loans and advances	**72**	55
SKNANB $1 shares held by directors	**161**	161
Directors fees and expenses	**625**	563
Insurance premium written	**1**	1

	2017 $	2016 $
Key management		
Number of company shares held	**31**	46
Loans and advances	**4,016**	4,020
Deposits	**561**	1,052
Interest on deposits	**8**	55
Interest from loans and advances	**275**	281
Salaries and short-term benefits	**5,030**	4,276
Insurance premium written	**73**	100
Outstanding insurance balances	**8**	7

Loans advanced to directors and key management during the year are repayable on a monthly basis at a weighted average effective interest rate of 6.0% (2016: 6.0%). Secured loans are collaterised by cash and mortgages over properties.

(expressed in thousands of Eastern Caribbean dollars)

30 Related parties balances and transactions *...continued*

A provision of $13,046 (2016: $12,258) has been recognised in respect to advances made to related parties (associated company).

31 Contingent liabilities and commitments

Contingent tax liability

On January 29, 2016, the IRD assessed the Group with additional corporate income taxes for the financial years 2012 to 2014. The Group has accepted and accrued for additional income taxes payable amounting to $1,586 that related to the disallowance of salaries in excess of the statutory limit. The Group formally disputed the remaining assessment by filing an objection with the IRD. Subsequent to the year end, on April 27, 2018, a settlement agreement was reached with the IRD to resolve the dispute. Based on the settlement agreement, there are no further outstanding corporate tax liabilities to the IRD in respect of the financial years 2012 to 2014.

Commitments

As of the reporting date the Group had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

	2017 **$**	**2016** **$**
Loan commitments	**15,458**	54,073
Credit card commitments	**8,587**	9,003
	24,045	63,076

32 Financial asset

The financial asset of $823,124 (2016: $798,480) represents the Bank's right to that amount of cash flows from the sale of certain lands pursuant to a Shareholder's Agreement (Agreement) dated April 18, 2012 and September 4, 2014 between the Bank and its majority shareholder, the Government of St. Kitts & Nevis ("GOSKN"), and the Nevis Island Administration (NIA) respectively. Under the terms of the Agreement, the secured debt obligations owed to the Bank by the GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer of certain land assets to the Bank. Further, the unsecured debt obligations owed to the Bank by GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer of certain unencumbered land assets to a specially created entity, Special Land Sales Company (St. Kitts) Limited ("SLSC") and the allocation of certain shares in SLSC to the Bank. SLSC was incorporated for the purpose of selling land assets in order to fulfill the terms of the Agreement of the contracting parties. Other lands would be transferred to the SLSC for sale, if necessary, in order to satisfy the agreement of the contracting parties.

(expressed in thousands of Eastern Caribbean dollars)

32 Financial asset *...continued*

By way of supplement agreements the effective date of the Agreement was amended to July 1, 2013. Accordingly, the first step in the 'Land for Debt' swap took place on July 1, 2013 in the amount of $565,070, which is the value of the 1,200 acres of land in the first tranche based on an independent valuation. The second and third tranches were completed during the year and the amounts swapped amounted to $230,951 which is the value of 735 acres of land.

Based on the terms of the Agreement:

1. On the effective date, SLSC shall use all appropriate commercial efforts to sell the secured land assets that were vested to the Bank at the best price reasonably possible and as soon as reasonably practicable.

2. Commencing from the effective date of the Agreement, July 1, 2013, the Bank is entitled to receive interest payments at a rate of 3.5% per annum on the face value of the eligible secured debt that was exchanged for the secured land assets. The amount is to be paid by the GOSKN annually from the effective date.

3. Distribution of sales proceeds of the land assets Bank shall be applied as follows:

   a. First towards the payment of selling and operational costs of SLSC;

   b. Secondly to the Bank until the Bank has received the face amount of the eligible secured debt immediately prior to the effective date and the interest payments, less amounts paid to the Bank;

   c. Thirdly to the Bank in exchange for the redemption of its relative interest in SLSC which was allotted for the release of eligible unsecured debt that was owed to the Bank prior to the effective date; and

   d. Fourthly to the Government of St. Kitts and Nevis.

