

Consolidated Financial Statements of
ANTIGUA COMMERCIAL BANK LTD.

September 30, 2017

(Expressed in Eastern Caribbean dollars)

ANTIGUA COMMERCIAL BANK LTD.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Antigua Commercial Bank Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Antigua Commercial Bank Ltd. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at September 30, 2017, the consolidated statements of income, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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



INDEPENDENT AUDITORS' REPORT *(cont'd)*

To the Shareholders of Antigua Commercial Bank Ltd.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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



INDEPENDENT AUDITORS' REPORT *(cont'd)*

To the Shareholders of Antigua Commercial Bank Ltd.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
(cont'd)

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

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

A handwritten signature in black ink that reads 'KPMG' in a stylized, cursive font.

Chartered Accountants
November 30, 2017
Antigua and Barbuda

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Financial Position

As at September 30, 2017
with comparative figures for 2016*(Expressed in Eastern Caribbean Dollars)*

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Assets			
Cash and balances with the Central Bank	8	\$ 238,303,738	193,344,086
Due from other banks	9	49,740,690	125,832,168
Treasury bills	10	96,728,323	82,384,881
Statutory deposit	11	5,845,549	5,764,514
Loans and advances	12	649,685,295	629,994,653
Other assets	13	22,128,051	17,624,897
Investment securities	14	65,887,957	54,900,038
Property and equipment	15	31,259,658	30,679,799
Pension asset	16	<u>8,251,792</u>	<u>7,922,682</u>
Total Assets		\$ <u>1,167,831,053</u>	<u>1,148,447,718</u>
Liabilities and Equity			
Liabilities			
Income tax payable	20	\$ 3,934,414	5,525,059
Deposits due to customers	17	938,846,249	937,036,500
Other liabilities and accrued expenses	18	17,585,201	15,230,919
Deferred tax liability	20	<u>4,907,819</u>	<u>4,222,690</u>
Total Liabilities		<u>965,273,683</u>	<u>962,015,168</u>
Equity			
Stated capital	22	36,000,000	36,000,000
Statutory reserve	23	20,768,281	18,013,557
Other reserves	24	39,577,518	36,843,494
Retained earnings		<u>106,211,571</u>	<u>95,575,499</u>
Total Equity		<u>202,557,370</u>	<u>186,432,550</u>
Total Liabilities and Equity		\$ <u>1,167,831,053</u>	<u>1,148,447,718</u>

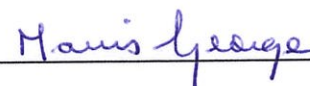
Approved for issue by the Board of Directors on November 30, 2017 and signed on its behalf by:



 _____ Chairman



 _____ Director



 _____ Director

The notes on pages 10 to 76 are an integral part of these consolidated financial statements.

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Income

For the year ended September 30, 2017
with comparative figures for 2016*(Expressed in Eastern Caribbean Dollars)*

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Interest income			
Income from loans and advances		\$ 45,936,514	46,711,577
Income from deposits with other banks and investments		<u>8,765,636</u>	<u>9,165,311</u>
		<u>54,702,150</u>	<u>55,876,888</u>
Interest expense			
Savings accounts		9,735,433	9,336,890
Time deposits and current accounts		6,763,488	8,829,960
Investment expenses		<u>36,520</u>	<u>22,007</u>
		<u>16,535,441</u>	<u>18,188,857</u>
Net interest income		38,166,709	37,688,031
Other operating income	25	<u>11,927,790</u>	<u>10,205,444</u>
Total income		<u>50,094,499</u>	<u>47,893,475</u>
Operating expenses			
General and administrative expenses	27	22,726,094	20,804,128
Gain on disposal of investments	14	-	(2,484,000)
Depreciation	15	2,183,116	1,915,528
Directors' fees and expenses	21	906,933	939,612
Recovery of loan impairment	12	(1,462,484)	(1,087,280)
Provision for impairment of investments	14	<u>789,822</u>	<u>252,419</u>
		<u>25,143,481</u>	<u>20,340,407</u>
Profit before tax		<u>24,951,018</u>	<u>27,553,068</u>
Taxation			
Current tax expense		3,955,873	5,561,537
Deferred tax expense/(credit)		<u>732,677</u>	<u>(272,140)</u>
	20	<u>4,688,550</u>	<u>5,289,397</u>
Profit for the year		\$ <u>20,262,468</u>	<u>22,263,671</u>
Earnings per share	26	\$ <u>2.03</u>	<u>2.23</u>

The notes on pages 10 to 76 are an integral part of these consolidated financial statements.

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended September 30, 2017
with comparative figures for 2016

(Expressed in Eastern Caribbean Dollars)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Profit for the year		\$ <u>20,262,468</u>	<u>22,263,671</u>
Other comprehensive income:			
<i>Items net of tax that are or may be reclassified to profit or loss in the future:</i>			
Transfer of revaluation reserve on available-for-sale investments to profit or loss on disposal of security, net of tax of \$621,000	24	-	(1,863,000)
Decrease in fair value of investment securities, net of tax of \$3,333 (2016: \$7,085)	24	<u>(5,000)</u>	<u>(14,216)</u>
		<u>(5,000)</u>	<u>(1,877,216)</u>
<i>Items net of tax that will never be reclassified subsequently to profit or loss:</i>			
Actuarial loss for the year, net of tax of \$44,215 (2016: \$508,045)	16	<u>(132,648)</u>	<u>(1,524,134)</u>
Other comprehensive loss for the year		<u>(137,648)</u>	<u>(3,401,350)</u>
Total comprehensive income for the year		\$ <u>20,124,820</u>	<u>18,862,321</u>

The notes on pages 10 to 76 are an integral part of these consolidated financial statements.

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Cash Flows

For the year ended September 30, 2017
with comparative figures for 2016

(Expressed in Eastern Caribbean Dollars)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities			
Profit for the year		\$ 20,262,468	22,263,671
Items not affecting cash:			
Recovery of loan impairment	12	(1,462,484)	(1,087,280)
Provision for impairment of investment securities	14	789,822	252,419
Depreciation	15	2,183,116	1,915,528
Loss on disposal of property and equipment		-	41,162
Gain on disposal of investments	14	-	(2,484,000)
Pension income	16	(139,244)	(263,709)
Interest income		(54,702,150)	(55,876,888)
Interest expense		16,535,441	18,188,857
Tax expense		<u>4,688,550</u>	<u>5,289,397</u>
Cash flows used in operating activities before changes in operating assets and liabilities		(11,844,481)	(11,760,843)
Change in statutory deposit		(81,035)	(312,945)
Change in other receivables and other assets		(5,652,990)	(10,386,218)
Change in loans and advances		(17,617,293)	(22,563,075)
Change in deposits due to customers		1,942,399	6,272,722
Change in other liabilities and accrued expenses		<u>2,354,282</u>	<u>3,171,136</u>
Cash flows used in operating activities before interest, taxes and pension contributions		(30,899,118)	(35,579,223)
Interest received		54,028,854	55,571,519
Interest paid		(16,668,091)	(18,617,970)
Taxes paid		(5,546,518)	(3,165,191)
Pension contributions paid		<u>(366,729)</u>	<u>(368,307)</u>
Net cash flows provided by/(used in) operating activities		<u>548,398</u>	<u>(2,159,172)</u>
Cash flows from investing activities			
Redemption of investment securities		35,159,009	77,633
Purchase of investment securities		(29,160,972)	(29,019,406)
Purchase of property and equipment	15	(2,762,975)	(3,060,587)
Disposal of equity securities	14	-	2,794,500
Net cash flows provided by/(used in) investing activities		<u>3,235,062</u>	<u>(29,207,860)</u>
Cash flows from financing activities			
Dividends paid	19	<u>(4,000,000)</u>	<u>(4,000,000)</u>
Net cash flows used in financing activities		<u>(4,000,000)</u>	<u>(4,000,000)</u>
Net decrease in cash and cash equivalents		(216,540)	(35,367,032)
Cash and cash equivalents, beginning of year		<u>263,987,071</u>	<u>299,354,103</u>
Cash and cash equivalents, end of year	28	\$ <u>263,770,531</u>	<u>263,987,071</u>

The notes on pages 10 to 76 are an integral part of these consolidated financial statements.

