Schedule 1

FORM ECSRC – K

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

For the financial year ended September 30, 2016

Issuer Registration number
GCB26071932GR

Grenada Co-operative Bank Limited
(Exact name of reporting issuer as specified in its charter)

Grenada
(Territory of incorporation)

No. 8 Church Street, St. George's Grenada
(Address of principal office)

REPORTING ISSUER'S:

Telephone number (including area code): (473) 440-2111

Fax number: (473) 440-6600

Email address: ____________________

(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
Common	7,600,000

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:

Richard W. Duncan

SIGNED AND CERTIFIED

Sig

January 21, 2017

Date

Name of Director:

Derick Steele

SIGNED AND CERTIFIED

Si

January 21, 2017

Date

Name of Chief Financial Officer:

Aaron Logie

SIGNED AND CERTIFIED

Signature

January 21, 2017

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.

Grenada Co-operative Bank Limited is a licensed commercial bank operating in the state of Grenada and is regulated by the Eastern Caribbean Central Bank.

There were no developments in the main line of business for the period for which this report is being filed.

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.

1. Head Office – Church Street, St. George's
2. St. George's Retail Centre - Church Street, St. George
3. Sauteurs Retail Unit at Main Street, Sauteurs, St. Patrick
4. Grenville Retail Unit at Victoria Street, Grenville St. Andrew
5. Spiceland Mall Retail Unit, Leasehold Improvement at Grand Anse, St. George
6. Carriacou Retail Unit, Leasehold Improvement at Hillsborough, Carriacou

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 were those for entering judgements in the ordinary course of business, in respect of delinquent borrowers.

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 Annual General Meeting was held on January 14, 2016.

(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.

The Shareholders at the Annual General Meeting re-elected Messrs. Richard Mc Intyre, Darryl Brathwaite and Lisa Taylor.

The remaining Directors whose term of office will continue are: Derick Steele, Ambrose Phillip, Gordon Steele, Leslie Ramdhanny, Alfred Logie and Richard Duncan.

(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.

Matter: Appointment of Auditors (BDO)
Votes for: 97
Votes against: 0
Abstentions: 1

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

None

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

None

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

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

None

6. Financial Statements and Selected Financial Data.

Attach Audited Financial Statements, which comprise the following:

<u>For the most recent financial year</u>

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

<u>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</u>

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

7. Disclosure about Risk Factors.

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

The Bank has consideration for the following risk factors:

1.
Capital adequacy - The Bank's CAR is 8.2% as at the end of September 2016, which is within regulatory requirements. This ratio has declined by a 2.2 percentage points from 2015.

2.
Asset quality - The Non-Performing Loans Ratio moved from 8% in 2015 to 4.87% in 2016. This marks a significant achievement for the Bank, in keeping with the ECCB's prudential benchmark of 5% or lower.

The significant reduction of the Non-Performing Loans Ratio within the prudential benchmark in 2016 is attributed to the application, over the last six (6) years of tactical methods to minimize the migration of loans into non-performing status, enhanced marketing strategies and effective asset recovery measures.

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.

The rights of the holders of the bank's securities have not been modified.

(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)

  N/A

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

  N/A

- Name and address of underwriter(s)

  N/A

- Amount of expenses incurred in connection with the offer N/A

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

  N/A

- Payments to associated persons and the purpose for such payments

  N/A

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

There are no working capital restrictions and other limitations upon the payment of dividends.

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.

There has been no default in the payment of principal, interest, a sinking or purchase fund installment, or any other default not satisfied within 30 days, with respect to any indebtedness of the bank.

(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

The Bank's year end results shows continued favorable results in several areas, ultimately realizing an after tax profit of $ 4.4M. Some of the positive results at the reporting period are as follow:

i. The continued decline in NPL, where the absolute figure has declined to cross the $19M milestone bringing the ratio to 4.87%, within prudential standards of 5%.
ii. The reduction of $3.2m (25%) in Interest Expense despite the exponential growth in deposits
iii. The increase in Interest on Investments and Deposits at other Financial Institutions grew by $1m.
iv. The increasing contribution of Non Interest Income, thus lowering the Bank's dependence on Net Interest to fund its operations. This is a positive trend.

Notwithstanding the favorable outcomes mentioned above, the following concerns are noted:

i. Net Loans to Total Assets and the Loans to Deposit ratios have further declined. This will continue to negatively impact the Bank's profitability if allowed to continue on the current trend.
ii. A few areas of expenditure are above budget and some have shown noticeable increases over the same period of the previous year. These must be monitored and corrective action taken.
iii. The Capital Adequacy Ratio -The capital preservation and augmentation plan is critical for the continuing survival of this institution.

In spite of the favorable reduction in the level of non-performing loans, the Bank continues to take a conservative approach to provisioning for loan losses. Hence the increased impairment for 2016 compared to 2015 FY.

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

During the 2016 financial year, the Bank experienced excess liquidity as indicated by the low loan to deposit ratio which is below the ECCB prudential benchmark range of 75% to 85%, and the Net Liquid Asset Ratio which is above 20%.

In response to the excess liquidity, the Bank increased its investment portfolio.

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.

Off balance sheet arrangements for the Bank are mainly that of undrawn loan commitments.

The Bank has no other off balance sheet arrangements.

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*

1. The trend on the loan portfolio continued in 2016 with a small decline.

2. Deposits portfolio continue to grow but at a slower rate. However, interest cost cost experienced a second consecutive year of decline.

3. Operating profits increased fuel mainly by increase in investment income and reduction in interest cost.

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.

There were no changes or major disagreements with the external auditors BDO in 2016.

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.

None

14. List of Exhibits

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

Annual Report 2016

Audited Financial Report

For the Year Ended 30 September 2016

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Sergeant-Jack Drive
Arnos Vale
P.O. Box 35
Kingstown VC0100
St. Vincent

Independent Auditors'
REPORT
To the Shareholders of Grenada Co-operative Bank Limited

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **Grenada Co-operative Bank Limited**, which comprise the statement of financial position as of September 30, 2016, and the statement of changes in equity, statement of profit or loss and other comprehensive income, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Grenada Co-operative Bank Limited** as of September 30, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

EMPHASIS OF MATTER

The comparative financial statements of **Grenada Co-operative Bank Limited** for the year ended September 30, 2015, were audited by another auditor who expressed an unqualified opinion on those statements on November 24, 2015.

BDO

November 29, 2016

Statement of Financial Position
AS OF SEPTEMBER 30, 2016

	Notes	2016 $	Restated 2015 $	Restated 2014 $
ASSETS				
Cash and balances with Central Bank and other banks	7	180,483,293	210,508,561	130,642,759
Customers' loans and advances	8	405,129,648	412,188,631	415,946,938
Financial investments	9	179,035,852	64,077,689	50,114,388
Other assets and prepayments		19,032,412	18,909,598	13,384,627
Premises and equipment	10	41,031,738	40,751,416	42,100,428
Deferred tax asset	11	335,502	668,119	1,108,590
Total Assets		825,048,445	747,104,014	653,297,730
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Amounts due to other banks		0	0	5,000,000
Customers' deposits	12	768,598,674	695,517,632	601,102,761
Trade and other payables		7,563,556	7,425,780	5,338,540
Income tax payable		231,137	317,483	92,960
Total Liabilities		776,393,367	703,260,895	611,534,261
SHAREHOLDERS' EQUITY				
STATED CAPITAL	13	24,871,739	24,871,739	24,871,739
STATUTORY RESERVE	14	10,096,857	9,219,916	8,682,386
ACCUMULATED OTHER COMPREHENSIVE INCOME	15	5,356,860	4,321,606	4,321,606
OTHER RESERVES	16	673,461	1,046,829	496,800
RETAINED EARNINGS		7,656,161	4,383,029	3,390,938
		48,655,078	43,843,119	41,763,469
Total Liabilities and Shareholders' Equity		825,048,445	747,104,014	653,297,730

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

APPROVED ON BEHALF OF THE BOARD:-

Richard McIntyre

Gordon Steele

Richard W. Duncan

Statement of Changes in Equity
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Director *Director* *Secretary*