For the year ended June 30, 2017, the Group's consolidated statement of income includes interest income amounting to $27,493 (2016: $27,864). The interest receivable amounted to $28,853 (2016: $2,480) and is due from the Government of St. Kitts and Nevis.

Subsequent to the reporting date on November 23, 2017, $26,808 of the interest receivable was paid by the GOSKN.

Based on the terms of the Agreement, all of the risks and rewards of ownership of the secured land assets have not been transferred to the Bank. The Bank is only entitled to receive cash flows from the sales of said lands up to the face value of the eligible secured debt that was exchanged and any interest payments as noted above.

Additionally, if the lands are sold for less than the value that was transferred, the GOSKN and NIA is obligated to transfer additional lands to make up for the shortfall. The Bank's interest in the land assets in not subject to variation of returns as there is no risk of loss for the Bank, and also the Bank does not stand to benefit should the lands be sold for more than the value. Therefore, the Bank has not classified the amounts received in exchange for the loans as inventory, but as a loan and receivable financial asset based on its rights to the cash flows from the sales of the land assets under the Agreement.

(expressed in thousands of Eastern Caribbean dollars)

32 Financial asset *...continued*

The Bank has not included in these consolidated financial statements any investment in SLSC. As of June 30, 2017, SLSC is currently operational, however no unsecured land assets have been vested in the Bank. Further, the Bank has not invested any funds in SLSC and its interest in SLSC.

33 Cash and cash equivalents

	2017 $	2016 $
Deposits with other financial institutions (note 7)	**720,390**	851,640
Cash and balances with Central Bank (note 5)	**33,125**	92,272
Treasury bills (note 6)	**10,581**	8,959
	764,096	952,871

34 Defined benefit asset

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of June 30, 2017 by independent actuaries. The present value of the defined benefit obligation and related current service cost were measured using the Projected Unit Credit Method.

	2017 Per annum %	2016 Per annum %
Actuarial assumptions		
Discount rate	**4.0**	4.0
Return on plan assets	**5.0**	6.0
Future salary increases	**3.5**	3.5

Mortality table - (UP94 table projected to 2020 using Scale AA) in both years.

(expressed in thousands of Eastern Caribbean dollars)

34 Defined benefit asset *...continued*

	2017 $	2016 $
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	**40,644**	37,816
Current service cost	**1,669**	1,666
Interest cost	**1,625**	1,513
Actuarial (gains)/losses	**(4,345)**	180
Benefits paid	**(1,435)**	(531)
Closing defined benefit obligation	**38,158**	40,644
Changes in the fair value of the plan assets		
Opening fair value of plan assets	**58,308**	56,116
Interest income	**2,915**	3,367
Return on plan assets (other than net interest)	**(511)**	(936)
Employer's contribution	**486**	461
Benefit paid	**(1,435)**	(518)
Management fees	**(139)**	(182)
Remeasurement	**(634)**	–
Closing defined benefit assets	**58,990**	58,308
Benefit cost		
Current service cost	**1,669**	1,666
Interest cost	**1,676**	430
Interest on plan assets	**(2,827)**	(2,230)
Increase/(decrease) in employee benefit expense (note 25)	**518**	(134)
Amount recognised in other comprehensive income		
Actuarial (gains)/losses	**(4,345)**	180
Interest on plan assets	**2,915**	3,367
Actual return on plan assets	**(2,404)**	(2,316)
(Gain)/loss on re-measurement of net defined benefit asset	**(3,834)**	1,231
Net defined benefit asset recognised in the consolidated statement of financial position		
Fair value of plan assets	**58,990**	58,308
Present value of defined benefit obligation	**(38,158)**	(40,644)
Net defined benefit asset	**20,832**	17,664

(expressed in thousands of Eastern Caribbean dollars)