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Changes in Equity

For the year ended September 30, 2017
with comparative figures for 2016

(Expressed in Eastern Caribbean Dollars)

	<u>Notes</u>	<u>Stated capital</u>	<u>Statutory reserve</u>	<u>Revaluation reserve: available for sale investments</u>	<u>Capital reserve</u>	<u>Revaluation reserve: property</u>	<u>Pension reserve</u>	<u>Loan loss reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance, September 30, 2016		\$ 36,000,000	18,013,557	2,112,502	7,461,949	5,317,922	7,922,682	14,028,439	95,575,499	186,432,550
Profit for the year		-	-	-	-	-	-	-	20,262,468	20,262,468
Other comprehensive loss		-	-	(5,000)	-	-	-	-	(132,648)	(137,648)
Total comprehensive income		-	-	(5,000)	-	-	-	-	20,129,820	20,124,820
Transfer to reserve fund	23	-	2,754,724	-	-	-	-	-	(2,754,724)	-
Increase in reserve for loan loss	24	-	-	-	-	-	-	2,409,914	(2,409,914)	-
Increase in pension reserve	24	-	-	-	-	-	329,110	-	(329,110)	-
Transactions with owners										
Dividends paid	19	-	-	-	-	-	-	-	(4,000,000)	(4,000,000)
Balance, September 30, 2017		\$ <u>36,000,000</u>	<u>20,768,281</u>	<u>2,107,502</u>	<u>7,461,949</u>	<u>5,317,922</u>	<u>8,251,792</u>	<u>16,438,353</u>	<u>106,211,571</u>	<u>202,557,370</u>

The notes on pages 10 to 76 are an integral part of these consolidated financial statements.

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Changes in Equity (*cont'd*)

For the year ended September 30, 2017
with comparative figures for 2016

(Expressed in Eastern Caribbean Dollars)

	<u>Notes</u>	<u>Stated capital</u>	<u>Statutory reserve</u>	<u>Revaluation reserve: available for sale investments</u>	<u>Capital reserve</u>	<u>Revaluation reserve: property</u>	<u>Pension reserve</u>	<u>Loan loss reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance, September 30, 2015		\$ 36,000,000	14,727,544	3,989,718	7,461,949	5,317,922	9,322,844	15,706,774	79,043,478	171,570,229
Profit for the year		-	-	-	-	-	-	-	22,263,671	22,263,671
Other comprehensive loss		-	-	(1,877,216)	-	-	-	-	(1,524,134)	(3,401,350)
Total comprehensive income		-	-	(1,877,216)	-	-	-	-	20,739,537	18,862,321
Transfer to reserve fund	23	-	3,286,013	-	-	-	-	-	(3,286,013)	-
Decrease in reserve for loan loss	24	-	-	-	-	-	-	(1,678,335)	1,678,335	-
Decrease in pension reserve	24	-	-	-	-	-	(1,400,162)	-	1,400,162	-
Transactions with owners										
Dividends paid	19	-	-	-	-	-	-	-	(4,000,000)	(4,000,000)
Balance, September 30, 2016		\$ <u>36,000,000</u>	<u>18,013,557</u>	<u>2,112,502</u>	<u>7,461,949</u>	<u>5,317,922</u>	<u>7,922,682</u>	<u>14,028,439</u>	<u>95,575,499</u>	<u>186,432,550</u>

The notes on pages 10 to 76 are an integral part of these consolidated financial statements.

ANTIGUA COMMERCIAL BANK LTD.

Notes to Consolidated Financial Statements

September 30, 2017

(Expressed in Eastern Caribbean Dollars)

1. Nature of operations

The principal activity of Antigua Commercial Bank Ltd. and its subsidiaries (the "Group"), is the provision of commercial banking services. The Bank is licensed to carry on banking business in Antigua and Barbuda and is regulated by the Eastern Caribbean Central Bank in accordance with the Banking Act No. 10 of 2015 and the Eastern Caribbean Central Bank Act No. 10 of 1983.

2. General information and statement of compliance with IFRS

Antigua Commercial Bank Ltd. the Group's ultimate parent company is a limited liability company incorporated on October 19, 1955 in Antigua and Barbuda and continued under the provisions of the Antigua Companies Act 1995. The Group's registered office is located at St. Mary's and Thames Streets, St. John's, Antigua.

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

These consolidated financial statements were approved for issuance on November 30, 2017.

These consolidated financial statements are prepared on the historical cost basis except for available-for-sale quoted securities and land and buildings which are stated at fair value, and pension asset, which is stated at the fair value of plan assets less the present value of the defined benefit obligation.

3. Changes in accounting policies

3.1 Adoption of new or revised standards, amendments to standards and interpretations

The Group has adopted the following amendments to standards and new interpretations effective from October 1, 2016. Except as otherwise indicated, the adoption of these amendments to standards and interpretations did not have any significant impact on the Group's financial statements.

- IAS 1, *Presentation of Financial Statements*, has been amended to clarify or state the following:
 - specific single disclosures that are not material do not have to be presented even if they are minimum requirements of a standard;
 - the order of notes to the financial statements is not prescribed;
 - line items on the statement of financial position and the statement of profit or loss and other comprehensive income (OCI) should be disaggregated if this provides helpful information to users. Line items can be aggregated if they are not material;
 - specific criteria are now provided for presenting subtotals on the statement of financial position and in the statement of profit or loss and OCI, with additional reconciliation requirements for the statement of profit or loss and OCI; and
 - the presentation in the statement of OCI of items of OCI arising from joint ventures and associates accounted for using the equity method follows the IAS 1 approach of splitting items that may, or that will never, be reclassified to profit or loss.

ANTIGUA COMMERCIAL BANK LTD.

Notes to Consolidated Financial Statements

September 30, 2017

(Expressed in Eastern Caribbean Dollars)

3. Changes in accounting policies *(cont'd)*

3.1 Adoption of new or revised standards, amendments to standards and interpretations *(cont'd)*

- *Improvements to IFRS 2012-2014 cycle*, contain amendments to certain standards and interpretations. Below is the main amendment applicable to the Group:

IFRS 7, *Financial Instruments: Disclosures*, has been amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred assets in cases when they are derecognized in their entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset - e.g. if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred asset to the transferee is not, in itself, sufficient to be considered 'continuing involvement'.

3.2 Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after October 1, 2016. The Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

Effective January 1, 2017

- Amendments to IAS 7, *Disclosure Initiative* - The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities that form part of financing activities in the statement of cash flows.

- Amendments to IAS 12, *Recognition of Deferred Tax Assets for Unrealised Losses* - The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

The Group is assessing the potential impact on its financial statements resulting from the amendments. So far, the Group does not expect any significant impact.

ANTIGUA COMMERCIAL BANK LTD.

Notes to Consolidated Financial Statements

September 30, 2017

(Expressed in Eastern Caribbean Dollars)

3. Changes in accounting policies *(cont'd)*

3.2 Standards issued but not yet adopted *(cont'd)*

Effective January 1, 2018

- IFRS 15, *Revenue from Contracts with Customers*, replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions Involving Advertising Services*. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties.

The Group will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance.

There will be new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

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

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

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

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

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in a significant increase in the overall level of impairment allowances

ANTIGUA COMMERCIAL BANK LTD.

