

Schedule 1
FORM ECSRC – K
ANNUAL REPORT
PURSUANT TO SECTION 98(1) OF THE SECURITIES ACT, 2001

For the financial year ended June 30 2018

Issuer Registration number
NBD25102003DM

National Bank of Dominica Ltd

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

Commonwealth of Dominica

(Territory of incorporation)

64 Hillsborough Street, Roseau, Dominica

(Address of principal office)

REPORTING ISSUER'S:

Telephone number (including area code): (767) 255-2319/255-2620/ 255-2300

Fax number: (767)-448-3982

Email address: eedwards@nbd.dm/ ajames@nbd.dm

(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

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	24,000,000

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:

Ellingworth Edwards



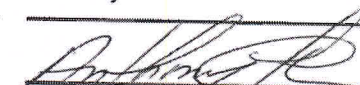
Signature

Feb. 22, 2019

Date

Name of Director:

Anthony John



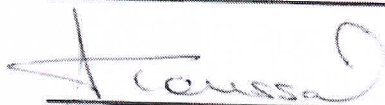
Signature

February 22, 2019

Date

Name of Chief Financial Officer:

Linda Toussant-Peter



Signature

February 22, 2019

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.

- 1) Functional Cooperation between OECS Indigenous Banks. - Significant discussions are ongoing among some of the banks with respect to a major initiative, details of which are still very confidential. Notwithstanding, the ECCB has been advised of the initiative.
- 2) Citizenship By Investment agreements - Agreements were signed between NBD and Government of Dominica and all CBI agents processing transactions through NBD outline the terms and conditions of service.
- 3) Process Flows - The Bank streamlined and partially automated its credit underwriting process and updated its post approval management procedures. This has resulted in an improvement in the credit processing turnaround time.
- 4) Enterprise Risk Management - NBD undertook an enterprise risk management framework exercise with the help of external consultants. New structures, policies, procedures and frameworks were developed to enhance the Bank's risk management protocols.
- 5) IFRS#9 - Work has commenced and is ongoing with respect to IFRS#9 readiness. We are being assisted by external consultants.
- 6) Business Continuity Protocols - The Bank's Business Continuity Policies and procedures were revamped and enhanced to incorporate lessons learned from Hurricane Maria which devastated the island on September 18, 2017. Our collateral management processes have also been enhanced as a result of Hurricane Maria experience.

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.

Hillsborough Street Branch, Roseau
2. National Bank of Dominica Financial Centre, Canefield
3. Portsmouth Branch, Portsmouth
4. Certificate of Title No. 564 of 2016 Reg. Bk. H20 Folio 68 over a portion of land known as lots 24 and 25 at Macoucherie Estate in the Parish of St Joseph in the Commonwealth of Dominica containing 1.545 acres and registered in the name of the National Investment Corporation Inc.
5. Certificate of Title No. 563 of 2016 Reg. Bk. H20 Folio 67 over a portion of land known as agricultural lot 3 at Macoucherie Estate in the Parish of St Joseph in the Commonwealth of Dominica containing 1.26 acres and registered in the name of the National Investment Corporation Inc.
6. A portion of land at Macoucherie Estate in the Parish of St Joseph in the Commonwealth of Dominica containing 2.192 acres and registered in the name of the National Investment Corporation Inc. (Certificate of Title in progress.)
7. A portion of land at Macoucherie Estate in the Parish of St Joseph in the Commonwealth of Dominica containing 0.957 acres

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.

Legal Proceedings	Description	Date commenced or terminated (if occurring within the financial year ended June 30th 2018)
Ian Dorival v NBD and Anthony John, Chairman of Board of Directors	Case Type: Company Law, Minority Shareholders Action, Injunctive Relief, Damages for Defamation Commenced: March 7th 2018 Concluded: June 15 2018 Judgment: In NBD favour	

2. Properties

1. Hillsborough Street Branch, Roseau
2. National Bank of Dominica Financial Centre, Canefield
3. Portsmouth Branch, Portsmouth
4. Certificate of Title No. 564 of 2016 Reg. Bk. H20 Folio 68 over a portion of land known as lots 24 and 25 at Macoucherie Estate in the Parish of St Joseph in the Commonwealth of Dominica containing 1.545 acres and registered in the name of the National Investment Corporation Inc.
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6. A portion of land at Macoucherie Estate in the Parish of St Joseph in the Commonwealth of Dominica containing 2.192 acres and registered in the name of the National Investment Corporation Inc. (Certificate of Title in progress.)
7. A portion of land at Macoucherie Estate in the Parish of St Joseph in the Commonwealth of Dominica containing 0.957 acres and registered in the name of the National Investment Corporation Inc. (Certificate of Title in progress.)
8. A portion of land at Macoucherie Estate in the Parish of St Joseph in the Commonwealth of Dominica containing 3.897 acres and registered in the name of the National Investment Corporation Inc. (Certificate of Title in progress.)
9. A portion of land at Macoucherie Estate in the Parish of St Joseph in the Commonwealth of Dominica containing 8.30 acres and registered in the name of the National Investment Corporation Inc. (Certificate of Title in progress.)
10. Certificate of Title No. 154 of 1999 Reg. Bk. B13 Folio 80 over a portion of land at Glanvillia, Portsmouth in the Parish of St John in the Commonwealth of Dominica containing 43,560 sq ft and registered in the name of the National Investment Corporation Inc.

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 14th Annual General Meeting of Shareholders of the National Bank of Dominica Ltd, was held on June 18 2018

- (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.

Directors elected at the Annual General Meeting held on June 18 2018:
Government of Dominica's appointments to the Board as follows:
a. Hazel Johnson
b. Anthony John
c. Genevieve Astaphan
The following persons were nominated:
a. Phillip White , b. Gibbs Stephenson, c. Rudaille Thomas, d. Lorna Shillingford-Charles; e. Parry B

- (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.

Matters voted on by the shareholders at the 14 Annual General Meeting held on June 18 2018:
(i) To receive the Report of the Auditors
(ii) To elect Directors to serve on the Board
(iii) To fix remuneration of Directors
(iv) To appoint Auditors for the year ending June 30th 2017
(v) To approve Minutes

- (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.