	Notes	Stated Capital $	Statutory Reserve $	Accumulated Other Comprehensive Income $	Other Reserves $	Retained Earnings $	Total $
Balances as at September 30, 2014		24,871,739	8,682,386	4,321,606	496,800	3,390,938	41,763,469
Profit for the year		0	0	0	0	2,687,650	2,687,650
Increase in Statutory Reserves	14	0	537,530	0	0	(537,530)	0
Transfer to General Reserves	16	0	0	0	67,191	(67,191)	0
Increase in Regulatory Loss Reserves	16	0	0	0	482,838	(482,838)	0
Dividends paid		0	0	0	0	(608,000)	(608,000)
Balances as at September 30, 2015		24,871,739	9,219,916	4,321,606	1,046,829	4,383,029	43,843,119
Profit for the year		0	0	0	0	4,384,705	4,384,705
Other comprehensive income for year	15	0	0	1,035,254	0	0	1,035,254
Increase in Statutory Reserves	14	0	876,941	0	0	(876,941)	0
Transfer to General Reserves	16	0	0	0	109,470	(109,470)	0
Decrease in Regulatory Loss Reserves	16	0	0	0	(482,838)	482,838	0
Dividends paid		0	0	0	0	(608,000)	(608,000)
Balances as at September 30, 2016		24,871,739	10,096,857	5,356,860	673,461	7,656,161	48,655,078

Statement of Profit or Loss and other Comprehensive Income

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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

	Notes	2016 $	2015 $
Interest Income	17	30,912,704	32,468,498
Interest Expense	18	(9,494,609)	(12,712,085)
Net Interest Income		21,418,095	19,756,413
Other Operating Income	19	17,852,993	13,875,993
		39,271,088	33,632,406
Impairment charge for credit losses	8.2	6,316,994	5,134,075
Operating expenses	20	27,602,031	24,929,739
		33,919,025	30,063,814
Operating Profit before Income Tax		5,352,063	3,568,592
Income Tax Expense	21	(967,358)	(880,942)
Net Profit for the Year		4,384,705	2,687,650
Other Comprehensive Income Recyclable through Profit or Loss in Subsequent Periods			
Appreciation in value of available-for-sale investments, net		1,035,254	0
Total Comprehensive Income		5,419,959	2,687,650
Comprehensive Income Attributable to owners of company		5,419,959	2,687,650
Basic Earnings per Share	22	0.58	0.35

The accompanying notes form an integral part of these financial statements

Statement of Cash Flows

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	2016 $	2015 $
Operating Activities		
Profit before income tax	5,352,063	3,568,592
Adjustments for:		
Depreciation	2,509,233	2,551,030
Gain on disposal of premises and equipment	(34,999)	0
Dividend income	(1,117,442)	(92,327)
Realised gains on investment securities	(507,873)	0
Operating Income before Working Capital Changes	6,200,982	6,027,295
Net Changes in Operating Assets and Liabilities		
Increase in other assets and prepayments	(122,814)	(5,524,971)
Decrease in customers' loans and advances	7,058,983	3,758,307
Increase in customers' deposits	73,081,042	94,414,871
Increase in trade and other payables	137,776	2,087,240
Decrease in amounts due to other banks	0	(5,000,000)
Cash Generated from Operations	86,355,969	95,762,742
Income taxes paid	(721,087)	(215,948)
Net Cash Generated from Operating Activities	85,634,882	95,546,794
Investing Activities		
Net investment in financial investments	(113,415,036)	(13,963,301)
Dividends received	1,117,442	92,327
Sale of equipment	35,000	0
Purchase of premises and equipment	(2,789,556)	(1,202,018)
Net Cash Used in Investing Activities	(115,052,150)	(15,072,992)
Financing Activities		
Dividends paid	(608,000)	(608,000)
Net Cash Used in Financing Activities	(608,000)	(608,000)
Net Movement in Cash Resources	(30,025,268)	79,865,802
Cash and cash equivalents - Beginning of Year	210,508,561	130,642,759
Cash and cash equivalents - End of Year	180,483,293	210,508,561

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

Index to Notes
TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements
FOR THE YEAR ENDED SEPTEMBER 30, 2016

1. INCORPORATION

Grenada Co-operative Bank Limited (the Bank) was incorporated on July 26, 1932, and continued as company 18 of 1926 under the Companies Act 1994 of Grenada. The Bank holds a license from the Eastern Caribbean Central Bank to engage in commercial banking activities. The Bank's registered office and principal place of business is situated on Church Street, St. George's.

2. PRINCIPAL ACTIVITIES

The Bank's principal activities are the offering of retail and corporate banking services. It operates five retail units.

On September 28, 2015, the Bank obtained a broker-dealer license from the Eastern Caribbean Security Regulatory Commission. The Bank intends to offer brokerage service to the public commencing in December 2016.

3. DATE OF AUTHORISATION OF ISSUE

These financial statements were authorised for issue by the Board of Directors on November 29, 2016.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Statement of Compliance

These financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS), International Accounting Standards, and Interpretations (collectively) IFRS, as issued by the International Accounting Standards Board (IASB).

Basis of Preparation

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 6.

Basis of Measurement

These financial statements have been prepared on a historical cost basis; except for the following items (refer to individual accounting policies for details):

» Financial instruments – available-for-sale

» Revalued premises and equipment

» Contingent consideration

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a. Changes in Accounting Policies

New Standards, Interpretations and Amendments Effective from October 1, 2015

There are no new standards, amendments and interpretations that are effective for the first time for the financial year beginning on or after 1 October, 2015 that would be expected to have a material impact on the Bank's financial statements.

New Standards, Amendments and Interpretations to Existing Standards Effective but not Yet Adopted

IFRS 11 - Accounting for Acquisitions of Interest in Joint Operations

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations, which becomes effective for reporting periods beginning on or after 1 January 2016; was originally issued in May 2014 and addresses the accounting for interests in joint ventures and joint operations. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

The Bank plans to implement the amendments to IRFS 11 in the reporting period beginning 1 October 2016 and anticipates the application of these amendments in future will not have a significant impact on the amounts reported in respect of assets and liabilities.

IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to IAS 16 and IAS 38, which become effective for reporting periods beginning on or after 1 January 2016, and the Clarification of Acceptable Methods of Depreciation and Amortisation, were issued in May 2014. IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. Those amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It also clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

The Bank plans to implement the amendments to IAS 16 and 38 in the reporting period beginning 1 October 2016, and anticipates that the application of these amendments in future will not have a significant impact on the amounts reported in respect of assets and liabilities.

IAS 27 - Equity Method in Separate Financial Statements

Amendments to IAS 27 Equity Method in Separate Financial Statements, which become effective for reporting periods beginning on or after 1 January 2016, were issued in August 2014. The amendments to IAS 27, Separate Financial Statements, will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are required to be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a. Changes in Accounting Policies *(continued)*

The Bank plans to implement the application of the amendments to IAS 27 in the reporting period beginning 1 October 2016 and anticipates the application of these amendments in future will not have a significant impact on the amounts reported in respect of assets and liabilities.

IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, which are effective for annual reporting periods beginning on or after 1 January 2016, were issued in September 2014. The amendments address the conflict between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, when accounting for the sale or contribution of a subsidiary to a joint venture or associate (resulting in the loss of control of the subsidiary).

The Bank plans to implement the application of the amendments to IFRS 10 and IAS 28 in the reporting period beginning 1 October 2016 and anticipates the application of these amendments in future will not have a significant impact on the amounts reported in respect of assets and liabilities.

IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the Consolidation Exception

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception, which are effective for annual reporting periods beginning on or after 1 January 2016, were issued in December 2014. The amendments clarify which subsidiaries of an investment entity should be consolidated instead of being measured at fair value through profit or loss. The amendments also clarify that the exemption from presenting consolidated financial statements continues to apply to subsidiaries of an investment entity that are themselves parent entities. This is so even if that subsidiary is measured at fair value through profit or loss by the higher level investment entity parent. In addition, the amendments provide relief whereby a non-investment entity investor can, when applying the equity method, choose to retain the fair value through profit or loss measurement that is applied by its investment entity associates and joint ventures to their subsidiaries.

The Bank plans to implement the application of the amendments to IFRS 10, 12 and IAS 28 in the reporting period beginning 1 October 2016 and anticipates the application of these amendments in future will not have a significant impact on the amounts reported in respect of assets and liabilities.