Notes to Consolidated Financial Statements

September 30, 2017

(Expressed in Eastern Caribbean Dollars)

3. Changes in accounting policies *(cont'd)*

3.2 Standards issued but not yet adopted *(cont'd)*

Effective January 1, 2019

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

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

Early adoption is permitted if IFRS 15, *Revenue from Contracts with Customers*, is also adopted.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

4. Summary of significant accounting policies

4.1 Overall considerations

The Consolidated Financial Statements have been prepared using the significant accounting policies and measurement bases summarised below.

4.2 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-mandatory deposits with the ECCB and other banks, treasury bills, and other short-term highly liquid instruments with original maturities of three months or less.

4.3 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs. Subsequent measurement of financial assets and financial liabilities is described below. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

ANTIGUA COMMERCIAL BANK LTD.

Notes to Consolidated Financial Statements

September 30, 2017

(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables;
- held-to-maturity (HTM) investments; and
- available-for-sale (AFS) financial assets.

All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within "interest income" and "interest expense", except for impairment of loans and advances which is presented separately in the statement of income.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, loans and advances, and some investment securities fall into this category of financial instruments.

(b) Held-to-maturity investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Group has the intention and ability to hold them until maturity. HTM investments are measured subsequently at amortised cost using the effective interest method. The Group currently does not have investments designated into this category.

(c) Available-for-sale financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Group's AFS financial assets include listed securities and debentures, and equity investments in various entities that are measured at cost less any impairment charges, where their fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the AFS reserve within equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss is reclassified from the equity reserve to profit or loss. Interest is calculated using the effective interest method and dividends are recognised in profit or loss under "other operating income".

AFS financial assets are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies (cont'd)

4.3 Financial instruments (cont'd)

Impairment of financial assets

(a) Assets carried at amortised cost

The Group 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 if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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 yet been incurred) discounted at the financial asset's original effective interest rate. The carrying amount is then reduced to the recoverable amount as at the reporting date. 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 Group may measure impairment on the basis of an instrument's fair value using an observable market price.

(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies (cont'd)

4.3 Financial instruments (cont'd)

Impairment of financial assets (cont'd)

(a) Assets carried at amortised cost (cont'd)

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 Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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 in the group and their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance 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. Impairment charges relating to loans and advances to banks and customers are classified in "loan impairment charges" whilst impairment charges relating to investment securities (loans and receivables categories) are classified in "provision for impairment of investment securities" in profit or loss.

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 profit or loss.

(b) Assets classified as available-for-sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss.

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(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

Impairment of financial assets *(cont'd)*

*(b) Assets classified as available-for-sale *(cont'd)**

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 profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through operating profit within the statement of income. Any subsequent changes in fair value are recognised in other comprehensive income.

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

(c) Renegotiated Loans

Loans that are either subject to collective impairment assessment or are 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 and disclosed only if renegotiated again.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include customers' deposits and other liabilities and accrued expenses. Financial liabilities are measured subsequently at amortised cost using the effective interest method. All interest-related charges are included within "interest expense" in the statement of income.

Classes of financial instruments

The Group classifies its financial instruments into classes that reflect the nature of the instrument and take into account the characteristics of those financial instruments. The classifications made can be seen in the table below:

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(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies (cont'd)

4.3 Financial instruments (cont'd)

Classes of financial instruments (cont'd)

Financial assets	Loans and receivables	Due from banks and other financial institutions		Deposits with the Central Bank	
				Correspondent bank accounts	
				Fixed deposits	
				Demand loans	
				Mortgage loans	
				Non-performing loans and advances	
				Rebate Loans	
				Overdrafts	
				Credit Card advances	
		Loans and advances to customers		Loans and advances to individuals	Demand Loans
					Mortgage loans
					Non-performing loans and advances
		Loans and advances to corporate entities		Loans and advances to government and statutory bodies	Overdrafts
					Demand Loans
		Investment securities		Treasury bills	Local and regional treasury bills
					Debt instruments
				Unquoted	
Other assets					
Available-for-sale financial assets		Investment securities	Debt instruments	Quoted	
				Unquoted	
		Equity securities	Quoted		
			Unquoted		
Financial liabilities	Other financial liabilities	Deposits due to customers			
		Other liabilities and accrued expenses			

Offsetting financial instruments

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

Income and expenses are presented on a net basis only when permitted under IFRS or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

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4.4 Provisions, contingent assets and contingent liabilities

Provisions for legal disputes or other claims are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

A provision for Group levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

Provisions are not recognised for future operating losses. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group is virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised. Such situations are disclosed as contingent liabilities unless the outflow of resource is remote.

4.5 Property and equipment and depreciation

Property and equipment are stated at historical cost or revalued amount, less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on the straight-line method at rates estimated to write down the cost or valuation of such assets to their residual values over their estimated useful lives, as follows:

Buildings	40 years
ATM buildings and building improvements	10 years
Car park	10 years
Furniture and fixtures	6 ² / ₃ years
Equipment	10 years
Motor vehicles	5 years
Computer hardware	5 years
Computer software	3 years

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(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies (cont'd)

4.5 Property and equipment and depreciation (cont'd)

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance are charged to profit or loss when the expenditure is incurred.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised within "other operating income" in profit or loss.

Revaluations of property and equipment are carried out every 3 to 5 years based on independent valuations.

4.6 Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. Impairment losses are recognised in profit or loss.

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.7 Dividends on ordinary shares and dividend income

Dividends on ordinary shares are recognised in equity in the period in which they are approved by shareholders. Dividends for the year which are approved after the reporting date are disclosed as a subsequent event (note 19).

Dividend income is recognised in "other operating income" in profit or loss when the entity's right to receive payment is established.

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Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies (cont'd)

4.8 Interest income and expense and revenue recognition

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

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

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

4.9 Fee and commission income and revenue recognition

Fees and commissions are generally recognised on the accrual basis when the service has been provided. Loan origination fees are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan.

Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the acquisition of shares or other securities, are recognised on completion of the underlying transaction.

4.10 Foreign currency translation

Functional and presentation currency

The Consolidated Financial Statements are presented in Eastern Caribbean Dollars, which is also the functional currency of the Group.

Foreign currency transactions and balances

Foreign currency transactions are translated into Eastern Caribbean Dollars using the closing rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the statement of income.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

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(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies (cont'd)

4.11 Post-employment benefits

The Group provides post-employment benefits through a defined benefit plan. Under this plan, the amount of pension benefit that an employee will receive on retirement is defined by reference to the employee's length of service and final salary. The legal obligation for any benefits remains with the Group, even if plan assets for funding the defined benefit plan have been set aside. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies.

The liability recognised in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the reporting date less the fair value of plan assets.

Management estimates the DBO annually with the assistance of independent actuaries. This is based on assumed rates of inflation, medical cost trends and mortality. It also takes into account the Group's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Service cost on the Group's defined benefit plan is included in employee benefits expense. Employee contributions, all of which are independent of the number of years of service, are treated as a reduction of service cost. Net interest expense on the net defined benefit liability is included in salaries and related costs in profit or loss. Actuarial gains and losses resulting from re-measurements of the net defined benefit liability are included in other comprehensive income.

4.12 Leased assets

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All of the Group's leases are treated as operating leases and the Group is a lessee. All payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

4.13 Repurchase agreements

Securities sold subject to repurchase agreements are included in loans and receivables. These securities are not secured by collateral. The counterparty liability is included in 'due under repurchase agreements' and is recorded at amortised cost. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

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4. Summary of significant accounting policies *(cont'd)*

4.14 Current and deferred income taxes

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current tax

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the Consolidated Financial Statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period in Antigua and Barbuda.

Deferred tax

Deferred income taxes are calculated on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided those rates are enacted or substantively enacted by the end of the reporting period

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilised against future taxable income. This is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority.

4.15 Other liabilities

Other liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Other liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

4.16 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or as incurred.

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4. Summary of significant accounting policies *(cont'd)*

4.17 Equity and reserves

Stated capital represents the issue price multiplied by the number of shares that have been issued. Any transaction costs associated with the issuing of shares are shown in equity as a deduction, net of any related income tax benefits.