The National Bank of Dominica Ltd did not sell any equity securities during the relevant period; securities are sold by security holders by private treaty and are not publicly traded.

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.

While Hurricane Maria was a major risk event, the impact on NBD during the financial year was not critical. However, it expected that within an economy which has been affected, the true impact on NBD will be more visible in the new financial year.

Following this event, strategic goals shifted towards strengthening business recovery, targeting credit products related to reconstruction, and a reviewing the insurance process.

Operational Risk: The Bank suffered damage to its buildings, some being more extensively damaged than others. There was also damage to furniture and equipment including some ATMs and cash therein. The total damage is estimated at 5.7M, of which the bank is in negotiation with the insurance companies to re-coup. Extensive flooding in the Canefield premises resulted in damaged vouchers. The Ross University Branch was extensively damaged. Due to the non-resumption of operations at the University, the branch remained non-operational. The Bank is actively strengthening its Business Continuity Function, with a focus on establishing a Disaster Recovery Site, relocation of its server rooms and alternate storage for vouchers.

Liquidity Risk: Liquidity was not negatively impacted strongly by Hurricane Maria. There was no need for draw-downs on contingent funds. New funds from financial aid receipts as well as insurance inflows from the Head Offices of insurance companies minimized the effect of withdrawals.

Credit Risk: The majority of customers for which their premises were affected by the hurricane, benefited from insurance coverage, and funds have been applied to reconstruction efforts. Some customers experienced a shortfall in insurance payments due to the fact that they were under-insured. The bank is assisting with further related financing. The bank covered losses for a few cases of insurance related issues where the bank erred in the administration of adequate coverage.

The change in the value of new loans anticipated has been minimal. However there was a shift from disbursements for new construction and land purchase to the financing of recovery efforts. The bank extended moratoria to customers and offered new loan products targeted at reconstruction efforts. Disbursements were increased for utility companies and construction related businesses.

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.

- (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)

- Offer closing date (provide explanation if different from date disclosed in the registration statement)

- Name and address of underwriter(s)

- Amount of expenses incurred in connection with the offer _____

- Net proceeds of the issue and a schedule of its use

- Payments to associated persons and the purpose for such payments

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

The Bank incurred a loss for the financial year 2017/2018, thus dividends will not be declared or paid.

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 non-financial indicators.

General Discussion and Analysis of Financial Condition

2018 was a year of mixed results. During the financial year 2017/2018, the country was impacted by a category 5 hurricane which affected the operations of the Bank.

Despite this disaster, total asset base grew by \$137M or 9% year on year as a result of an increase in deposit balances and was reflected in increases in investments and short term placements at banks. There were also improvements in all areas of earnings and the maintenance of a relatively flat financing cost despite growth in deposits resulting in operational profits of \$25M. Operating profits was therefore a record high of \$25M and increased over the prior year by \$2.3M.

However, the Bank recorded a loss before taxes of \$4.84M in comparison to a profit of \$1.67M the previous year. This loss was triggered by the level of impairment losses on loans and advances recorded for the financial year.

The Bank is currently reviewing the impact that IFRS 9 will have on its financial statements. Preliminary reviews indicate that there will be some level of increase in provisioning, though it is not expected to severely impact capital.

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

At the end of June 2018, the Bank's liquidity ratio was 45% while the Capital Adequacy ratio was 12.9%.

During the financial year, the Bank engaged a significant portion of unused funds which form part of its liquidity in short term instruments such as certificate of deposits that can be easily liquidated. Interest bearing deposits increased by \$155M.

In the coming year, due to the impact of Hurricane Maria, the Bank forecast increased outflows as customers continue to repair their homes and the Government undertake several infrastructural projects as it continues the rebuilding process.

The Bank's capital ratio was above regulatory guidelines and the Bank continues to stress its capital and is mindful of the need to raise new capital to augment current position and will be undertaking same in the near future.

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 off-balance 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.

Loans and advances committed but not yet drawn at the end of the financial year amounted to \$51 million, a reduction of \$10M over 2017.

The sectors with high levels of undrawn funds are:

Business Financing	-	\$28.2M
Home construction and renovation	-	\$10.4M
Utilities	-	\$9M

The Bank also held acceptances, guarantees and letters of credit that remain open at year end in the sum of \$3.7M.

The Bank periodically reviews its undrawn commitments to ensure that there has not been any material change in areas such as business activity, earnings and threats such as economic conditions that may affect the credit.

Outside of undrawn, the Bank continues to aggressively pursue new business despite the competitive and limited environment and has been able to meet target bookings and maintain some level of growth in the loans portfolio.

Results of Operations

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

Consolidated Statement of Profit or Loss

Interest Income

The Bank continues to experience growth in interest income with an upward movement of \$3.57M or 7.6% in 2018 over the prior year 2017. Income from the bank's core activity - loans and also investments experienced growth. Loans and overdrafts moved from \$39.67M to \$40.76M or 2.7% year on year while treasury bills and investment securities generated earnings of \$9M representing a \$2.99M or 49.6% increase over the previous year.

Interest Expense

For the financial year, growth in deposit liabilities did not have the expected corresponding increase in interest expense based on the timing of interest earning placements. Further, during the year the Bank realigned the rates of its non savings deposit products guided by existing savings rate, lending rates and competitive offerings. Thus interest expense remained relatively flat reflecting only a negligible \$62K or 0.27% increase over 2017.

The resultant impact of the growth in interest income and stable interest expense was an overall increase in Net Interest Income of \$3.5M or 14.4% moving from \$24.4M to \$27.9M

Other Earnings

The Bank also showed improved results in the area of fee income which exceeded 2017 performance in Foreign exchange trading income, commissions and other income. Earnings from foreign exchange moved from \$7.7M to \$10.1M marking a 31.7% increase over 2017 while net commission experienced a 4.4% increase. Key contributors to this improved performance were increase foreign exchange activities and the full year impact of the Bank's 2016 fees review.

The performance of investments held at fair value is directly impacted by the performance of the US securities market. For the year under review, this portfolio generated gains of \$1.6M and although significantly lower than the gain recorded in 2017 of \$5.4M, the Bank was able to report positive returns despite market volatility based on prudent management and a very conservative approach.