IAS 1 - Disclosure Initiative

Disclosure Initiative (Amendments to IAS 1) was issued in December 2014. The amendments address concerns expressed about some of the existing presentation and disclosure requirements in IAS 1 Presentation of Financial Statements and ensure that entities are able to use judgement when applying those requirements. As a result, it introduces five, narrow-focus improvements to the disclosure requirements that relate to materiality, order of the notes, subtotals, accounting policies and disaggregation. The amendments also clarify the requirements in paragraph 82A of IAS 1 for presenting an entity's share of items of other comprehensive income of associates and joint ventures accounted for using the equity method. These amendments are required to be applied for annual periods beginning on or after 1 January 2016.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a. Changes in Accounting Policies *(continued)*

Annual improvements to IFRS's which will be implemented in the reporting period beginning 1 October 2016 are as follows: -

- IFRS 5 – Changes in methods of disposal
- IFRS 7 – Servicing contracts
- IFRS 7 – Applicability of the amendments to IFRS 7 to condensed interim financial statements
- IAS 19 – Discount rate: Regional market issue
- IAS 34 – Disclosure of information "elsewhere in the interim financial report"

New Standards, Amendments and Interpretations not yet Effective and have not been Early Adopted

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the Bank's future financial statements which will be effective for the accounting periods beginning on or after 1 January 2016.

IFRS 9 - Financial Instruments

IFRS 9 Financial Instruments, which becomes effective for annual periods beginning on or after 1 January 2018, sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items; and replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Bank plans to implement IFRS 9 in reporting period beginning 1 October, 2018, and anticipates that its application in future will not have a significant impact on the amounts reported in respect of assets and liabilities.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers, which becomes effective for annual reporting periods beginning on or after 1 January 2017, was issued in May 2014. It establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise. The core principle in that framework is that an entity should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Standard sets out five steps to follow: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation. IFRS 15 replaces IAS 11 Construction Contracts and IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreement for the Construction of Real Estate and IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue—Barter Transactions Involving Advertising Services.

The Bank plans to implement IFRS 15 in the reporting period beginning October 1, 2017 and anticipates that in future it will not have a significant impact on the amounts reported in respect of assets and liabilities

b. Cash and Balances with Central Bank and Other Banks

Cash balances include highly liquid investments with insignificant interest rate risk and original maturities of ninety (90) days or less at the date of purchase. Investments with maturities between ninety (90) and one year at the date of purchase are considered to be short-term investment securities. Short-term investment securities consist primarily of investment grade commercial paper, bankers' acceptances, and certificates of deposit.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

c. Premises and Equipment

Land and buildings are stated at the most recent valuation less subsequent depreciation for buildings. Valuations are performed by independent professional valuators. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other premises and equipment is stated at historic cost less depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Increases in the carrying amount arising on revaluation of land and buildings are credited to revaluation surplus in equity. Decreases that offset previous increases of the same asset are charged against the surplus directly in equity; all other decreases are charged to the statement of profit or loss.

Land is not depreciated. Leasehold improvements are amortised over the term of the lease. Depreciation of other assets is calculated using a straight line method, at rates which are expected to write-off the cost or valuation of the assets over their estimated useful lives at the following annual rates:

Furniture and equipment	10%
Motor vehicles	20%
Computer equipment	16.67%
Freehold buildings	2.5%

The assets residual values and useful lives are reviewed and adjusted if appropriate at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

Gains or losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining the profit or loss. When revalued assets are sold, the amounts included in revaluation surplus are transferred to retained earnings.

Repairs and maintenance are charged to the profit or loss account when the expenditure is incurred. The cost of improvements is capitalized where such improvements would extend the remaining useful life of the buildings.

d. Foreign Currency Translation

These financial statements are expressed in Eastern Caribbean dollars, the Bank's functional currency. Monetary items denominated in a 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 or losses resulting from the settlement of such transactions and from the translation at reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

Changes in the fair value of monetary securities denominated in foreign currencies classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d. Foreign Currency Translation *(continued)*

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

e. Impairment of Non-Financial Assets

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

f. Financial Assets

The Bank classifies its financial assets in the following categories: loans and receivables, financial assets at fair value through profit or loss and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(i) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short-term, which classified as held for trading, and those that the entity upon initial recognition designates 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 carried at amortised cost using the effective interest method. Interest on loans and receivables are included in the statement of profit or loss and is reported as "interest income". In the case of impairment, the impairment loss is reported as a deduction from the carrying value of loan and receivables and recognised in the statement of profit or loss.

(ii) Available-for-Sale Financial Assets

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Regular-way purchases and sales of financial assets available-for-sale are recognised on trade date – the date on which the Bank commits to purchase or sell the asset.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs and subsequently carried at fair value.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

f. Financial Assets *(continued)*

Gains or losses arising from changes in the fair value of available-for-sale financial assets are recognised through other comprehensive income, until the financial asset is derecognised or impaired. At the time of derecognition, the cumulative gain or loss previously recognised in equity is transferred directly to retained earnings.

Interest calculated using the effective interest method and foreign currency gains or losses on monetary assets classified as available-for-sale are recognised in the statement of profit or loss. Dividends on available-for-sale equity instruments are recognised in the statement of profit or loss when the entity's right to receive payment is established.

The fair value of quoted investments in active markets is based on current bid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

(iii) Financial Assets at Fair Value through Profit or Loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

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

Financial assets and financial liabilities are designated at fair value through profit or loss when:

» Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost, such as loans and advances to customers or banks, and debt securities in issue;

» Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis, are designated at fair value through profit or loss; and

» Financial instruments, such as debt securities held, containing one or more embedded derivatives that significantly modify the cash flows, are designated at fair value through profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net income from financial instruments designated at fair value.'

(iv) Recognition

All purchases and sales of investment securities are recognised at settlement date, which is the date that the asset is delivered to or by the Bank.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d. Financial Assets *(continued)*

(v) De-recognition

Financial assets are de-recognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent de-recognition).

g. Impairment of Financial Assets

(i) Assets carried at Amortised Cost

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

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

» Delinquency in contractual payments of principal or interest;

» Cash flow difficulties experienced by the borrower (for example: equity ratio, net income percentage of sales);

» Breach of loan covenants or conditions;

» Initiation of bankruptcy proceedings;

» Deterioration of the borrower's competitive position;

» Deterioration in the value of collateral; and

» Downgrading below investment grade level.

The period between an estimated loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three (3) months and twelve (12) months; in exceptional cases, longer periods are warranted.

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g. Impairment of Financial Assets *(continued)*

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

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

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

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

(ii) Assets Classified as Available-for-Sale

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g. Impairment of Financial Assets *(continued)*

or loss on equity instruments are not reversed through the statement of 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 recognised in profit or loss, the impairment loss is reversed through the statement of profit or loss.

(iii) 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. In subsequent years, the asset is considered to be past due on the basis of the renegotiated terms and conditions.

h. Financial Liabilities

Financial liabilities are measured at amortised cost. Financial liabilities are derecognised when extinguished.

Financial liabilities measured at amortised cost are substantially deposits from customers.

i. Customers' Loans and Advances, and Allowance for Loan Losses

Loans are stated net of unearned interest and allowance for loan losses.

The allowance for losses is based on an annual appraisal of loans. Specific and general allowance for loan losses is based on the year-end appraisal of loans. The specific element relates to identified loans whereas the general element relates to latent bad and doubtful loans which are present in any loan portfolio but have not been specifically identified. Loans are written down to estimated realisable value when the normal banking relationship with the customer has ceased; interest on the loan up to that time is credited to operations and allowance is made where appropriate.

j. Revenue Recognition

(i) Interest Income and Expense

Interest income and expense are recognised in the statement of profit or loss for all interest bearing instruments on accrual basis during the effective interest yield method based on the actual purchase price or estimated recoverable amount. Interest income includes coupons earned on fixed income investments and trading securities and accrued discount and premium on treasury bills and other discounted instruments.

(ii) Fees and Commission Income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

(iii) Dividends

Dividends are recognised in the statement of profit or loss when the Bank's right to receive payment is established.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

j. Revenue Recognition *(continued)*

(iv) Other Income

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided.

The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

k. Employee Benefits

(i) Pension Obligation

The Bank operates a defined contribution pension scheme. Under this plan, the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligationsbeyond its current to the fund.

Contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after reporting date are discounted to present value.

l. Deferred Tax

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

The principal temporary differences arise from depreciation of premises and equipment, provisions for pensions and other post-retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantively enacted at the reporting date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

m. Stated Capital

(i) Share Issue Cost
Incremental cost directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, from the proceeds.

(ii) Dividends on Ordinary Shares
Dividends on ordinary shares are recognized in equity in the period in which they are declared by the Directors.