Other components of equity include the following:

- Regulatory reserve for loan loss – additional provision as required by the Eastern Caribbean Central Bank and interest on loans not recognised for regulatory purposes
- Pension reserve – comprises a reserve equivalent to the calculated pension plan asset
- Revaluation reserve: property – comprises unrealised gains and losses from the revaluation of land and buildings
- Revaluation reserve for AFS financial assets – comprises unrealised gains and losses relating to these types of financial instruments
- Retained earnings – includes all current and prior period retained profits or losses

See note 24 for details on each component of other reserves.

5. Financial Instrument risk

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

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

Risk management is carried out by the Group's Asset and Liability Management Committee (ALCO) and Investment Committee under policies approved by the Board of Directors. The ALCO and Investment Committee identify, evaluate and hedge financial risks in close co-operation with the Group's operating departments. The Board provides guidance for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. In addition, Internal Audit is responsible for the independent review of risk management and the control environment. The risks arising from financial instruments to which the Group is exposed are credit risk, liquidity risk, market risk (which are discussed below) and other operational risk.

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5. Financial Instrument risk *(cont'd)*

5.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancements provided, such as financial guarantees and letters of credit. The Group is also exposed to other credit risks arising from investments in debt securities.

Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control including risk on debt securities, cash, loans and advances, credit cards and loan commitments are monitored by the ALCO and Investment Committees, which report to the Board of Directors regularly. Cash deposits with other banks and short-term investments are placed with reputable regional and international financial institutions and Governments.

5.1.1 Credit risk management

(a) *Loans and advances*

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of the counterparty. These have been developed based on the Eastern Caribbean Central Bank guidelines. Customers of the Group are segmented into five rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are reviewed and upgraded as necessary.

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

(b) *Debt securities and other bills*

The Group's portfolio of debt securities and other bills consists of St. Kitts and Nevis Government, St. Lucia Government and Antigua and Barbuda Government ninety-one day treasury bills, and other debt obligations by regional banking and non-banking financial institutions, all of which are unrated. The Group assesses the risk of default on these obligations by regularly monitoring the performance of the Governments through published government data, information received directly from government departments and information published by international agencies such as the International Monetary Fund (IMF) and the World Bank. The risk of default on regional corporate debt is assessed by continuous monitoring of the performance of these companies through published financial information, and other data gleaned from various sources.

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5. Financial Instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

5.1.1 Credit risk management *(cont'd)*

(c) Credit card receivables

The risk related to the Bank's credit card portfolio is significantly covered by the interest charged to customers at a rate of 19.5% per annum. Historically, the risk of loss has been on average less than 1% per annum over the past seven years. The portfolio is closely monitored by a third party and the Group on a daily basis to minimize the risk of default.

5.1.2 Risk limit control and mitigation policies

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

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

The exposure to any one borrower, including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposure. Actual exposures against limits are monitored on an ongoing basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. Lending limits are reviewed in light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

The following specific control and mitigation measures are also utilised:

(a) Collateral

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

- Mortgages over residential and commercial properties.
- Charges over business assets such as equipment, inventory and accounts receivable.
- Charges over financial instruments such as cash and short-term deposits.
- Government and personal guarantees.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities may be secured or unsecured. In addition, the Group seeks to proactively minimize credit loss by taking pledges of collateral from the counterparty as part of its general risk mitigation strategy.

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

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5. Financial Instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

5.1.2 Risk limit control and mitigation policies *(cont'd)*

(b) Financial guarantees (for credit related commitments and loan books)

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards (often referred to as financial covenants).

The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

5.1.3 Impairment and provisioning policies

The internal rating systems described in Note 5.1.1 focus more on credit quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the Consolidated Financial Statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

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

<u>Group's rating</u>	<u>Credit risk</u>	<u>2017</u>	<u>Credit risk</u>	<u>2016</u>
	<u>Exposure</u>	<u>Impairment allowance</u>	<u>exposure</u>	<u>Impairment allowance</u>
	(%)	(%)	(%)	(%)
Pass	26	7	20	5
Special mention	56	16	60	16
Sub-standard	17	47	18	47
Doubtful	1	21	2	23
Loss	0	9	0	9
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

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5. Financial Instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

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

The mortgage subsidiary company had, on average 86% of its loan portfolio at a pass rating for the financial year ended September 30, 2017 (2016: 85%).

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

- Delinquency in contractual payments of principal or interest
- Cash flow difficulties experienced by the borrower (eg. 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

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

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

	Maximum Exposure	
	2017	2016
Credit risk exposures relating to on-balance sheet assets		
Due from other banks	\$ 49,740,690	125,832,168
Treasury bills	96,728,323	82,384,881
Statutory deposits	5,845,549	5,764,514
<i>Loans and advances</i>		
Loans and advances to individuals:		
Overdrafts	8,882,930	5,521,063
Term loans	36,502,939	34,556,541
Mortgages	204,700,469	206,418,703
Loans and advances to corporate entities	399,598,957	383,498,346
<i>Investment securities</i>		
Loans and receivables- Debt securities	51,473,592	39,687,518
Other assets	<u>21,030,962</u>	<u>16,607,678</u>
	<u>874,504,411</u>	<u>900,271,412</u>
Credit risk exposures relating to off-balance sheet assets		
Loan commitments and other credit related obligations	\$ <u>38,053,415</u>	<u>18,198,064</u>
At September 30	\$ <u>912,557,826</u>	<u>918,469,476</u>

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5. Financial Instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

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

The above table represents a worse-case scenario of credit risk exposure to the Group at September 30, 2017 and 2016, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the separate statement of financial position.

As shown above, 74% of the total maximum exposure is derived from loans and advances to customers (2016: 70%); 6% represents investments in debt securities (2016: 5%).

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

- Business loans, which represents the biggest group in the portfolio, are backed by collateral; and
- 72% of loans and advances portfolio are considered to be neither past due nor impaired (2016: 71%).

5.1.5 Loans and advances

Loans and advances area summarised as follows:

	<u>2017</u>	<u>2016</u>
	<u>Loans and advances to customers</u>	<u>Loans and advances to customers</u>
Neither past due nor impaired	\$ 466,926,755	449,846,478
Past due but not impaired	132,300,497	123,100,644
Individually impaired	<u>53,700,436</u>	<u>63,637,703</u>
Gross	652,927,688	636,584,825
Interest receivable	16,291,798	15,680,934
Deferred interest income	(3,314,766)	(3,501,861)
Deferred fees	(2,070,185)	(2,288,840)
Less: allowance for impairment	<u>(14,149,240)</u>	<u>(16,480,405)</u>
Net	<u>649,685,295</u>	<u>629,994,653</u>
Allowance for impairment:		
Individually impaired	10,887,765	13,180,362
Portfolio allowance	<u>3,261,475</u>	<u>3,300,043</u>
	\$ <u>14,149,240</u>	<u>16,480,405</u>

The total impairment provision for loans and advances is \$14,149,240 (2016: \$16,480,405) of which \$10,887,765 (2016: \$13,180,362) represents the individually impaired loans and the remaining amount of \$3,261,475 (2016: \$3,300,043) represents the portfolio allowance. Further information about the impairment allowance for loans and advances to customers is provided in note 12.