Operating Expenses

There was a reduction in operating expenses year on year of \$1.85M or 7.8%. Due to the passage of Hurricane Maria, the Bank reprioritized and focused on critical tasks. Thus, the decision was taken to defer some of its strategic initiatives earmarked for the financial year 2017/2018. This meant that some expenses were either deferred which would be reflected in areas such as professional fees, insurance, marketing initiatives, attendance of meetings and conferences or reduced such as electricity and water, training, rental of premises, directors fees and expenses. The main areas of costs increase were corresponding banks charges, subscription and levies and losses incurred due to insurance claim settlements and card fraud.

Provisioning for Credit Losses

The Bank continuously reviews its loans and investments portfolios for impairment ensuring the adequacy of the allowance for losses. For the year in review, provisioning for loan losses totaled \$30.1M, a marked increase of \$10.5M or 54% over the previous year's expense. There was therefore a reduction in operating expenses year on year of \$1.85M or 7.8%. The Bank is expected to report in accordance with IFRS 9 for the financial year 2018/2019. This new standard replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model which means that a loss event will no longer need to occur before an impairment allowance is recognized. The Bank is assessing the impact that this standard will have on its 2019 financial statements.

Balance Sheet

The Bank's asset base of \$1.6B increased by \$137M or 9%, representing a significant upward shift of 44% from 2016. This growth is attributed to a \$134M or 10% growth in customer deposits. Consequently, bank deposits increased by \$129M or 32% with a significant amount of these funds engaged in interest bearing instruments. For the financial year, interest bearing deposits increased by \$155M or 52%.

There was also a positive movement in Investments of \$83M or 50% which was largely due to new investments under the externally managed portfolio as well as new investments undertaken both locally and regionally.

Notwithstanding the impact of a category 5 hurricane, there was growth in loans and advances of \$27M or 4.4% - from \$613M to \$640M. However, net loans and advances remained relatively flat year on year due to an increase in provisioning for loan impairment which moved from \$54M to \$81M year on year as the bank continues to review its credit portfolio and ensure that provisioning allowances are adequate and in compliance with reporting standards.

At year end, the Bank's capital ratio was 12.9% which was above regulatory prudential guidelines and in line with the Bank's internal appetite. It is however noted that the Bank does not intend to be complacent given the challenging times, and will be raising new capital in the short to medium term to ensure that it remains above regulatory guidelines and other international requirements and standards.

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.

None

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.

2017/2018 Audited Financial Statements

BIOGRAPHICAL DATA FORMS

DIRECTORS OF THE COMPANY

Name: Anthony C. John Position: Chairman

Mailing Address: P.O. Box 2235
Roseau
Dominica

Telephone No.: 1 767 616 0100

List jobs held during past five years (include names of employers and dates of employment).

Manager - Printing Services, Ross University School of Medicine, November 2010 - February 2018

Give brief description of **current** responsibilities

Overall responsibility for the management of student and colleague printing platforms across the RUSM campus

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

BSc - Computing & Management
Lehman College - City University of New York
1990 - 1994

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS

DIRECTORS OF THE COMPANY

Name: Genevieve Astaphan Position: Director

Mailing Address: P.O. BOX 75
Roseau
Dominica

Telephone No.: 767-275-4223/6167221

List jobs held during past five years (include names of employers and dates of employment).

May 2000- present Managing Director of J. Astaphan & Co Ltd

Give brief description of current responsibilities

Director responsible of finance, inventory management and human resource

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

1981: Bachelor of Arts University of Western Ontario
1992: Certified General Accountant
2012 November: Accredited Director, ICOSA

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS
DIRECTORS OF THE COMPANY

Name: Hazel Johnson Position: Director

Mailing Address: P.O.BOX 1891
Roseau
Dominica

Telephone No.: 767-4482530/ 767-448-8571

List jobs held during past five years (include names of employers and dates of employment).

Attorney-at-Law: de Freitas, de Freitas & Johnson; 2002 to present

Give brief description of current responsibilities

Manage Law Chambers
Provide legal representation and advice in both contentious and non-contentious matters

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

LLB (Hons), UWI Cave Hill 1996
Legal Education Certificate; Hugh Wooding Law School 1998
Accredited Director, Institute of Chartered Secretaries and Administrators, 2016

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS

DIRECTORS OF THE COMPANY

Name: Lorna Shillingford Charles Position: Director

Mailing Address: P O Box 2236
Roseau
Dominica

Telephone No.: 767-616-9626

List jobs held during past five years (include names of employers and dates of employment),

Digicel Dominica 2008 to present

Give brief description of **current** responsibilities

Finance Manager

- Management of the Finance team including resource planning, delegation of duties, performance management, progress feedback and staff reviews.
- Co-ordinating the production of accurate and timely monthly management accounts in accordance with GAAP, Group standards and deadlines.
- Assist in the presentation of monthly board material, including ARPU and Revenue Analysis, Expense analysis and comparison of performance against budget
- Ensure the development and ongoing existence of strong internal controls, and compliance with accounting policies and procedures.
- Oversee the spending of the departments ensuring that it is aligned to budget. This includes approval of purchase orders, review of OPEX tracker and advising managers on management of same.
- Preparation of ad-hoc Management and Shareholder reports.
- Managing the annual audit.

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

BSc Degree University of South Carolina 1994
ACCA 2008 (Affiliate)
Accredited Director

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS

DIRECTORS OF THE COMPANY

Name: Gibbs Stephenson Position: Director

Mailing Address: P.O. Box 1744, Roseau, Commonwealth of Dominica

Telephone No.: 1-767-317-7776

List jobs held during past five years (include names of employers and dates of employment).

2009 - present: Finance & Administration Manager- PDV Caribe Dominica Ltd

Give brief description of current responsibilities

- Management of Finance & Administration Department
- Preparation of financial statements and related financial information, including business plan together with related financial analysis.

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

2008: ACCA
2012: Accredited Director ICSA

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS

DIRECTORS OF THE COMPANY

Name: Parry R. Bellot Position: Director

Age: 69
Mailing Address: P.O. Box 244, Roseau, Dominica
1 Conrad Street, Wallhouse

Telephone No.:

List jobs held during past five years (include names of employers and dates of employment).