Dividends for the year that are declared after reporting date are disclosed within the subsequent events note.

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

The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognized. Any increase in the liability relating to guarantees is reported in the statement of income within other operating expenses.

o. Leases
The leases entered into by the Bank are primarily operating lease. The total payments made under operating leases are charged to the profit or loss on a straight line basis over the period of the lease.

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

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

The Bank's 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 Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by the Management Committee under policies approved by the Board of Directors. The Bank's Management Committee identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written

Notes to the Financial Statements *(Continued)*

FOR THE YEAR ENDED 30TH SEPTEMBER, 2016

5. FINANCIAL RISK MANAGEMENT *(continued)*

policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and non-derivative financial instruments. In addition, the Internal Audit Department is responsible for the independent review of risk management and the control environment.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

5.1. Credit Risk

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

The Bank is also exposed to other credit risks arising from balances with Central Bank, deposits with other banks and non-bank financial institutions, investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets.

Loans and Advances

The Bank takes on exposure to credit risk which, is the risk that a counterparty will be unable to pay amounts in full when due. Impairment allowances are provided 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 Bank'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.

Debt Securities and Other Bills

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

Cash and Balances with Central Bank and Other Banks

Credit risk from balances with banks and financial institutions is managed by the Bank in accordance with the Bank's policy. Counterparty credit limits are reviewed by the Bank's Risk Department on an annual basis, and may be updated throughout the year subject to approval of the Bank's Investment Committee and where necessary The Board of Directors. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments.

5.1.1. Risk Limit Control and Mitigation Policies

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, except for personal lending where no such facilities can be obtained.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1.1. *Risk Limit Control and Mitigation Policies (continued)*

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments.

Collateral

The Bank 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 Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

(i) Mortgages over Real properties;

(ii) Charges over business assets such as premises, inventory and accounts receivable; and

(iii) Charges over financial instruments such as debt securities and equities.

The Bank's credit risk management policies include requirements relating to collateral valuation and management, including verification requirements and legal certainty. Valuations are updated periodically depending upon the nature of the collateral. Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its periodic review of loan accounts in arrears. Policies are in place to monitor the existence of undesirable concentration in the collateral supporting the Bank's credit exposure.

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

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

Credit-related Commitments

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

Commitments to extend credit represent unused portions of 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 Bank 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 Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

5.1.2. *Impairment and Allowancing Policies*

The Bank's internal rating system focuses on expected credit losses, that is, taking into account the risk of future events giving rise to losses. In contrast, impairment allowance is recognised for financial reporting purposes only

5. FINANCIAL RISK MANAGEMENT *(continued)*

for losses that have been incurred at the date of the statement of financial position based on objective evidence of impairment.

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 Bank:

» 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 Bank'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 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 following summarises the percentage of the Bank's loans and advances and the associated impairment allowance for each of the five internal rating grades.

	Credit Risk Exposure		Impairment Allowance	
	2016 $	2015 $	**2016 $**	2015 $
Pass	82	73	0	0
Special mention	9	13	0	0
Substandard	8	12	65	43
Doubtful	1	2	35	57
Loss	0	0	0	0
	100	100	100	100

5.1.3. Maximum Exposure to Credit Risk

The following summarises the Bank's maximum credit risk relating to on-reporting financial instruments: -

5. FINANCIAL RISK MANAGEMENT *(continued)*

	Maximum Exposure	
	2016 $000's	2015 $000's
Deposits with Central Bank and other banks	162,076	189,500
Financial investments	179,036	64,078
Loans and advances to customers:		
Personal overdrafts and loans	217,566	207,938
Corporate overdrafts and loans	21,443	166,370
Public Sector overdrafts and loans	165,319	39,112
Other assets and prepayments	16,192	17,384
	761,632	684,382

The following summarises the Bank's maximum credit risk exposure to off statement of financial position financial instruments: -

	2016 $000's	2015 $000's
Financial guarantees	3,556	2,887
Loan commitments and other related obligations	43,694	25,432
	47,250	28,319

5.1.4. Concentration of Risks of Financial Assets with Credit Exposure

The following table breaks down the Bank's credit exposure at carrying amounts without taking into account any collateral held or other credit support by the industry sectors of counterparties.

5. FINANCIAL RISK MANAGEMENT *(continued)*

	Financial Institutions $'000	Manufacturing $'000	Tourism $'000	Government $'000	Professional and Other Services $'000	Personal $'000	Other Industries* $'000	Total $'000
At September 30, 2016								
Deposits with Central Bank and other banks	162,076	0	0	0	0	0	0	162,076
Financial investments	66,205	0	0	40,179	0	0	72,652	179,036
Loans and advances to customers:								
Overdrafts	99	2,521	2,725	0	1,901	4,025	5,939	17,210
Term loans and mortgages	123	18,648	37,702	0	29,955	233,148	67,542	387,118
Other assets and prepayments	15,943	0	0	0	0	0	249	16,192
	244,446	21,169	40,427	40,179	31,856	237,173	146,382	761,632
Loan commitments, letters of credit, guarantees and other credit obligations	571	454	143	25,000	1,468	4,449	15,165	47,250

	Financial Institutions $'000	Manufacturing $'000	Tourism $'000	Government $'000	Professional and Other Services $'000	Personal $'000	Other Industries* $'000	Total $'000
At September 30, 2015								
Deposits with Central Bank and other banks	189,500	0	0	0	0	0	0	189,500
Financial investments	6,846	0	0	43,022	0	0	14,210	64,078
Loans and advances to customers:								
Overdrafts	73	2,452	3,613	11,798	1,825	5,118	13,091	37,970
Term loans and mortgages	0	16,985	33,230	0	29,717	219,700	75,818	375,450
Other assets and prepayments	17,019	0	0	0	0	0	365	17,384
	213,438	19,437	36,843	54,820	31,542	224,818	103,484	684,382
Loan commitments, letters of credit, guarantees and other credit obligations	342	272	86	14,983	880	2,666	9,090	28,319

*Other industries include construction and land development.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1.5. Loans and Advances to Customers are Summarised as follows: -

	Overdrafts $	Term loans $	Mortgages $	Total 2016 $	Total 2015 $
Neither Past Due or Impaired	16,657,835	10,831,787	320,708,024	348,197,646	341,436,969
Past Due but not Impaired	66,058	995,870	38,222,024	39,283,952	38,112,219
Individually Impaired	485,978	540,802	15,819,666	16,846,446	33,871,400
Gross				404,328,044	413,420,588
Less: allowance for impairment				(4,256,495)	(5,907,190)
Net				400,071,549	407,513,398

The total allowance for impaired loans and advances is $4,256,495 (2015: $5,907,190) of which $2,360,101 (2015: $4,723,467) represents the individually impaired loans and the remaining amount $1,896,394 (2015: $1,183,723) represents the collective allowance. Further information of the allowance for impairment losses on loans and advances to customers is set out in Note 8.

5.1.6. Age Analysis of Loans and Advances

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

	Overdrafts $	Term loans $	Mortgages $	Total $
At September 30, 2016	16,657,835	10,831,787	320,708,024	348,197,646
At September 30, 2015	32,402,696	9,507,746	299,526,527	341,436,969

Loans and advances less than 90 days past due are not considered impaired, unless other information indicate the contrary.

The gross amount of loans and advances by class to customers that were **past due but not impaired** were as follows:-

	Overdrafts $	Term loans $	Mortgages $	Total $
At September 30, 2016				
Past due up to 30 days	60,191	764,918	26,161,701	26,986,810
Past due 31 - 60 days	5,867	215,260	10,199,192	10,420,319
Past due 61 - 90 days	0	15,692	1,861,131	1,876,823
	66,058	995,870	38,222,024	39,283,952

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.1.6. *Age Analysis of Loans and Advances (continued)*

	Overdrafts $	Term loans $	Mortgages $	Total $
At September 30, 2015				
Past due up to 30 days	137,605	640,932	21,200,110	21,978,647
Past due 31 - 60 days	24,932	37,422	13,546,132	13,608,486
Past due 61 - 90 days	1,356	76,825	2,446,905	2,525,086
	163,893	755,179	37,193,147	38,112,219

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

	Overdrafts $	Term loans $	Mortgages $	Total $
At September 30, 2016	485,978	540,802	15,819,666	16,846,446
At September 30, 2015	5,403,796	370,385	28,097,219	33,871,400

Included as individually impaired are loans and advances past due over 30 days that are not fully secured.