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5. Financial Instrument risk (cont'd)

5.1 Credit risk (cont'd)

5.1.5 Loans and advances (cont'd)

(a) *Loans and advances neither past due nor impaired*

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

		Loans and advances to customers					
		Individual (retail customers)			Corporate entities		
		Overdrafts	Term Loans	Mortgages	Large Corporate Customers	SMEs	Total
September 30, 2017							
Grades							
Standard monitoring	\$	52,534,819	29,747,671	147,445,382	202,578,932	19,779,854	452,086,658
Special monitoring		<u>13,450,715</u>	<u>561,816</u>	<u>-</u>	<u>349,749</u>	<u>477,817</u>	<u>14,840,097</u>
	\$	<u>65,985,534</u>	<u>30,309,487</u>	<u>147,445,382</u>	<u>202,928,681</u>	<u>20,257,671</u>	<u>466,926,755</u>
September 30, 2016							
Grades							
Standard monitoring	\$	35,160,417	29,015,969	153,165,247	174,173,446	8,533,415	400,048,494
Special monitoring		<u>18,711,164</u>	<u>681,796</u>	<u>-</u>	<u>29,548,921</u>	<u>856,103</u>	<u>49,797,984</u>
	\$	<u>53,871,581</u>	<u>29,697,765</u>	<u>153,165,247</u>	<u>203,722,367</u>	<u>9,389,518</u>	<u>449,846,478</u>

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5. Financial Instrument risk (cont'd)

5.1 Credit risk (cont'd)

5.1.5 Loans and advances (cont'd)

(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances by class to customers that were past due but not impaired were as follows:

	<u>Individual (retail customers)</u>			<u>Corporate entities</u>		<u>Total</u>
	<u>Overdrafts</u>	<u>Term Loans</u>	<u>Mortgages</u>	<u>Large Corporate Customers</u>	<u>SMEs</u>	
September 30, 2017						
Past due up to 30 days	\$ -	1,609,164	26,285,475	2,469,888	1,735,536	32,100,063
Past due 31 – 60 days	-	253,601	8,763,065	6,130,451	441,453	15,588,570
Past due 61 – 90 days	-	495,902	9,277,260	12,822,509	3,463,030	26,058,701
Past due 90 days and over	<u>2,220,776</u>	<u>1,229,656</u>	<u>11,903,618</u>	<u>33,355,228</u>	<u>9,843,885</u>	<u>58,553,163</u>
Total	\$ <u>2,220,776</u>	<u>3,588,323</u>	<u>56,229,418</u>	<u>54,778,076</u>	<u>15,483,904</u>	<u>132,300,497</u>
September 30, 2016						
Past due up to 30 days	\$ -	2,109,026	20,531,750	2,816,709	2,254,945	27,712,430
Past due 31 – 60 days	-	616,926	3,945,990	10,096,629	1,303,135	15,962,680
Past due 61 – 90 days	-	549,093	14,606,684	17,609,114	3,333,856	36,098,747
Past due 90 days and over	<u>-</u>	<u>2,075,306</u>	<u>11,889,266</u>	<u>21,335,487</u>	<u>8,026,728</u>	<u>43,326,787</u>
Total	\$ <u>-</u>	<u>5,350,351</u>	<u>50,973,690</u>	<u>51,857,939</u>	<u>14,918,664</u>	<u>123,100,644</u>

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5. Financial Instrument risk (cont'd)

5.1 Credit risk (cont'd)

5.1.5 Loans and advances (cont'd)

(c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held amounts to \$53,700,436 (2016: \$63,637,703).

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

	<u>Individual (retail customers)</u>			<u>Corporate entities</u>			<u>Total</u>
	<u>Overdrafts</u>	<u>Credit Cards</u>	<u>Term Loans</u>	<u>Mortgages</u>	<u>Large Corporate Customers</u>	<u>SMEs</u>	
September 30, 2017							
Gross amount	\$ <u>1,933,352</u>	<u>1,584,087</u>	<u>1,208,387</u>	<u>728,803</u>	<u>35,623,195</u>	<u>12,622,612</u>	<u>53,700,436</u>
Amount provided	\$ <u>752,855</u>	<u>1,223,039</u>	<u>618,839</u>	<u>135,067</u>	<u>5,010,572</u>	<u>3,147,393</u>	<u>10,887,765</u>
September 30, 2016							
Gross amount	\$ <u>46,382</u>	<u>1,579,705</u>	<u>1,654,325</u>	<u>537,927</u>	<u>50,148,217</u>	<u>9,671,147</u>	<u>63,637,703</u>
Amount provided	\$ <u>45,795</u>	<u>1,223,039</u>	<u>616,153</u>	<u>101,833</u>	<u>9,650,315</u>	<u>1,543,227</u>	<u>13,180,362</u>

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5. Financial Instrument risk (cont'd)**5.1 Credit risk (cont'd)****5.1.5 Loans and advances (cont'd)***(d) Loans and advances individually impaired*

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

		<u>2017</u>	<u>2016</u>
Renegotiated loans and advances to individuals	\$	726,512	-
Renegotiated loans to corporations		<u>-</u>	<u>2,030,681</u>
	\$	<u>726,512</u>	<u>2,030,681</u>

5.1.6 Debt securities, treasury bill and other eligible bills

There is no formal rating of the credit quality of bonds, treasury bills and equity investments. A number of qualitative and quantitative factors are considered in assessing the risk associated with each investment. However, there is no hierarchy of ranking. There are no external ratings of securities at the year-end. The tables below presents an analysis of debt securities, treasury bills and other eligible bills at September 30, 2017 and 2016:

		<u>Treasury Bills</u>	<u>Available for sale</u>	<u>Loans and receivables</u>	<u>Total</u>
At September 30, 2017					
Unrated	\$	<u>96,728,323</u>	<u>14,414,365</u>	<u>51,473,592</u>	<u>162,616,280</u>
At September 30, 2016					
Unrated	\$	<u>82,384,881</u>	<u>15,212,520</u>	<u>39,687,518</u>	<u>137,284,919</u>

See note 14 for provision for impairment of investment securities.

5.1.7 Concentration of risk of financial assets with credit risk exposure*(a) Geographical concentration of assets and off-balance sheet items*

The Group's exposure to credit risk is concentrated as detailed below. Antigua and Barbuda is the home country of the Group where the predominant activity is commercial banking services.

As a major indigenous bank in Antigua and Barbuda, the Bank accounts for a significant share of credit exposure to many sectors of the economy. However, credit risk is spread over a diversity of personal and commercial customers.

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5. Financial Instrument risk (cont'd)

5.1 Credit risk (cont'd)

5.1.7 Concentration of risk of financial assets with credit risk exposure (cont'd)

(a) *Geographical concentration of assets and off-balance sheet item (cont'd)*

The following table analyses the Group's main credit exposures at their carrying amounts, without taking into account any collateral held or other credit support as categorised by geographical region. For all classes of assets, the Group has allocated exposure to regions based on the country of domicile of the counterparties.

	Antigua and Barbuda	Other Caribbean	Non- Caribbean	Total
2017:				
<i>Credit risk exposures relating to on-balance sheet assets:</i>				
Due from other banks	\$ 11,134,959	30,559,343	8,046,388	49,740,690
Statutory deposits	5,845,549	-	-	5,845,549
Treasury bills	23,275,866	73,452,457	-	96,728,323
 <i>Loans and Receivables</i>				
Debt Securities	51,204,199	-	269,393	51,473,592
Loans and advances	645,776,457	2,661,644	1,247,194	649,685,295
Other assets	<u>21,030,962</u>	<u>-</u>	<u>-</u>	<u>21,030,962</u>
	758,267,992	106,673,444	9,562,975	874,504,411
 <i>Credit risk exposures relating to off-balance sheet assets:</i>				
Loan commitments and other credit related facilities	<u>38,053,415</u>	<u>-</u>	<u>-</u>	<u>38,053,415</u>
September 30, 2017	\$ <u>796,321,407</u>	<u>106,673,444</u>	<u>9,562,975</u>	<u>912,557,826</u>

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*(Expressed in Eastern Caribbean Dollars)***5. Financial Instrument risk (cont'd)****5.1 Credit risk (cont'd)****5.1.7 Concentration of risk of financial assets with credit risk exposure (cont'd)***(a) Geographical concentration of assets and off-balance sheet item (cont'd)*