1977- current: Proprietor- Parbel Enterprises Inc

Give brief description of **current** responsibilities

Commercial Printery
Publishers of Magazines and Newsletters
Public Relations and Project Consultancy

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

1971: British Columbia Institute of Technology, Canada

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS
DIRECTORS OF THE COMPANY

Name: Phillip R. White Position: Director

Mailing Address: 19 Rose Street
Goodwill
Dominica

Telephone No.: 767-4483024/ 767-2659016

List jobs held during past five years (include names of employers and dates of employment).

1. Dominica Football Association Inc. August 2008- July 2015- Treasurer/Accountant
2. Lericon Printers Ltd. October 2006- February 2012- Accountant
3. Dominica Olympic Committee Inc. March 2013 - Treasurer
4. Federation de Football Internationale (F.I.F.A)-December 2011- March 2016 - Committee Member.

Give brief description of current responsibilities

Responsible for all financial transaction to include the preparation of annual budgets representing the activities to be undertaken by the National Association affiliated to the Dominica Olympic Committee (DOC) Inc. These budgets are to be submitted to the International Olympic Committee within a certain time frame to receive funding.

Coordinating the activities between the DOC and its affiliates to ensure that reporting standards are maintained and accountability guidelines are strictly adheres to.

Liaising with foreign athletes to ensure that their needs are meet in terms of financial support and their evaluation reports are returned according to the prescribed regulations.

Preparation of financial reports for audit purposes and reporting at the Annual Conference of affiliates.

Preparation of financial statements for individuals owning small business ventures required for taxation purposes.

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

St.Mary's Academy – 1967 -1973
Sixth Form College - 1973 – 1975 – (Economics, Mathematics, History)
Certification MInstCM - Member of the Institute of Commercial Management -UK.

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Name: Ellingworth Edwards Position: Managing Director

Mailing Address: Roseau
Roseau
Dominica

Telephone No.: 767-255-2620

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

Managing Director - National Bank of Dominica Ltd - July 2014 to present.

- a) Formulate strategic objectives and initiatives,
- b) Oversee implementation and execution of strategic plans
- c) Oversee operations of the institution
- d) Provide leadership to management team and general staff body.
- e) Lead negotiator on critical matters.

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

MBA (Finance) - University of North Texas, USA - 2005
Post-Graduate Diploma - Mediterranean Institute of Management, Cyprus - 1993
MSc (Accounting) - North Texas State University, USA - 1988

Also a Director of the company Yes No

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

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Name: Carol A Lawrence

Position: Executive Manager, Risk and Compliance

Mailing Address: Goodwill

Goodwill

Dominica

Telephone No.: 767 448 5694

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

June 2015 to present (October 2016)- Executive Manager, Risk and Compliance:

Safeguard the Bank, and assist in achieving desired strategies through:

Identifying and assessing risks in credit portfolio, including watch-listed and non-performing accounts, recommending provisioning amounts and changes to related processes. Monitors credit exposures against regulations and risk appetite. Identifying and assessing operational risks

Managing the Business Continuity Function, ensuring mitigation measures are in place for possible periods of disruption

Monitoring Compliance with regulations, standards and policies, alerting management of updates to legislation.

Identifying, assessing and monitoring Anti-Money Laundering risks making recommendations for mitigating measures

Identifying and assessing risks related to bank's capital adequacy requirements

Participating in the Bank's Asset Liability Management Process as a member of the ALCO committee

Reviewing investment related information

Review of / drafting risk related policies

April 2011 to May 2015- Compliance Officer, National Bank of Dominica

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

Certified Anti-Money Laundering Specialist (CAMS) June 2014

Bachelor of Business Administration , Finance (Hons)

Also a Director of the company

Yes

No

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

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Name: Nellisa Cindy Anselm Position: Executive Manager - Banking Services

Mailing Address: P.O. Box 2072, Roseau, Dominica
P.O. Box 2072, Roseau, Dominica

Telephone No.: 767-275-0964

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

2015 - Current:	Executive Manager - Banking Services (National Bank of Dominica)
Summary of Responsibilities:	Management of the Customer Service, Branch Network and Back Office Operations functions of the Bank, through the development, implementation and monitoring/review of strategic initiatives to achieve profitability/growth objectives.
2014 - 2015:	Manager - Credit Underwriting and Monitoring (NBD)
2013 - 2014:	Manager - Portsmouth Area (NBD)
2010 - 2013:	Credit Risk Officer (NBD)

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

2010 - 2014: MSc International Business	University of London
2003 - 2008: BSc Accounting & Finance	University of London
2001 - 2003: Diploma in Banking & Financial Services	University of West Indies
1998 - 2000: Cambridge A-Levels (Major - Accounting)	C. Dupigny Community College
1993 - 1998: CXC O-Levels (Major - Business)	Grand Bay Secondary

Other Professional: Certificates in:
Bank Card Operations; Customer Service, Sales & Marketing; Anti Money Laundering; Leadership; Lending; International Trade Finance; Credit; Customer Experience Management; Training; Business Writing; Coaching; Executive Management; Qualified Financial Advisor, Credit Risk Analysis

Also a Director of the company Yes No

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

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Name: Linda Toussaint Peter Position: Chief Financial Officer

Mailing Address: Fond Baron, Loubiere
Fond Baron, Loubiere
Dominica

Telephone No.: 1 767 44 82117 / 275 1781

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

Chief Financial Officer - March 2016 - Present

Executive Manager Credit & Business Development - September 2014 - March 2016

Executive Manager Corporate Services - October 2012 - September 2014

Executive Manage Finance & Control - September 2010 - September 2012

Current Responsibilities

To provide strong support to the Managing Director and Board in the effective and efficient management of the Finance and Accounting funds of the NBD Group ensuring the provision of sound financial advice, effective policy formulation, accurate and comprehensive financial accounts and management reports in accordance with IFRS. Oversee all finance, accounting, forecasting, budgeting and treasury functions of the NBD Group and the profitability and efficient cash management in accordance with standards and regulatory guidelines.