5.2. *Market Risk*

The Bank takes on exposure to market risks, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rate or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

Non-trading portfolios primarily arise from the interest rate management of the Bank's retail banking assets and liabilities. Non-trading portfolios also consist of exchange and equity risks arising from the Bank's available-for-sale investments (Note 9).

5.2.1. *Currency Risk*

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.2.1. Currency Risk (continued)

	ECD $	USD $	CAD $	GBP $	EUR $	OTHER $	Total $
At September 30, 2016							
Financial Assets							
Cash and balances with Central Bank and other banks	138,413,056	31,250,022	1,484,282	2,826,673	5,626,109	883,151	180,483,293
Loans and advances to customers	402,820,960	1,507,084	0	0	0	0	404,328,044
Financial investments	67,231,080	111,804,772	0	0	0	0	179,035,852
Other assets and prepayments	19,032,412	0	0	0	0	0	19,032,412
Total financial assets	627,497,508	144,561,878	1,484,282	2,826,673	5,626,109	883,151	782,879,601

	ECD $	USD $	CAD $	GBP $	EUR $	OTHER $	Total $
At September 30, 2016							
Financial Liabilities							
Customers' deposits	690,078,118	76,599,353	0	0	0	0	766,677,471
Trade and other payables	7,563,556	0	0	0	0	0	7,563,556
Total financial liabilities	697,641,674	76,599,353	0	0	0	0	774,241,027
Net on-statement of financial position asset/(liability)	(70,144,166)	67,962,525	1,484,282	2,826,673	5,626,109	883,151	8,638,574
Loan commitments, letters of credit, guarantees and other credit obligations	47,067,906	182,544	0	0	0	0	47,250,450

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.2.1. Currency Risk *(continued)*

	ECD $	USD $	CAD $	GBP $	EUR $	OTHER $	Total $
At September 30, 2015							
Financial Assets							
Cash and balances with Central Bank and other banks	131,138,092	67,694,966	1,045,377	3,833,503	6,071,430	725,193	210,508,561
Loans and advances to customers	411,924,378	1,496,210	0	0	0	0	413,420,588
Financial investments	64,077,689	0	0	0	0	0	64,077,689
Other assets and prepayments	18,909,598	0	0	0	0	0	18,909,598
Total financial assets	626,049,757	69,191,176	1,045,377	3,833,503	6,071,430	725,193	706,916,436

	ECD $	USD $	CAD $	GBP $	EUR $	OTHER $	Total $
At September 30, 2015							
Financial Liabilities							
Customers' deposits	620,832,383	71,800,565	0	0	0	0	692,632,948
Trade and other payables	7,425,780	0	0	0	0	0	7,425,780
Total financial liabilities	628,258,163	71,800,565	0	0	0	0	700,058,728
Net on-statement of financial position asset/(liability)	(2,208,406)	(2,609,389)	1,045,377	3,833,503	6,071,430	725,193	6,857,708
Loan commitments, letters of credit, guarantees and other credit obligations	28,209,272	109,404	0	0	0	0	28,318,676

5.2.2. Interest Rate Risk

Interest rate risk gives rise to fluctuations in cash flows on financial instrument as a result of changes in 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 Bank takes an exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.2.2. *Interest Rate Risk (continued)*

The table below summarise the Bank's exposure to interest rate risks.

	Up to One Year $'000	Between 1 – 5 Years $'000	Over 5 Years $'000	Non-Interest Bearing $'000	Total $'000
At September 30, 2016					
Assets					
Cash and balances with Central Bank and other banks	77,708	0	0	102,775	180,483
Loans and advances to customers	64,620	48,900	290,808	0	404,328
Financial investments	102,805	12,412	0	63,819	179,036
Other assets and prepayments	0	0	0	19,032	19,032
Total Assets	245,133	61,312	290,808	185,626	782,879
Liabilities					
Customers' deposits	527,835	2,650	0	236,192	766,677
Trade and other payables	0	0	0	7,564	7,564
Total Liabilities	527,835	2,650	0	243,756	774,241
Total Interest Re-pricing Gap	(282,702)	58,662	290,808		66,768

	Up to One Year $'000	Between 1 – 5 Years $'000	Over 5 Years $'000	Non-Interest Bearing $'000	Total $'000
At September 30, 2015					
Assets					
Cash and balances with Central Bank and other banks	123,652	0	0	86,857	210,509
Loans and advances to customers	88,405	59,233	265,783	0	413,421
Financial investments	44,916	15,258	3,282	622	64,078
Other assets and prepayments	0	0	0	18,910	18,910
Total Assets	256,973	74,491	269,065	106,389	706,918
Liabilities					
Customers' deposits	503,545	9,972	0	179,116	692,633
Trade and other payables	0	0	0	7,426	7,426
Total Liabilities	503,545	9,972	0	186,542	700,059
Total Interest Re-pricing Gap	(246,572)	64,519	269,065		87,012

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.2.2. Interest Rate Risk (continued)

Cash flow interest rate risk arises from loans and advances to customers at variable rates. At September 30, 2016 if variable interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year would have been $333,835 (2015: $435,050) higher/lower, mainly as a result of higher/lower interest income on variable rate loans.

5.3. Liquidity Risk

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

The Bank is exposed to daily cash calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, and guarantees. The Bank 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 sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

5.3.1. Liquidity Risk Management

The liquidity management process ensures that the Bank is able to honour all its commitments when they fall due. Liquidity risk is managed by the Bank's Risk and Capital Committee, which formulates strategies for maintaining adequate exposure from deposit concentrations and also building core deposits.

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 Bank 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 Bank 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.

The following table presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risks by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.3.1. Liquidity Risk Management (continued)

	Up to One Year $'000	Between 1 – 5 Years $'000	Over 5 Years $'000	Total $'000
At September 30, 2016				
Financial Liabilities				
Customers' deposits	764,026	2,651	0	766,677
Trade and other payables	7,564	0	0	7,564
Total Financial Liabilities	771,590	2,651	0	774,241
Assets Held for Managing Liquidity				
Cash and balances held with Central Bank and other banks	180,483	0	0	180,483
Financial investments	162,750	12,253	2,437	177,440
Loans and advances to customers	64,620	48,900	290,808	404,328
Total Financial Assets Held for Managing Liquidity	407,853	61,153	293,245	762,251
Net Liquidity Gap	(363,737)	58,502	293,245	(11,990)
At September 30, 2015				
Financial liabilities	501,890	188,197	9,972	700,059
Financial assets held for managing liquidity	272,073	91,288	343,556	706,917
Net Liquidity Gap	(229,817)	(96,909)	333,584	6,858

Off-Statement of Financial Position Items

a. Financial Guarantees

Financial guarantees (Note 23) are also included below based on the earliest contractual maturity date.

b. Loan Commitments and Other Related Obligations

As of reporting date, the contractual amounts of the Bank's off-statement of financial position financial instruments that commit it to extend credit to customers and other facilities (Note 23), are summarised in the table below.

	2016 $000's	2015 $000's
Financial guarantees	3,556	2,887
Loan commitments and other related obligations	43,694	25,432
Total	47,250	28,319

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.4. Fair Value of Financial Assets and Liabilities

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties, who are under no compulsion to act and is best evidenced by a quoted market price. If no quoted market prices exist, the fair values represented are estimates derived using present value or other valuation techniques indicative of net realizable value.

The fair values of cash resources, other assets and liabilities, cheques and other items in transit and due to other banks are assumed to approximate their carrying values due to their short term nature. Debt securities are carried at amortised cost in the absence of market value and are considered to reflect fair value. Equity investments that are unquoted are carried at cost less impairment which is management's estimate of fair value. The fair value of off-statement of financial position commitments are also assumed to approximate the amounts disclosed in Note 23 due to their short term nature.