	<u>Antigua and Barbuda</u>	<u>Other Caribbean</u>	<u>Non- Caribbean</u>	<u>Total</u>
2016:				
<i>Credit risk exposures relating to on balance sheet assets:</i>				
Due from other banks \$	5,337,186	88,396,925	32,098,057	125,832,168
Statutory deposits	5,764,514	-	-	5,764,514
Treasury bills	14,421,089	67,963,792	-	82,384,881
<i>Loans and Receivables</i>				
Debt securities	39,418,125	-	269,393	39,687,518
Loans and advances	625,826,840	2,952,936	1,214,877	629,994,653
Other assets	<u>16,607,678</u>	<u>-</u>	<u>-</u>	<u>16,607,678</u>
	707,375,432	159,313,653	33,582,327	900,271,412
<i>Credit risk exposures relating to off balance sheet assets:</i>				
Loan commitments and other credit related facilities	<u>18,198,064</u>	<u>-</u>	<u>-</u>	<u>18,198,064</u>
September 30, 2016 \$	<u><u>725,573,496</u></u>	<u><u>159,313,653</u></u>	<u><u>33,582,327</u></u>	<u><u>918,469,476</u></u>

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5. Financial Instrument risk (cont'd)

5.1 Credit risk (cont'd)

5.1.7 Concentration of risk of financial assets with credit risk exposure (cont'd)

(b) *Industry risk concentration of assets and off-balance sheet items*

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

	Financial Institutions \$'000	Tourism \$'000	Real Estate \$'000	Wholesale and Retail Trade \$'000	Public Sector \$'000	Other Industries \$'000	Individuals \$'000	Total \$'000
Due from other banks	\$ 49,741	-	-	-	-	-	-	49,741
Treasury bills	-	-	-	-	96,728	-	-	96,728
Statutory deposits	-	-	-	-	5,846	-	-	5,846
Loans and advances to customers:								
<i>Loans to individuals:</i>								
- Overdrafts	-	-	-	-	-	-	8,883	8,883
- Term loans	-	-	-	-	-	-	36,503	36,503
- Mortgages	-	-	-	-	9,446	39,125	156,129	204,700
<i>Loans to corporate entities:</i>								
- Large corporate customers	143	46,214	37,681	114,164	117,924	83,473	-	399,599
<i>Investment securities:</i>								
- Debt securities	-	-	-	-	-	51,474	-	51,474
Other assets	-	-	-	-	-	21,031	-	21,031
As of September 30, 2017	49,884	46,214	37,681	114,164	229,944	195,103	201,515	874,505

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(Expressed in Eastern Caribbean Dollars)

5. Financial Instrument risk (cont'd)

5.1 Credit risk (cont'd)

5.1.7 Concentration of risk of financial assets with credit risk exposure (cont'd)

(c) *Industry risk concentration of assets and off-balance sheet items*

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

	Financial Institutions \$'000	Tourism \$'000	Real Estate \$'000	Wholesale and Retail Trade \$'000	Public Sector \$'000	Other Industries \$'000	Individuals \$'000	Total \$'000
Due from other banks	\$ 125,832	-	-	-	-	-	-	125,832
Statutory deposits	-	-	-	-	5,765	-	-	5,765
Treasury bills	-	-	-	-	82,385	-	-	82,385
Loans and advances to customers:								
<i>Loans to individuals:</i>								
- Overdrafts	-	-	-	-	-	-	5,521	5,521
- Term loans	-	-	-	-	-	-	34,557	34,557
- Mortgages	-	-	-	-	10,363	41,428	154,628	206,419
<i>Loans to corporate entities:</i>								
- Large corporate customers	356	41,810	42,275	119,128	110,281	69,648	-	383,498
<i>Investment securities:</i>								
- Debt securities	-	-	-	-	-	39,687	-	39,687
Other assets	-	-	-	-	-	16,608	-	16,608
As of September 30, 2016	<u>126,188</u>	<u>41,810</u>	<u>42,275</u>	<u>119,128</u>	<u>208,794</u>	<u>167,371</u>	<u>194,706</u>	<u>900,272</u>

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5. Financial Instrument risk (cont'd)

5.1 Credit risk (cont'd)

5.1.7 Concentration of risk of financial assets with credit risk exposure (cont'd)

(c) *Industry risk concentration of assets and off-balance sheet items, (cont'd)*

	Financial Institutions \$'000	Tourism \$'000	Real Estate \$'000	Wholesale and Retail Trade \$'000	Public Sector \$'000	Other Industries \$'000	Individuals \$'000	Total \$'000
Loan commitments and other credit related obligations	\$ -	475	-	19,276	7,413	3,621	7,268	38,053
As of September 30, 2017	\$ -	475	-	19,276	7,413	3,621	7,268	38,053
Loan commitments and other credit related obligations	\$ -	-	-	-	3,742	3,282	11,174	18,198
As of September 30, 2016	\$ -	-	-	-	3,742	3,282	11,174	18,198

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5. Financial Instrument risk (cont'd)

5.2 Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises 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 rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Non trading portfolio market risks primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolio market risks also include foreign exchange risks and risks associated with the change in equity prices arising from the Group's available-for-sale investment securities.

5.2.1 Price risk

The Group's investment portfolio includes securities that are quoted on the Eastern Caribbean Securities Exchange. The Group is exposed to equities price risk because of investments held and classified on the statement of financial position as available-for-sale. To manage this price risk arising from investments in equity securities, the Group diversifies its portfolio. The Group does not hold securities that are quoted on the world's major securities markets.

5.2.2 Interest rate risk

The Group advances loans and receives deposits as a part of its normal course of business from both related and third parties. The interest rates on loans generally reflect interest based on market rates. Investment securities and customer deposits generally attract fixed interest rates. The table below analyses the effective interest rates of each class of financial asset and financial liability:

	<u>2017</u>	<u>2016</u>
Loans and advances:		
Demand loans	8 - 13%	8 - 13%
Discount loans	11 - 22%	11 - 22%
Mortgage loans	8 - 12%	8 - 12%
Advances and overdrafts	8 - 12%	8 - 12%
Other	19.50%	19.50%
Investment securities:		
Government treasury bills & bonds	3.5 - 7%	3.8% - 6.30%
Other securities	1.75 - 9%	9%

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5. Financial Instrument risk (cont'd)

5.2 Market risk (cont'd)

5.2.2 Interest rate risk (cont'd)

	<u>2017</u>	<u>2016</u>
Deposits due to customers		
Demand deposits	0.0%	0.00%
Savings deposits	2.00%	2.0-3.5%
Time deposits	1.0-2.25%	2.0-2.5%
Other thrift, pension	2.0- 3.75%	2.0-5.5%

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of the financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise.