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

FCCA
ACCA
BSC Accounting - University of the West Indies St Augustine

Also a Director of the company Yes No

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

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Name: Joel Denis Position: Executive Manager Credit & Business Development

Mailing Address: Castle Comfort, P.O Box 513, Roseau
Castle Comfort, P.O Box 513, Roseau
Commonwealth of Dominica

Telephone No.: (767) 255 -2614

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

Executive Manager Credit & Business Development (Ag)
National Bank of Dominica Ltd
March 15, 2016 to present

Head of Credit Department – Strategic and operational oversight. Credit Review and approval. Risk Management. Recoveries and Collections. Human Resource Management.

Manager Credit & Business Development
National Bank of Dominica Ltd
October 2014 to March 2016

Head of sales and relationship management unit. Manage team responsible for growing and management loans portfolio. Broad oversight of relationship management. Human Resource management.

Acting General Manager
Caribbean Union Bank Ltd
January 2015 to April 2015

Strategic and operation oversight of all departments. Specific responsibility for Credit Department. Prepare Board reports and provide advice on operation and strategic issues.

Manager Private & Corporate Banking
National Bank of Dominica Ltd
July 2010 to September 2014

Head of Private & Corporate Banking Unit (High Net Worth loan and deposit customers). Portfolio growth. Relationship Management. Operational Oversight.

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

Post Graduate Diploma in International Management
University of London (2010)

Qualified Financial Advisor
Kaplan Financial (2009)

BSc. Management Studies
University of the West Indies (2008)

Also a Director of the company Yes No

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

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Name: Suzanne Joseph-Piper Position: Executive Manager, Marketing & Product Management

Mailing Address: Morne Daniel
Morne Daniel
Dominica

Telephone No.: (767) 255-2300/ 767-275-3375

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

Executive Manager, Marketing and Product Management – National Bank of Dominica Ltd. - 2009 to present.

Responsible for Product Management, Research and Development, Product Marketing, Communications and PR, Brand Management.

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

UNIVERSITY OF MINNESOTA, Carlson School of Management, Twin Cities, Minnesota
Master of Business Administration, Strategy and Marketing, May 2005

FLORIDA ATLANTIC UNIVERSITY (FAU), Boca Raton, Florida
Bachelor of Business Administration, Accounting major, December 1996

Also a Director of the company Yes No

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

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Name: Marilyn Edwards Position: Head of Internal Audit

Age: 53

Mailing Address: Apt 1 B Block 2, Riverside AptS. Roseau, Dominica

Telephone No.: 767 235 7585

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

Head of Internal Audit

- Developing and implementing Annual Internal Audit Plan for the Bank
- Providing reports to the Board and Management
- Liaising with the External Auditors and regulatory authority
- Developing and Maintaining Internal Audit Quality Assurance and Improvement Program.
- Monitoring the implementation of correction actions coming from audit findings.
- Managing the overall workflow of the Internal Audit department.

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

Certified Internal Auditor – The institute of Internal Auditing, September 2011

Master's in Business Administration – University of Leicester, January 2007

Bachelor of Arts - Accounting (Summa Cum Laude), University of the Virgin Islands, St Thomas USVI, May 1995

Also a Director of the company Yes No

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

N/A

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Name: Lilian Polydore Position: Executive Manager, HR & Corporat

Age: 48

Mailing Address: 15 Street, Canefield, Commonwealth of Dominica

Telephone No.: 767 275-1095 or 767 255 2353

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

1. Executive Manager - Human Resources and Corporate Services
Responsible for HR functions including recruitment, training and people development, performance management, disciplinary actions, benefits administration; and responsible for facilities and equipment maintenance, bank-wide procurement, utilities administration, telecommunication services, safekeeping of contracts and administration of electronic database of policies, policy and procedures formulation
2. Executive Manager - Human Resources and Organisational Development
Responsible for HR functions including recruitment, training and people development, performance management, disciplinary actions, benefits administration.

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

MBA - University of Leicester, UK : 2018
Certificate in Fraud Investigation prevention, Detection and Investigation - Certified Information Security, US
Certificate Strategic HRM - UWI - Institute of Business (IOB)
Certificate HRIS Management - UWI - IOB
Certificate - Project Management and Implementation UWI - IOB
BSc Management (First Class Honours) - UWI Cave Hill, Barbados - 1999
Certificate Air Traffic Control - Distinction - Barbados School of Air Traffic Services

Also a Director of the company Yes No

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

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Name: Joel Denis Position: Executive Manager Credit & Business Development

Mailing Address: Castle Comfort, P.O Box 513, Roseau
Castle Comfort, P.O Box 513, Roseau
Commonwealth of Dominica

Telephone No.: (767) 255 -2614

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

Executive Manager Credit & Business Development (Ag)
National Bank of Dominica Ltd
March 15, 2016 to present

Head of Credit Department – Strategic and operational oversight. Credit Review and approval. Risk Management. Recoveries and Collections. Human Resource Management.

Manager Credit & Business Development
National Bank of Dominica Ltd
October 2014 to March 2016

Head of sales and relationship management unit. Manage team responsible for growing and management loans portfolio. Broad oversight of relationship management. Human Resource management.

Acting General Manager
Caribbean Union Bank Ltd
January 2015 to April 2015

Strategic and operation oversight of all departments. Specific responsibility for Credit Department. Prepare Board reports and provide advice on operation and strategic issues.

Manager Private & Corporate Banking
National Bank of Dominica Ltd
July 2010 to September 2014

Head of Private & Corporate Banking Unit (High Net Worth loan and deposit customers). Portfolio growth. Relationship Management. Operational Oversight.

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

Post Graduate Diploma in International Management
University of London (2010)

Qualified Financial Advisor
Kaplan Financial (2009)

BSc. Management Studies
University of the West Indies (2008)

Also a Director of the company Yes No

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

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Name: Fernilla Felix Position: General Council

Age: 36

Mailing Address: Aggee Road, Paro, Pointe Michel
Commonwealth of Dominica

Telephone No.: 1767 614 6033

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

State Attorney government of Dominica 2012 to present
write opinions on behalf of Government departments
train & supervise police officers
vet files - files from police prosecutors & investigators
prosecute criminal matters at both the magistrate and
high courts
represent government at official meetings overseas

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

Burbeck University LL.M Masters in Human Rights - Merit
Hugh Wooding Law School Legal Education Certificate
University of the West Indies Cave Hill, Barbados - LLB upper second
class honours
Clifton Dupigny Community College A-levels
Convent High School CXC

Also a Director of the company Yes No

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

Use additional sheets if necessary.

BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Name: Macina Bethel Position: Company Secretary

Mailing Address: P.O.Box 443, Roseau, Dominica
P.O.Box 443, Roseau, Dominica

Telephone No.: 767-275-2817

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

2010- Present: Board Secretary, National Bank of Dominica Ltd.

- o Attend Meetings for the purpose of recording accurate Minutes.
- o Prepares written material for the purpose of conveying information to Executives or Senior Management.
- o In consultation with the Chairman prepares Agendas for the Board and Sub-Committee Meetings and ensure that Agendas and supporting documentations are circulated to the Directors in advance of such Meetings.
- o Prepare and make arrangements for Directors to attend Meetings of affiliated Boards, conferences, training and annual meetings. Also makes hotel reservations for Board Consultants, Auditors
- o Coordinates and organizes all matters relating to the Annual General Meeting including preparation of the Agenda, the recording of Minutes, organization of a team, mailing of Annual Reports, stamping of voting ballots, booking hotel or preparation of room where meeting is to be held.
- o Serving as a Liaison between External Counsel (retained); for corporate and legal services and Executive Management and the Board.
- o Update the Eastern Caribbean Security Regulatory Commission, Companies Registrar and External Auditors on any Executive and Senior Management changes that occur within the Bank. Ensure that annual filing returns of NBD and Subsidiaries are made with the Registry of Companies.
- o Provide effective administration and maintenance of share records and transfer register in compliance with the requirements of the law as it relates to shares, dividends and transfers and, keeping shareholders informed of the status of their shareholding accounts.
- o Maintains safe-keeping of company records.

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

2015: Master Degree in International Business (Merit)
University of London

2015: Associate Degree of Science in Paralegal Studies (Distinction)
University of the West Indies Open Campus

2010: Bachelor Degree of Science in Management Studies (First Class Honour and Nominee for Valedictorian of the Open Campus)
University of the West Indies Open Campus

2007: Associate Degree of Arts - Faculty of Education
Dominica State College

2001: Cambridge Advanced Level (A-Level)
Clifton Dupigny Community College

1999: CXC O'Level
Wesley High School

Other
2011: Accredited Director (Acc. Dir.)
Institute of Chartered Secretaries and Administrators (ICSA), Canada and Eastern Caribbean Securities Exchange

Also a Director of the company Yes No

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

Use additional sheets if necessary.

NATIONAL BANK OF DOMINICA LTD.

Consolidated Financial Statements

June 30, 2018

(Expressed in Eastern Caribbean dollars)

NATIONAL BANK OF DOMINICA LTD.

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Consolidated Statement of Profit or Loss and Other Comprehensive Income	7
Consolidated Statement of Cash Flows	8
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204 Johnsons Centre
No. 2 Bella Rosa Road
P.O. Box GI 2171
Gros-Islet LC01 101
Saint Lucia
Telephone: (758) 453-5764
Email: ecinfo@kpmg.lc

INDEPENDENT AUDITORS' REPORT

To the Shareholders of National Bank of Dominica Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Other Information

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

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

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



INDEPENDENT AUDITORS' REPORT, continued

To the Shareholders of National Bank of Dominica Ltd.

Other Information, continued

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



INDEPENDENT AUDITORS' REPORT, continued

To the Shareholders of National Bank of Dominica Ltd.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

A handwritten signature of the KPMG firm, written in black ink.


Chartered Accountants
Castries, Saint Lucia
January 31, 2019

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

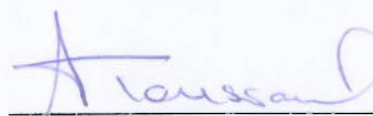
(Expressed in Eastern Caribbean Dollars)

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

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



Ellingworth Edwards
Managing Director



Linda Toussaint Peter
Chief Financial Officer

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

National Bank of Dominica Ltd.

Consolidated Statement of Changes in Equity

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

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

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

National Bank of Dominica Ltd.

Consolidated Statement of Profit or Loss

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

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

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

National Bank of Dominica Ltd.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

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

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

National Bank of Dominica Ltd.

Consolidated Statement of Cash Flows

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

1. Reporting entity

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

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

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

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

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

2. Basis of preparation

(a) Statement of compliance

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

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

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

2. Basis of preparation (cont'd)

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

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

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

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

(i) Key sources of estimation uncertainty

1. Allowance for impairment losses on financial assets

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

2. Residual values and useful lives of property and equipment

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

2. Basis of preparation (cont'd)

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

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

3. Income taxes

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

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

4. Fair value of financial instruments

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

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

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

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

The following are relevant to these financial statements:

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies

(a) Basis of consolidation

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

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

(b) Subsidiaries

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

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

(c) Loss of control

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

(d) Transactions eliminated on consolidation

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

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

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

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

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

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

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

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

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

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

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

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

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

(g) *Cash and cash equivalents*

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

(h) Financial assets and financial liabilities

(i) Recognition

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

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

(ii) Derecognition

Financial assets

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

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

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

Financial liabilities

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

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

(iii) *Classification*

Financial assets

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

- Loans and receivables

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

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

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than: (a) those that the Group upon initial recognition designates as at fair value through profit or loss; (b) those that the Group designates as available for sale; and (c) those that meet the definition of loans and receivables.

If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

- Available-for-sale

Available-for-sale investments are financial assets that are (1) intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or (2) that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale investments comprise equity and debt securities.

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

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

(iii) *Classification (cont'd)*

Financial assets (cont'd)

• Available-for-sale (cont'd)

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

• At fair value through profit or loss and within the category sub-classified as:

- held for trading

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

or

- designated as fair value through profit or loss

A financial asset is classified as fair value through profit or loss if acquired principally for the purpose of selling in the short term or if so designated by management.