The following methods and assumptions have been used to estimate the fair value of each class of financial assets and liabilities for which it is practical to estimate a value.

a. Customers' Deposits

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

b. Financial Investments

Financial investments include interest bearing debt and equity securities. Debt securities are carried at amortised cost in the absence of market value and are considered to reflect fair value. Assets classified for sale are measured at fair value based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

c. Loans and Advances to Customers

Loans and advances to customers are net of allowance for impairment. The estimated fair values of loans and advances represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.4. Fair Value of Financial Assets and Liabilities *(continued)*

	Carrying value		Fair value	
	2016	2015	**2016**	2015
	$	$	**$**	$
Financial Assets				
Cash and balances with Central Bank and other banks	180,483,293	210,508,561	180,483,293	210,508,561
Loans and advances to customers	405,129,648	412,188,631	405,129,648	412,188,631
Financial investments:				
- Unquoted debt securities	63,737,127	61,163,657	63,737,127	61,163,657
- Unquoted equity securities	1,312,938	1,312,941	1,312,938	1,312,941
Other assets and prepayments	19,032,412	18,909,598	19,032,412	18,909,598
Total Financial Assets	**669,695,418**	**704,083,388**	**669,695,418**	**704,083,388**

	Carrying value		Fair value	
	2016	2015	**2016**	2015
	$	$	**$**	$
Financial Liabilities				
Customers' deposits	768,598,674	695,517,632	768,598,674	695,517,632
Trade and other payables	7,563,556	7,425,780	7,563,556	7,425,780
Total Financial Liabilities	**776,162,230**	**702,943,412**	**776,162,230**	**702,943,412**
Off-Statement of Financial Position Instruments				
Loan commitments, letters of credit, guarantees and other credit obligations	0	0	47,250,450	28,318,676

Fair Value Hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

» Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges such as Eastern Caribbean and New York.

» Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

» Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.5. Capital Management

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

» To comply with the capital requirements set by the Eastern Caribbean Central Bank;

» To safeguard the Bank'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 Bank's management, employing techniques based on the guidelines developed by the Eastern Caribbean Central Bank ('the ECCB') for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The ECCB requires each bank or banking group to: (a) hold the minimum level of regulatory capital of $5,000,000 and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the minimum indicated in the prudential guidelines of 8%.

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

» Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings.

» Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale and fixed assets revaluation reserves.

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

The following table summarises the composition of regulatory capital and the ratios of the Bank as of reporting date. During the reporting periods, the Bank complied with all of the ECCB capital requirements.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.5. *Capital Management (continued)*

	2016 $	2015 $
Tier 1 Capital:		
Paid up ordinary share capital	24,871,739	24,871,739
Statutory reserves	10,096,857	9,219,916
General reserves	673,461	563,991
Retained earnings	7,656,161	4,383,029
Total Qualifying Tier 1 Capital	**43,298,218**	**39,038,675**
Tier 2 Capital:		
Fixed assets revaluation reserves	3,825,535	3,825,535
General provisions	2,815,690	1,183,723
Other asset revaluation reserves	1,531,325	496,071
Regulatory loss reserves	0	482,838
Total Qualifying Tier 2 Capital	**8,172,550**	**5,988,167**
Total Qualifying Capital	**51,470,768**	**45,026,842**
Risk Weighted Assets:		
On statement of financial position	578,677,000	400,462,000
Off statement of financial position	47,250,000	28,319,000
Total Risk – Weighted Assets	**625,927,000**	**428,781,000**
Capital Adequacy Ratio	8.2%	10.4%

The Capital Adequacy ratio is calculated as total Qualifying Capital divided by total Risk-Weighted Assets.

5.6. *Operational risk*

Operational risk is the risk of direct or indirect loss in both financial and non-financial terms arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure. It may also arise 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 behaviour. Operational risks arise from all of the Bank's operations and are faced by all departments.

Managing operational risk in the Bank is seen as an integral part of day-to-day operations and management, which includes explicit consideration of both the opportunities and the risks of all business activities. The Bank's objective is to manage operational risk so as to balance an avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.6. *Operational risk (continued)*

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the management team of each department. This responsibility is supported by bank-wide corporate policies which describe the standard of conduct required of staff and specific internal control systems designed around the particular characteristics of various Bank activities.

Compliance with corporate policies and departmental control systems are managed by:

- » Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- » Requirements for the reconciliation and monitoring of transactions;
- » Compliance with regulatory and other legal requirements;
- » Documentation of controls and procedures;
- » Requirements for the periodic assessment of operational risks faced, and the adequacy of the controls and procedures to assess the risks identified;
- » Development and periodic testing of contingency plans;
- » Training and professional development;
- » Ethical and business standards;
- » Risk mitigation, including insurance where it is effective;
- » A structured induction program for new employees.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by the Internal Audit Department. The results of the internal audit reviews are discussed with the management of the department to which they relate and summaries are submitted to the Board Audit Committee and Executive Committee of the Bank.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Impairment Losses on Loans and Advances

The Bank reviews its loan portfolio to assess impairment on an annual basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Bank makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. Guidelines issued by the Eastern Caribbean Central Bank on methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

b. Impairment of Available-for-Sale Equity Investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates, among other factors, when there is evidence of deterioration in the financial health of the investee industry and sector performance, changes in technology and operational and financing cash flows. There were no declines in fair value below cost considered significant or prolonged as at reporting date.

c. Income Taxes

Estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amount that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

d. Revaluation of Land and Buildings

The Bank utilises professional valuators to determine the fair value of its properties. Valuations are determined through the application of a variety of different valuation methods which are all sensitive to the underlying assumptions chosen.

7. CASH AND BALANCES WITH CENTRAL BANK AND OTHER BANKS

	2016 $	2015 $
Cash on hand	18,406,939	21,009,054
Amount due from banks	77,707,869	123,651,274
	96,114,808	144,660,328
Statutory reserve and deposit with ECCB	82,802,302	64,292,050
Deposits pledged with other institutions	1,566,183	1,556,183
	180,483,293	210,508,561

Reserve Deposit

Statutory reserve deposits with the ECCB represent the Bank's regulatory requirement to maintain a minimum percentage of 6% of deposit liabilities as cash in vault and or deposits with the ECCB in accordance with Article 33 of the ECCB Agreement of 1983. These funds are not available to finance the Bank's day to day operations and as such, are excluded from cash resources to arrive at cash and cash equivalents. The reserve deposit is non-interest bearing.

Deposits pledged with other institutions

Deposits pledged with other institutions are non-interest bearing and represent cash placed as security to facilitate the Bank's card services.

Notes to the Financial Statements *(Continued)*

FOR THE YEAR ENDED 30TH SEPTEMBER, 2016

8. CUSTOMERS' LOANS AND ADVANCES

	2016 $	2015 $
Mortgages	374,749,715	364,797,290
Promissory notes	12,368,458	10,652,912
Other advances	17,209,871	37,970,386
	404,328,044	413,420,588
Less: allowance for impairment (Note 8.2)	(4,256,495)	(5,907,190)
	400,071,549	407,513,398
Interest receivable	5,058,099	4,675,233
	405,129,648	412,188,631

	2016 $'000's	2015 $'000's
Due within one year	64,620	88,404
Due after one year	339,708	325,017
	404,328	413,421

The effective interest yield during the year on loans and advances was 7.53% (2015: 7.75%).

At reporting date, loans and advances considered impaired, net of allowance for impairment amount to $14,486,346 (2015: $29,147,933).

8.1. Sectoral Analysis

	2016 $'000's	2015 $'000's
Mining and quarrying	0	1,290
Agriculture	937	1,567
Fisheries	1,051	170
Manufacturing	21,169	19,437
Utilities (electricity, water, telephone & media)	12,460	18,644
Construction and land development	20,941	21,780
Distribution trades	27,015	27,486
Tourism	40,427	36,843
Entertainment and catering	2,603	3,023
Transportation and storage	8,474	14,948
Financial institutions	222	73
Professional and other services	31,856	31,542
Public administration	9	11,798
Personal	237,164	224,819
	404,328	413,420
Less: allowance for impaired loans and advances (Note 8.2)	(4,256)	(5,907)
Add: interest receivable, net	5,058	4,675
	405,130	412,188

8. CUSTOMERS' LOANS AND ADVANCES *(continued)*

8.2. Loans and Advances Impairment Analysis

Movement in allowance for loan losses is as follows: -

	2016 $	2015 $
Balance beginning of year	5,907,190	9,736,319
Bad debts written off	(7,967,689)	(8,963,204)
Increase in allowance	6,316,994	5,134,075
Balance end of year	4,256,495	5,907,190

The following is a sectoral analysis of the composition of the allowance for loan losses:

	2016 $	2015 $
Agriculture	8,907	13,042
Fisheries	0	32,410
Manufacturing	306,682	107,083
Construction and land development	21,287	319,342
Distribution trade	409,097	958,541
Tourism	838,755	86,309
Entertainment	31,272	262,083
Transportation	400,314	1,576,506
Professional and other services	0	75,644
Personal	343,787	1,292,507
General provisioning	1,896,394	1,183,723
	4,256,495	5,907,190