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

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5. Financial Instrument risk (cont'd)

5.2 Market risk (cont'd)

5.2.2 Interest rate risk (cont'd)

	<u>0 – 3 months</u>	<u>3 – 6 months</u>	<u>6 months - 1 year</u>	<u>1 – 3 years</u>	<u>3 - 5 years</u>	<u>Over 5 years</u>	<u>Non-interest bearing</u>	<u>Total</u>
As of September 30, 2017								
Assets								
Cash and balances with the Central Bank	\$ -	-	-	-	-	-	238,303,738	238,303,738
Statutory Deposits	-	-	-	-	-	-	5,845,549	5,845,549
Due from other banks	34,515,432	-	15,225,258	-	-	-	-	49,740,690
Treasury bills	73,571,282	-	23,157,041	-	-	-	-	96,728,323
<i>Investment securities:</i>								
- Debt securities	2,403,071	-	-	-	-	49,070,521	-	51,473,592
- Equity securities	-	-	-	-	-	-	14,414,365	14,414,365
Loans and advances	118,651,903	4,595,571	23,759,637	32,722,431	74,418,741	394,074,748	1,462,264	649,685,295
Other assets	-	-	-	-	-	-	21,030,962	21,030,962
Total financial assets	\$ 229,141,688	4,595,571	62,141,936	32,722,431	74,418,741	443,145,269	281,056,878	1,127,222,514
Liabilities								
Deposits due to customers	682,272,491	48,001,096	61,647,944	76,937,832	-	67,998,449	1,988,437	938,846,249
Other liabilities and accrued expense	420,548	-	-	-	1,264,355	-	15,900,298	17,585,201
Total financial liabilities	\$ 682,693,039	48,001,096	61,647,944	76,937,832	1,264,355	67,998,449	17,888,735	956,431,450
As of September 30, 2017	\$ (453,551,351)	(43,405,525)	493,992	(44,215,401)	73,154,386	375,146,820	263,168,143	170,791,064

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5. Financial Instrument risk (cont'd)

5.2 Market risk (cont'd)

5.2.2 Interest rate risk (cont'd)

	<u>0 – 3 months</u>	<u>3 – 6 months</u>	<u>6 months - 1 year</u>	<u>1 – 3 years</u>	<u>3 - 5 years</u>	<u>Over 5 years</u>	<u>Non-interest bearing</u>	<u>Total</u>
As of September 30, 2016								
Assets								
Cash and balances with the Central Bank	\$ -	-	-	-	-	-	193,344,086	193,344,086
Statutory deposits	-	-	-	-	-	-	5,764,514	5,764,514
Due from other banks	59,582,644	15,157,562	50,644,031	-	-	-	447,931	125,832,168
Treasury bills	63,326,114	-	19,058,767	-	-	-	-	82,384,881
<i>Investment securities:</i>								
- Debt securities	2,348,978	-	-	-	-	37,338,540	-	39,687,518
- Equity securities	-	-	-	-	-	-	15,212,520	15,212,520
Loans and advances	101,731,259	4,943,558	27,399,652	34,363,958	76,392,295	383,976,911	1,187,020	629,994,653
Other assets	-	-	-	-	-	-	16,607,678	16,607,678
Total financial assets	\$ <u>226,988,995</u>	<u>20,101,120</u>	<u>97,102,450</u>	<u>34,363,958</u>	<u>76,392,295</u>	<u>421,315,451</u>	<u>232,563,749</u>	<u>1,108,828,018</u>
Liabilities								
Deposits due to customers	\$ 633,712,576	64,168,088	76,809,995	96,383,727	-	64,338,958	1,623,156	937,036,500
Other liabilities and accrued expenses	357,602	-	-	-	1,131,583	-	13,741,734	15,230,919
Total financial liabilities	\$ <u>634,070,178</u>	<u>64,168,088</u>	<u>76,809,995</u>	<u>96,383,727</u>	<u>1,131,583</u>	<u>64,338,958</u>	<u>15,364,890</u>	<u>952,267,419</u>
Total interest repricing gap	\$ <u>(407,081,183)</u>	<u>(44,066,968)</u>	<u>20,292,455</u>	<u>(62,019,769)</u>	<u>75,260,712</u>	<u>356,976,493</u>	<u>217,198,859</u>	<u>156,560,599</u>

ANTIGUA COMMERCIAL BANK LTD.

Notes to Consolidated Financial Statements

September 30, 2017

(Expressed in Eastern Caribbean Dollars)

5. Financial Instrument risk (cont'd)

5.2 Market risk (cont'd)

5.2.3 Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Substantially all of the Group's transactions and assets and liabilities are denominated in Eastern Caribbean dollars or United States dollars. Therefore, the Group's exposure to currency risk is considered minimal.

The exchange rate of the Eastern Caribbean dollar (EC\$) to the United States dollar (US\$) has been formally pegged at EC\$2.7 = US\$1.00 since 1974. The table below summarises the Group's exposure to foreign currency exchange risk at September 30, 2017. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

ANTIGUA COMMERCIAL BANK LTD.

Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)

5. Financial Instrument risk (cont'd)

5.2 Market risk (cont'd)

5.2.3 Foreign exchange risk (cont'd)

		<u>XCD</u>	<u>USD</u>	<u>EUR</u>	<u>GBP</u>	<u>Others</u>	<u>Total</u>
As of September 30, 2017							
Assets							
Cash and balances with the Central Bank	\$	237,746,616	428,004	74,259	31,359	23,500	238,303,738
Statutory deposits		5,845,549	-	-	-	-	5,845,549
Deposits from other banks		41,941,848	7,634,372	20,759	76,033	67,678	49,740,690
Treasury bills		96,728,323	-	-	-	-	96,728,323
Investment securities:							
Available-for-sale (equity securities)		14,414,365	-	-	-	-	14,414,365
Loans and receivables – debt securities		51,204,199	269,393	-	-	-	51,473,592
Loans and advances		649,685,295	-	-	-	-	649,685,295
Other assets		21,030,962	-	-	-	-	21,030,962
Total financial assets	\$	1,118,597,157	8,331,769	95,018	107,392	91,178	1,127,222,514
Liabilities							
Deposits due to customers	\$	857,359,109	81,487,140	-	-	-	938,846,249
Other liabilities and accrued expenses		17,585,201	-	-	-	-	17,585,201
Total financial liabilities	\$	874,944,310	81,487,140	-	-	-	956,431,450
Net on-balance sheet position	\$	243,652,847	(73,155,371)	95,018	107,392	91,178	170,791,064

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Notes to Consolidated Financial Statements

September 30, 2017

(Expressed in Eastern Caribbean Dollars)

5. Financial Instrument risk (cont'd)

5.2 Market risk (cont'd)

5.2.3 Foreign exchange risk (cont'd)

		<u>XCD</u>	<u>USD</u>	<u>EUR</u>	<u>GBP</u>	<u>Others</u>	<u>Total</u>
As of September 30, 2016							
Assets							
Cash and balances with the Central Bank	\$	193,009,464	289,151	12,170	16,514	16,787	193,344,086
Statutory deposits		5,764,514	-	-	-	-	5,764,514
Deposits from other banks		93,716,458	31,668,130	21,917	186,914	238,749	125,832,168
Treasury bills		82,384,881	-	-	-	-	82,384,881
Investment securities:							
Available-for-sale (equity securities)		15,212,520	-	-	-	-	15,212,520
Loans and receivables – debt securities		39,418,125	269,393	-	-	-	39,687,518
Loans and advances		629,992,715	1,938	-	-	-	629,994,653
Other assets		<u>16,607,678</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,607,678</u>
Total financial assets	\$	<u>1,076,106,355</u>	<u>32,228,612</u>	<u>34,087</u>	<u>203,428</u>	<u>255,536</u>	<u>1,108,828,018</u>
Liabilities							
Deposits due to customers	\$	835,340,367	101,696,133	-	-	-	937,036,500
Other liabilities and accrued expenses		<u>15,230,919</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,230,919</u>
Total financial liabilities	\$	<u>850,571,286</u>	<u>101,696,133</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>952,267,419</u>
Net on-balance sheet position	\$	<u>225,535,069</u>	<u>(69,467,521)</u>	<u>34,087</u>	<u>203,428</u>	<u>255,536</u>	<u>156,560,599</u>

ANTIGUA COMMERCIAL BANK LTD.

Notes to Consolidated Financial Statements

For the year ended September 30, 2017

(Expressed in Eastern Caribbean Dollars)

5. Financial Instrument risk *(cont'd)*

5.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations associated with its financial liabilities when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

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

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Liquidity risk management process

The Group's liquidity risk management processes are carried out by the Group's senior management and monitored by the finance team and include the following:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in regional markets to enable this to happen;
- Maintaining the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting takes the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

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For the year ended September 30, 2017

(Expressed in Eastern Caribbean Dollars)

5. Financial Instrument risk *(cont'd)*

5.3 Liquidity risk *(cont'd)*

Funding approach

Sources of liquidity are regularly reviewed by management and the Board of Directors in order to maintain a wide diversification by currency, geography, provider, product and term.