Financial liabilities

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

(iv) *Reclassification of financial assets*

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

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

(v) *Offsetting*

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

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

(vi) Amortised cost measurement

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

(vii) Fair value measurement

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

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

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

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

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

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

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

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

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

(viii) Identification and measurement of impairment

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

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

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

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

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

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

(viii) *Identification and measurement of impairment*

Assets carried at amortised cost

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

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

- If the expected restructuring does not result in de-recognition of the existing asset, the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and the amounts are discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring does result in de-recognition of the existing asset, then the expected fair value of the new assets is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

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

Assets classified as available-for-sale

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

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

(viii) Identification and measurement of impairment

Assets classified as available for sale (cont'd)

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

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

Renegotiated loans

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

(ix) Designation at fair value through profit or loss

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

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

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3. Significant accounting policies (cont'd)

(i) Property and equipment

(i) Recognition and measurement

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

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

National Bank of Dominica Ltd.

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3. Significant accounting policies (cont'd)

(j) Intangible assets

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

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

Computer software licenses

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

(k) Impairment of other non-financial assets

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

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

Impairment losses are recognised in profit or loss.

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

(l) Income tax

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

(i) Current tax

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

(ii) Deferred tax

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

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

However, deferred tax is not recognised for:

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

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

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

(m) Borrowings

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

(n) Guarantees and letters of credit

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

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

(o) Share Capital

Share issue costs

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

Dividends on ordinary shares

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

(p) Interest income and expense

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

(q) Fee and commission income

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

(r) Dividend income

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

(s) Employee benefits

(i) Short-term employee benefits:

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

(ii) Defined contribution plans:

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

(t) Foreign currency

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

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3. Significant accounting policies (cont'd)

(u) Leases

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

(v) Financial instruments

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)

4. Use of estimates and judgments

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

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

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

(a) *Impairment of financial assets*

(i) *Impairment losses on loans and advances*

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

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

A collective component of the total allowance is established for:

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

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

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

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(Expressed in Eastern Caribbean Dollars)

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

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

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

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

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

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

(b) Classification of held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity, it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value, not amortized cost. If the entire held-to-maturity investments are tainted, their values would be as indicated in Note 6.

(c) Determination of fair value

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

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

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

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5. Financial risk management

Risk management framework

This note presents information about the Group's objectives, policies, and processes for measuring and managing risk. The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to retail banking, and operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's performance.

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

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

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

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

(a) *Credit risk*

Credit risk is the risk of the Group suffering financial loss should a customer or a counterparty to a financial instrument fail to meet its contractual obligations to the Group, and arises principally from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities. It can also arise from credit enhancement provided, such as credit financial guarantees, letters of credit, endorsements and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ("trading exposures"), including non-equity trading portfolio assets. For risk management purposes, the Group considers and consolidates all elements of credit risk exposure - e.g. individual obligor default risk, country and sector risk.

Loans and advances

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(a) Credit risk (cont'd)

Probability of default

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

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

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

Debt securities and other bills

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

Risk limit control and mitigation policies

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

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

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

Some other specific control and mitigation measures are outlined below.

(i) Collateral

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

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

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5. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(i) Collateral

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

(ii) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit (which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions) are 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 authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter-term commitments.

(iii) Impairment and provisioning policies

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

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

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5. Financial risk management (cont'd)

(a) *Credit risk (cont'd)*

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

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(a) *Credit risk (cont'd)*

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

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

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

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

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

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

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

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

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

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

National Bank of Dominica Ltd.

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5. Financial risk management (cont'd)*(a) Credit risk (cont'd)**(iii) Impairment and provisioning policies (cont'd)***Maximum exposure to credit risk before collateral held or other credit enhancements**

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)*(a) Credit risk (cont'd)*

(iv) Concentration of risk by location

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

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

Lending commitments and financial guarantees	2018	2017
	\$	\$
Domestic	54,882,178	64,644,598
	<u>54,882,178</u>	<u>64,644,598</u>

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(a) *Credit risk (cont'd)*

(v) Loans and advances to customers

Loans and advances to customers are summarized as follows:

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

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

(vi) Loans and advances neither past due nor impaired

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(a) *Credit risk (cont'd)*

(vii) *Loans and advances past due but not impaired*

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)**5. Financial risk management (cont'd)***(a) Credit risk (cont'd)**(viii) Loans and advances individually impaired*

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

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

(ix) Loans and advances renegotiated

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

(x) Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at June 30, 2018, based on Standard & Poor's ratings or their equivalent.

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(a) Credit risk (cont'd)

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

	Financial assets at fair value through profit or loss \$	Treasury bills \$	Investment securities \$	Total \$
June 30, 2018				
BB- to AA+	130,540,360	-	-	130,540,360
Un-rated	-	36,882,462	120,431,904	157,314,366
	130,540,360	36,882,462	120,431,904	287,854,726
June 30, 2017				
BB- to AA+	83,727,164	-	-	83,727,164
Un-rated	-	41,830,371	83,975,119	125,805,490
	83,727,164	41,830,371	83,975,119	209,532,654
		2018	2017	
		\$	\$	
Treasury bills		36,882,462	41,830,371	
Investment securities		250,972,264	167,702,283	
		287,854,726	209,532,654	

(b) Market risk

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

The Group's exposure to market risks arises from its non-trading portfolios. Non-trading portfolios primarily arise from the interest rate management of the Group's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of equity risks arising from the Group's held-to-maturity and available-for-sale investments.

Management of market risk

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)**5. Financial risk management (cont'd)***(b) Market risk (cont'd)**(i) Currency risk*

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

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

(i) *Currency risk (cont'd)*

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

(ii) *Interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flows risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate re-pricing that may be undertaken. The table below summarizes the Group's exposure to interest rate risks. Included in the table are the Group's interest-bearing financial assets and financial liabilities at carrying amounts, categorized by the earlier of contractual re-pricing and maturity dates.