9. FINANCIAL INVESTMENTS

The Bank holds the following financial instruments:-

	Loans and Receivables $	Available-for-Sale $	Total $
At September 30, 2016			
- Securities at amortised cost	63,737,127	0	63,737,127
- Unquoted equity securities, at cost	0	1,312,938	1,312,938
	63,737,127	1,312,938	65,050,065
Securities at fair value:			
- quoted debt securities	0	37,248,234	37,248,234
- quoted equity securities	0	62,506,079	62,506,079
- other	0	12,635,449	12,635,449
	0	**112,389,762**	**112,389,762**
Interest receivable	1,202,015	394,010	1,596,025
Total Financial Investments	**64,939,142**	**114,096,710**	**179,035,852**

	Loans and Receivables $	Available-for-Sale $	Total $
At September 30, 2015			
- Securities at amortised cost	61,163,657	0	61,163,657
- Unquoted equity securities, at cost	0	1,312,941	1,312,941
	61,163,657	**1,312,941**	**62,476,598**
Securities at fair value:			
- quoted equity securities	0	979,000	979,000
	0	**979,000**	**979,000**
Interest receivable	622,091	0	622,091
Total Financial Investments	**61,785,748**	**2,291,941**	**64,077,689**

	2016 $'000's	2015 $'000's
Due within one year	162,750	44,916
Due after one year	14,690	18,540
	177,440	**63,456**

The weighted average effective interest rate on financial investments at 30 September 2016 was 4.48% (2015 – 5.25%).

10. PREMISES AND EQUIPMENT

	Freehold Land & Buildings $	Leasehold Improvements $	Furniture & Equipment $	Computer Equipment $	Motor Vehicles $	Work-in-Progress $	Total $
At October 1, 2014							
Cost or valuation	39,966,974	1,910,145	6,770,170	9,522,511	419,511	13,473	58,602,784
Accumulated depreciation	(4,904,381)	(868,170)	(3,685,046)	(6,745,215)	(299,544)	0	(16,502,356)
Net book amount	**35,062,593**	**1,041,975**	**3,085,124**	**2,777,296**	**119,967**	**13,473**	**42,100,428**
Year Ended September 30, 2015							
Opening net book amount	35,062,593	1,041,975	3,085,124	2,777,296	119,967	13,473	142,100,428
Additions	0	0	880,205	321,813	0	0	1,202,018
Transfers	0	0	13,473	0	0	(13,473)	0
Depreciation charge	(926,837)	(95,507)	(585,282)	(904,622)	(38,782)	0	(2,551,030)
Closing net book amount	**34,135,756**	**946,468**	**3,393,520**	**2,194,487**	**81,185**	**0**	**40,751,416**
At September 30, 2015							
Cost or valuation	39,966,974	1,910,145	7,662,810	9,826,354	419,511	0	59,785,794
Accumulated depreciation	(5,831,218)	(963,677)	(4,269,290)	(7,631,867)	(338,326)	0	(19,034,378)
Net book amount	**34,135,756**	**946,468**	**3,393,520**	**2,194,487**	**81,185**	**0**	**40,751,416**
Year Ended September 30, 2016							
Opening net book amount	34,135,756	946,468	3,393,520	2,194,487	81,185	0	40,751,416
Additions	1,392,536	0	475,156	484,319	278,657	158,888	2,789,556
Disposal	0	0	0	0	(150,600)	0	(150,600)
Depreciation charge	(926,838)	(95,507)	(657,813)	(748,744)	(80,331)	0	(2,509,233)
Depreciation write-back on disposals	0	0	0	0	150,599	0	150,599
Closing net book amount	**34,601,454**	**850,961**	**3,210,863**	**1,930,062**	**279,510**	**158,888**	**41,031,738**
At September 30, 2016							
Cost or valuation	41,359,510	1,910,145	8,137,966	10,310,673	547,568	158,888	62,424,750
Accumulated depreciation	(6,758,056)	(1,059,184)	(4,927,103)	(8,380,611)	(268,058)	0	(21,393,012)
Net book amount	**34,601,454**	**850,961**	**3,210,863**	**1,930,062**	**279,510**	**158,888**	**41,031,738**

Depreciation of $2,509,233 (2015: $2,551,030) was charged to the profit or loss before income tax.

Notes to the Financial Statements *(Continued)*

FOR THE YEAR ENDED 30TH SEPTEMBER, 2016

10. PREMISES AND EQUIPMENT *(continued)*

The Bank's premises were revalued, on an open market basis, on September 12, 2008, by Joseph John & Associates Ltd., an independent valuator.

11. DEFERRED TAX ASSET

Deferred income taxes are calculated in full on temporary differences, under the liability method using the statutory tax rate of 30% (2015: 30%), which is expected to be in force in the upcoming financial year.

As of reporting date, deferred tax asset comprises of temporary differences attributable to:

	2016 $	2015 $
Unutilised tax losses	143,986	778,727
Taxed provisions	568,918	0
Temporary differences on capital assets	(377,402)	(110,608)
	335,502	668,119

This balance includes the following:

	2016 $	2015 $
Deferred tax asset to be recovered after more than 12 months	335,502	668,119

The gross movement on the deferred income tax asset is as follows:

	2016 $	2015 $
Balance at beginning of year	668,119	1,108,590
Income statement release (Note 21)	(332,617)	(440,471)
Balance at end of year	335,502	668,119

12. CUSTOMERS' DEPOSITS

	2016 $	2015 $
Savings	307,324,630	288,575,232
Fixed deposit	204,174,871	199,039,297
Treasure chest	34,507,753	44,925,261
Chequing accounts	40,080,059	33,575,744
Current accounts	180,590,158	126,517,414
	766,677,471	692,632,948
Interest payable	1,921,203	2,884,684
	768,598,674	**695,517,632**

	2016 $	2015 $
Due within One Year	767,359,966	694,174,160
Due after One Year	1,238,708	1,343,472
	768,598,674	**695,517,632**

The weighted average effective interest rate of customers' deposits at September 30, 2016 was 1.30% (2015: 1.96%).

13. STATED CAPITAL

	2016 $	2015 $
Authorised Capital		
Unlimited ordinary voting shares with no par value	Unlimited	Unlimited
Issued Capital		
7,600,000 ordinary voting shares with no par value	24,871,739	24,871,739
	24,871,739	**24,871,739**

14. STATUTORY RESERVE

The Banking Act of 2005 under Sub-section 14 (1) requires that a minimum of 20% of net after tax profits in each year be transferred to a Statutory Reserve Fund until the balance of this fund is equal to the issued Share Capital. The reserve is not available for distribution as dividends or any form of appropriation.

During the year, the Bank appropriated $876,941 (2015: $537,530) of its profit to the statutory reserve.

Notes to the Financial Statements *(Continued)*

FOR THE YEAR ENDED 30TH SEPTEMBER, 2016

15. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Property Revaluation Surplus $	Net Un-realized Gains/Losses $	Total $
Balance at October 1, 2014	3,825,535	496,071	4,321,606
Net losses from change in fair value investment securities	0	0	0
Balance at September 30, 2015	3,825,535	496,071	4,321,606
Appreciation in fair value investment securities, net of tax	0	1,035,254	1,035,254
Balance at September 30, 2016	**3,825,535**	**1,531,325**	**5,356,860**

16. OTHER RESERVES

During the year, the Bank appropriated $109,470 (2015: $67,191) to other reserves. Also, $482,838 representing the excess of the allowance for impairment losses over the regulatory loss reserve was released to retained earnings.

The following summarises the movement on other reserves.