34 Defined benefit asset *...continued*

	2017 $	2016 $
Reconciliation: Net defined (credit)/benefit asset		
Opening balance	**17,664**	18,300
Period cost	**(518)**	134
Effect of other comprehensive income	**3,834**	(1,231)
Remeasurement	**(634)**	–
Employer's contribution	**486**	461
Closing balance (note 15)	**20,832**	17,664

Plan assets allocation is as follows:

	2017 %	2016 %
Cash and cash equivalents	**99.64**	98.9
Equity	**0.36**	1.1

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and the average life expectancy. The calculation of the net defined benefit liability is sensitive to these assumptions. The following table summarises the effects of changes in these actuarial assumptions on the defined benefit obligation.

	Discount rate plus 50 basis points $	Discount rate minus 50 basis points $
Increase/(decrease) in obligation	(1,900)	2,083

	Mortality plus 10% $	Mortality minus 10% $
Increase/(decrease) in obligation	(877)	874

(expressed in thousands of Eastern Caribbean dollars)

35 Subsidiaries

	Percentage of direct and indirect equity interest held	
	2017	**2016**
	%	**%**
National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited	**100**	100
National Caribbean Insurance Company Limited	**100**	100
St. Kitts and Nevis Mortgage and Investment Company Limited	**100**	100

36 Business segments

As of June 30, 2017, the operating segments of the Group were as follows:

1. Commercial and retail banking incorporating deposit accounts, loans and advances, investment brokerage services and debit, prepaid and gift cards;
2. Real estate, investment, mutual funds and coverage of life assurance, non-life assurance and pension schemes; and
3. Long-term mortgage financing, raising long-term investment funds, property management and the provision of trustee services.

Transactions between the business segments are carried out on normal commercial terms and conditions. These operating segments are monitored by the Group's chief operating decision maker and strategic decisions are made on the basis of adjusted segment operating results.

(expressed in thousands of Eastern Caribbean dollars)

36 Business segments *...continued*

The table below gives the results and balances of those transactions:

	Commercial and retail banking $	Insurance, real estate and investments $	Long-term financing and trust services $	Consolidation and other adjustments $	Total $
June 30, 2017					
Total segment revenues	147,841	39,290	821	–	**187,952**
Intersegment revenues	(636)	(5,407)	(233)	–	**(6,276)**
Revenue for the year from external customers	147,205	33,883	588	–	**181,676**
Cost of revenue generation	(110,304)	(34,738)	(779)	–	**(145,821)**
Income tax credit (expense)	4,680	(970)	(115)	–	**3,595**
	41,581	**(1,825)**	**(306)**	–	**39,450**
Property, plant and equipment and intangible assets	28,705	8,133	4	–	**36,842**
Depreciation and amortisation	2,345	734	–	–	**3,079**
Segment assets	3,753,425	246,300	7,101	(228,497)	**3,778,329**
Segment liabilities	3,263,259	165,763	615	(200,747)	**3,228,890**
June 30, 2016					
Total segment revenues	128,432	38,686	938	–	**168,056**
Intersegment revenues	(806)	(5,780)	(234)	–	**(6,820)**
Revenue for the year from external customers	127,626	32,906	704	–	**161,236**
Cost of revenue generation	(98,754)	(31,690)	(720)	–	**(131,164)**
Income tax credit (expense)	430	(2,089)	(39)	–	**(1,698)**
	29,302	**(873)**	**(55)**	–	**28,374**
Property, plant, equipment and intangible assets	29,381	8,274	1	–	**37,656**
Depreciation and amortisation	2,047	754	–	–	**2,801**
Segment assets	3,673,910	238,549	7,035	(222,435)	**3,697,059**
Segment liabilities	3,262,419	161,276	477	(194,685)	**3,229,487**

Segment information is based on internal reporting about the results of operating segments, such as revenue, expenses, profits or losses, assets, liabilities and other information on operations that are regularly reviewed by the Boards of Directors of the various Group companies.