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

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

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(b) Market risk (cont'd)

(iii) Equity price risk

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

Sensitivity analysis – Equity price risk

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

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

(c) Liquidity risk

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

Management of Liquidity Risk

The matching and controlled mismatching of the contractual maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. The contractual maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(c) Liquidity risk (cont'd)

Management of liquidity risk (cont'd)

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

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(c) Liquidity risk (cont'd)

Management of liquidity risk (cont'd)

Maturities of financial assets and financial liabilities

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)**5. Financial risk management (cont'd)***(c) Liquidity risk (cont'd)**Residual contractual maturities relating to off-balance sheet items**Loan commitments*

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

Financial guarantees and other financial facilities

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

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

(d) Operational risk

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

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(d) Operational risk (cont'd)

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

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

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

(e) Capital management

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

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

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

A new Banking Act, No. 4 of 2015, was assented to on June 12, 2015 and commenced on November 12, 2015. Under this new Act, the ECCB requires each bank or banking group to:

- (a) hold the minimum level paid up share capital of EC\$20,000,000; this is an increase from the previous level of EC\$5,000,000 and;
- (b) maintain a ratio of total regulatory capital to the risk weighted assets ("the Basel ratio") at or above the minimum 8% indicated in the ECCB Prudential Guidelines. There has been no change in this regard under the new Act.

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)**5. Financial risk management (cont'd)***(e) Capital management (cont'd)*

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

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

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

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

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

6. Fair values of financial instruments

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

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

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

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

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

Fair value hierarchy

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

- Level 1 - Inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges such as the New York Stock Exchange and the London Stock Exchange
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 - Inputs are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments. This level includes equity investments and debt instruments with significant unobservable components.

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

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

Fair value hierarchy (cont'd)

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

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

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

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

National Bank of Dominica Ltd.

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For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

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

Fair value hierarchy (cont'd)

Financial instruments not measured at fair value:

Accounting classifications and fair values

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

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

Fair value hierarchy (cont'd)

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

	Notes	Carrying amount						Fair value				
		Designated at fair value	Held-to- maturity	Loans and receivables	Available- for sale	Other amortised costs	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
As at June 30, 2017												
Financial assets not measured at fair value												
Cash and cash equivalent	7	-	-	627,373,850	-	-	-	627,373,850	-	-	-	-
Treasury bills		-	-	26,545,583	-	-	-	26,545,583	-	-	-	-
Loans and advances	11	-	-	559,143,094	-	-	-	559,143,094	-	-	-	-
Investment securities:	12	-	-	-	-	-	-	-	-	-	-	-
Measured at amortised cost		-	56,119,122	-	-	-	-	56,119,122	-	-	-	-
Unquoted securities		-	-	-	21,309,732	-	-	21,309,732	-	-	-	-
Financial assets measured at fair value												
Corporate bonds		19,846,680	-	-	-	-	-	19,846,680	8,388,598	11,458,082	-	19,846,680
Quoted equity securities		15,078,819	-	-	5,842,174	-	-	20,920,993	4,227,268	16,693,725	-	20,920,993
Debt securities		48,790,924	-	-	704,092	-	-	49,495,016	-	49,495,016	-	49,495,016
Asset-backed securities		10,741	-	-	-	-	-	10,741	-	10,741	-	10,741
Total assets		83,727,164	56,119,122	1,213,062,527	27,855,998	-	-	1,380,764,811	12,615,866	77,657,564	-	90,273,430
Deposit from customers	19	-	-	-	-	1,334,998,572	-	1,334,998,572	-	-	-	-
Trading liabilities	20	-	-	-	-	-	39,062,824	39,062,824	-	-	-	-
Commercial paper	21	-	-	-	-	20,461,249	-	20,461,249	-	-	-	-
Total liabilities		-	-	-	-	1,355,459,821	39,062,824	1,394,522,645	-	-	-	-

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)**7. Cash and balances with Central Bank***(a) Cash and balances with Central Bank*

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

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

Mandatory deposits

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

(b) Cash and cash equivalents

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

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)**8. Treasury bills**

	Notes	2018 \$	2017 \$
Treasury bills issued by domestic and regional governments	7(b)	<u>36,882,462</u>	<u>41,830,371</u>

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

9. Due from other banks

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

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

10. Deposits with non-bank financial institutions

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)**11. Loans and advances**

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

(a) Loans and advances to customers

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

11. Loans and advances (cont'd)

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

(i) Movement in loan provision for the year

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

(ii) Charges against profits

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

(iv) Analysis by type of credit

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)**11. Loans and advances (cont'd)***(a) Loans and advances to customers (cont'd)**Concentration of loans and advances to customers**(i) Sectoral analysis*

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

(b) Syndicated loans and advances

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

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

(ii) Sectoral Analysis

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

See Note 5(a) for geographical analysis.

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

12. Investment securities

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

A. Held-to-maturity investment securities

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

B. Available-for-sale investment securities

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

Impairment loss on available-for-sale investment securities

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)

12. Investment securities (cont'd)

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

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

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

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

National Bank of Dominica Ltd.

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(Expressed in Eastern Caribbean Dollars)**12. Investment securities (cont'd)****CL Financial Group placements**

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

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

13. Other assets

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

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

14. Property and equipment

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

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(Expressed in Eastern Caribbean Dollars)

14. Property and equipment (cont'd)

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

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15. Intangible assets

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

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Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)**16. Income tax recoverable**

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

17. Deposits from customers

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

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

18. Other liabilities

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

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19. Commercial paper

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

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

20. Share capital

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

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

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

21. Statutory reserve

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

22. Loan loss reserve

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)**23. Available-for-sale reserve**

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

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

24. Dividends

The following dividends were declared and paid by the Group:

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

25. Net interest income

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

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(Expressed in Eastern Caribbean Dollars)**26. Net commission and other income**

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

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

	2018	2017
	\$	\$
Impairment on available-for-sale investment securities	-	579,605
Investment recovered during the year	(184,877)	(1,016,509)
	12 <u>(184,877)</u>	<u>(436,904)</u>

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)**28. Operating expenses**

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

29. Other expenses

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)**30. Compensation**

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

31. Income tax expense

	2018 \$	2017 \$
Current	492,539	-
Deferred	-	-
	<u>492,539</u>	<u>-</u>

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

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

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Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)**32. Income tax losses**

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

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

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

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

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Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)

34. Related party transactions and balances

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

A party is related to the Group, if:

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)**34. Related party transactions and balances (cont'd)**

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

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

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

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

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

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

National Bank of Dominica Ltd.

Notes to Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Eastern Caribbean Dollars)**35. Commitments and contingencies**

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

Sectoral analysis

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

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

36. Future lease commitments

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

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

37. Human capital management

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

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

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(Expressed in Eastern Caribbean Dollars)

38. Hurricane impact

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

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