	Regulatory Loss Reserves $	Other General Reserves $	Total $
Balance at October 1, 2014	0	496,800	496,800
Increase in regulatory loss reserves	482,838	0	482,838
Transfer to general reserves	0	67,191	67,191
Balance at September 30, 2015	482,838	563,991	1,046,829
Decrease in regulatory loss reserves	(482,838)	0	(482,838)
Transfer to general reserves	0	109,470	109,470
Balance at September 30, 2016	**0**	**673,461**	**673,461**

17. INTEREST INCOME

	2016 $	2015 $
Income from loans and advances to customers	30,803,953	32,309,282
Income from deposits with other banks	108,751	159,216
	30,912,704	**32,468,498**

18. INTEREST EXPENSE

	2016 $	2015 $
Saving deposits	5,829,851	7,527,862
Other time deposits	3,663,204	5,182,231
Chequing accounts	1,554	1,992
	9,494,609	12,712,085

19. OTHER OPERATING INCOME

	2016 $	2015 $
Commissions and fees	10,336,420	10,189,160
Miscellaneous	919,994	871,948
Investment income (Note 19.1)	6,596,579	2,814,885
	17,852,993	13,875,993

19.1. Investment Income

	2016 $	2015 $
Interest income	4,971,264	2,722,558
Dividend income	1,117,442	92,327
Gains realised on sale of securities	507,873	0
	6,596,579	2,814,885

Notes to the Financial Statements *(Continued)*

FOR THE YEAR ENDED 30TH SEPTEMBER, 2016

20. OPERATING EXPENSES

The following summarises operating expenses by nature:

	2016 $	2015 $
Staff Costs:	11,772,795	10,580,829
Wages, salaries and NIS	959,775	851,323
Other staff costs	12,732,570	11,432,152
	6,614,977	6,083,883
Other operating expenses	2,509,233	2,551,030
Depreciation	481,818	438,256
Operating lease rentals	1,874,681	1,660,328
Advertising and promotion	124,886	129,158
Directors' fee	374,210	323,521
Professional fees	1,289,123	1,372,556
Utilities	1,600,533	938,855
Repairs and maintenance	27,602,031	24,929,739

As of reporting date, the Bank's staff compliment included 160 (2015: 157) full time employees.

21. INCOME TAX EXPENSE

	2016 $	2015 $
Current tax	634,741	440,471
Deferred tax (Note 11)	332,617	440,471
	967,358	880,942

Deferred tax for the year comprises: -

	2016 $	2015 $
Temporary differences on capital assets	185,404	0
Taxed provisions	(487,528)	0
Tax losses utilised	634,741	440,471
	332,617	440,471

21. INCOME TAX EXPENSE *(continued)*

The income tax charge differs from the amount computed by applying the tax statutes income tax rate, 30% (2015: 30%), to earnings before tax. The differences in the effective rate of tax are accounted for follows:-

	2016 $	%	2015 $	%
Profit before tax	5,352,063	100.00	3,568,592	100.00
Tax calculated at the statutory rate	1,605,619	30.00	1,070,578	30.00
Income not subject to taxation	(946,307)	(17.68)	(773,534)	(21.68)
Expenses not deductible for tax purposes	290,941	5.44	364,245	10.21
Depreciation on items not eligible for capital allowances	306,703	5.73	219,653	6.16
Understatement in prior year's deferred tax	(289,598)	(5.42)	0	0.00
Tax charge	967,358	18.07	880,942	24.69

Tax Losses

Tax losses which are available for off-set against future taxable income for income tax purposes are as follows:

Income year	Brought Forward $	Incurred (Utilised) $	Carried Forward $	Expiry Year
2013	2,595,758	(2,115,805)	479,953	2019

22. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to equity shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2016 $	2015 $
Profit attributable to ordinary shareholders	4,384,705	2,687,650
Weighted average number of ordinary shares in issue	7,600,000	7,600,000
	0.58	0.35

The Bank has no ordinary shares issued and outstanding which potentially would give rise to a dilution of the basic earnings per share. Therefore diluted earnings per share would be the same as basic earnings per share.

23. CONTINGENCIES AND COMMITMENTS

a) Legal Proceedings

As of reporting date, there were 6 legal proceedings outstanding against the Bank. Council has advised that it is unlikely that ruling will go against the Bank. As a result, no provision for damages is made as of reporting date. If, however, on final resolution of the matters, ruling goes against the Bank, any damages resulting there from will be charged to profit or loss at that time.

23. CONTINGENCIES AND COMMITMENTS *(continued)*

b) Undrawn Loan Commitments, Guarantees and Other Financial Facilities

As of reporting date, the Bank had contractual amounts of off-statement of financial position financial instruments that commit it to extend credit to customers, guarantees and other facilities as follows: -

	2016 $	2015 $
Undrawn loan commitments	43,694,360	25,431,892
Guarantees and standby letters of credit	3,556,090	2,886,784
	47,250,450	28,318,676

c) Operating Leasehold Commitments

As of reporting date, the Bank was committed to annual leasehold payments as follows:

	2016 $	2015 $
Under 1 year	362,419	425,013
1 to 5 years	734,703	1,034,695
	1,097,122	1,459,708

24. PENSION SCHEME

The Bank maintains a Defined Contribution Pension Plan into which the employer contributes 6.5% and employee contributes 5% of gross salary. The Bank contribution to the Plan in 2016 was $481,222 (2015: $462,879).

25. RELATED PARTY TRANSACTIONS

A number of banking transactions are entered into with related parties in the normal course of business. These include loans and deposits. These transactions were carried out on commercial terms and at market rates.

25. RELATED PARTY TRANSACTIONS *(continued)*

The following summarises transactions, in the ordinary course of business, with related parties: -

	2016 $	2015 $
Loans and Advances		
Directors and key management personnel (and their families)	6,616,804	7,206,573
Deposits and Other Liabilities		
Directors and key management personnel (and their families)	7,727,773	6,957,028
Interest Income		
Directors and key management personnel (and their families)	240,438	255,519
Interest Expenses		
Directors and key management personnel (and their families)	318,313	242,106
No provisions have been recognised in respect to loans given to related parties.		
Key Management Compensation		
Salaries and other short-term employee benefits	1,996,183	1,791,391
Directors' fees and expenses	124,886	129,158

26. SUBSEQUENT EVENT

On November 29, 2016, the Board proposed a dividend of $0.11 to shareholders of record as of September 30, 2016.

27. RESTATEMENT OF COMPARATIVE FIGURES

During the year, the Bank adopted new bases, with the view to improving the relevance, and reliability of its financial position, financial performance and cash flows, on which the 2016 financial statements were complied. To facilitate comparability with prior years, certain of the comparative financial line items were restated. The following summarises the effects on these financial statement items which were restated.

a) Cash and Balances with Central Bank and Other Banks

	$
As previously reported at September 30, 2014	131,951,532
Reclassification of amounts recorded as other liabilities	(1,308,773)
Balance as restated at September 30, 2014	**130,642,759**
As previously reported at September 30, 2015	208,924,065
Reclassification of amounts recorded as other assets	3,914,670
Reclassification of amounts recorded as other liabilities	(2,330,174)
Balance as restated at September 30, 2015	**210,508,561**

Notes to the Financial Statements *(Continued)*

FOR THE YEAR ENDED 30TH SEPTEMBER, 2016

27. RESTATEMENT OF COMPARATIVE FIGURES *(continued)*

b) Financial Investments

	$
As previously reported at September 30, 2014	49,828,819
Reclassification of amounts previously reported as other assets	285,569
Balance as restated at September 30, 2014	**50,114,388**
As previously reported at September 30, 2015	63,455,598
Reclassification of amounts previously reported as other assets	622,091
Balance as restated at September 30, 2015	**64,077,689**

c) Other Assets and Prepayments

	$
As previously reported as of September 30, 2014	13,670,196
Reclassified as financial investments	(285,569)
Balance as restated as of September 30, 2014	**13,384,627**
As previously reported as of September 30, 2015	23,446,359
Reclassified as cash and balance with Central Bank and Other Banks	(3,914,670)
Reclassified as financial investments	(622,091)
Balance as restated as of September 30, 2015	**18,909,598**

d) Trade and Other Payables

	$
As previously reported as of September 30, 2014	6,647,313
Reclassified to cash and balances with Central Bank and Other Banks	(1,308,773)
Balance as restated as of September 30, 2014	**5,338,540**
As previously reported as of September 30, 2015	9,755,632
Reclassified to cash and balance with Central Bank and Other Banks	(2,329,852)
Balance as restated as of September 30, 2015	**7,425,780**

27. RESTATEMENT OF COMPARATIVE FIGURES *(continued)*

e) Interest Income

	$
As previously reported at September 30, 2015	35,283,383
Reclassified to other income	(2,814,885)
Balance as restated as of September 30, 2015	**32,468,498**

f) Other Operating Income

	$
As previously reported at September 30, 2015	11,061,108
Reclassified from interest income	2,814,885
Balance as restated as of September 30, 2015	**13,875,993**

g) Investment Income

	$
As previously reported at September 30, 2015	0
Reclassified from interest income	2,814,885
Balance as restated as of September 30, 2015	**2,814,885**

Investment income is included in other operating income.