Assets held for management of liquidity risk

The Group's assets held for managing liquidity risk comprise:

- Cash and balances with other banks;
- Unimpaired loans and advances;
- Certificates of deposit;
- Treasury and other eligible bills; and
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks.

In the normal course of business, a proportion of customers' loans contractually repayable in one year will be extended. In addition, debt securities and treasury and other eligible bills can be pledged to secure liabilities. The Group would also be able to meet unexpected net cash requirements by selling securities. The Group can also access alternative funds for short-term borrowing needs via the Inter-bank market, lines of credit with international banks and repurchase agreements.

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(Expressed in Eastern Caribbean Dollars)

5. Financial Instrument risk (cont'd)

5.3 Liquidity risk (cont'd)

Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by and payable to the Group with respect to non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages liquidity risk based on a different basis (see Liquidity risk management process), not resulting in a significantly different analysis.

		<u>0 – 3</u> <u>months</u>	<u>3 – 6</u> <u>months</u>	<u>6 – 12</u> <u>months</u>	<u>1 – 5</u> <u>years</u>	<u>Over</u> <u>5 years</u>	<u>Total</u>
As at September 30, 2017							
Liabilities							
Deposits due to customers	\$	683,528,143	48,364,505	62,293,785	77,716,935	67,998,449	939,901,817
Other liabilities and accrued expenses		<u>15,751,460</u>	<u>-</u>	<u>569,384</u>	<u>1,264,357</u>	<u>-</u>	<u>17,585,201</u>
Total liabilities (contractual maturity dates)	\$	<u>699,279,603</u>	<u>48,364,505</u>	<u>62,863,169</u>	<u>78,981,292</u>	<u>67,998,449</u>	<u>957,487,018</u>
Assets held for managing liquidity risk		<u>267,629,824</u>	<u>16,613,651</u>	<u>77,494,835</u>	<u>615,474,167</u>	<u>150,648,593</u>	<u>1,127,861,070</u>
As at September 30, 2016							
Liabilities							
Deposits due to customers	\$	634,890,805	65,253,893	78,015,778	97,338,914	64,338,958	939,838,348
Other liabilities and accrued expenses		<u>13,625,836</u>	<u>-</u>	<u>473,500</u>	<u>1,131,583</u>	<u>-</u>	<u>15,230,919</u>
Total liabilities (contractual maturity dates)	\$	<u>648,516,641</u>	<u>65,253,893</u>	<u>78,489,278</u>	<u>98,470,497</u>	<u>64,338,958</u>	<u>955,069,267</u>
Assets held for managing liquidity risk (contractual maturity dates)	\$	<u>278,506,836</u>	<u>18,783,880</u>	<u>69,812,220</u>	<u>476,862,256</u>	<u>152,634,796</u>	<u>996,599,988</u>

ANTIGUA COMMERCIAL BANK LTD.

Notes to Consolidated Financial Statements

For the year ended September 30, 2017

(Expressed in Eastern Caribbean Dollars)

5. Financial Instrument risk (cont'd)

5.4 Fair value

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

The table below summarises the carrying amounts and fair values of the Group's financial assets and liabilities:

	<u>Carrying value</u>		<u>Fair value</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Financial Assets				
Statutory deposits	\$ 5,845,549	5,764,514	5,845,549	5,764,514
Treasury bills	96,728,323	82,384,881	96,728,323	82,384,881
Due from other banks	49,740,690	125,832,168	49,740,690	125,832,168
Loans and advances	649,685,295	629,994,653	665,440,681	624,091,450
Investment securities	65,887,957	54,900,038	65,887,957	54,900,038
Other assets	<u>21,030,962</u>	<u>16,607,678</u>	<u>21,030,962</u>	<u>16,607,678</u>
	\$ <u>888,918,776</u>	<u>915,483,932</u>	<u>904,674,162</u>	<u>909,580,729</u>
Financial Liabilities				
Deposits due to customers	\$ 938,846,249	937,036,500	937,453,063	937,512,701
Other liabilities and accrued expenses	<u>17,585,201</u>	<u>15,230,919</u>	<u>17,585,201</u>	<u>15,230,919</u>
	\$ <u>956,431,450</u>	<u>952,267,419</u>	<u>955,038,264</u>	<u>952,743,620</u>

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

- *Short-term financial assets and liabilities*
The carrying value of these assets and liabilities is a reasonable estimate of their fair value because of the short maturity of these instruments. Short-term financial assets are comprised of cash resources and short term investments, fixed deposits, interest receivable, and other assets. Short-term financial liabilities are comprised of demand deposits, interest payable and certain other liabilities.
- *Loans and advances to customers*
Loans and advances are net of allowance for impairment. The estimated fair value of loans and advances represents 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. Except for the staff loans, the interest rates on all other loans reflect the market rates, hence the carrying values generally approximate the fair values.

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(Expressed in Eastern Caribbean Dollars)

5. Financial Instrument risk *(cont'd)*

5.4 Fair value *(cont'd)*

- *Deposits from banks and due to customers*
The estimated fair value of deposits with no stated maturity, which include non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed-interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The interest rates on these financial liabilities reflect the market interest rates, hence the carrying values generally approximate the fair values.

- *Investment securities*
The fair value for loans and receivables and held-to-maturity assets are based on market prices or broker/dealer price quotations. Where this information is not available, fair value is based on cost less any impairment recognised.

\$60 million (2016: \$49 million) of investment securities for which fair values cannot be reliably determined were stated at cost less impairment. All other available-for-sale assets are already measured and carried at fair value, less impairment, if any.

5.4.1 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; and unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes listed debt instruments listed on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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*(Expressed in Eastern Caribbean Dollars)***5. Financial Instrument risk (cont'd)****5.4 Fair value (cont'd)****5.4.1 Fair value hierarchy (cont'd)**

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

	<u>Level 2</u>	<u>Total</u>
As at September 30, 2017		
Financial assets		
Investment securities		
Available-for-sale investments – quoted	\$ <u>8,636,336</u>	<u>8,636,336</u>
Total assets	\$ <u>8,636,336</u>	<u>8,636,336</u>

	<u>Level 2</u>	<u>Total</u>
As at September 30, 2016		
Financial assets		
Investment securities		
Available-for-sale investments – quoted	\$ <u>9,459,491</u>	<u>9,459,491</u>
Total assets	\$ <u>9,459,491</u>	<u>9,459,491</u>

If the market price on the available-for-sale investment were to change by +/- 10%, the impact on other comprehensive income would be an increase of \$863,633 or a decrease of \$863,633.

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For the year ended September 30, 2017

*(Expressed in Eastern Caribbean Dollars)***5. Financial Instrument risk (cont'd)****5.4 Fair value (cont'd)****5.4.2 Financial instruments not measured at fair value**

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

September 30, 2017				Total fair	Total
\$'000	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>values</u>	<u>carrying</u>
Assets					
Cash and balance with the Central Bank	-	238,304	-	238,304	238,304
Due from other banks	-	49,741	-	49,741	49,741
Treasury bills	-	96,728	-	96,728	96,728
Loans and advances	-	665,441	-	665,441	649,685
Held-to-maturity investment securities	-	54,510	-	54,510	54,510
Liabilities					
Deposits due to customers	-	937,334	-	937,334	938,846

September 30, 2016				Total fair	Total
\$'000	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>values</u>	<u>carrying</u>
Assets					
Cash and balance with the Central Bank	-	193,344	-	193,344	193,344
Due from other banks	-	125,832	-	125,832	125,832
Treasury bills	-	82,385	-	82,385	82,385
Loans and advances	-	608,071	-	608,071	629,995
Held-to-maturity investment securities	-	42,799	-	42,799	42,799
Liabilities					
Deposits due to customers	-	937,513	-	937,513	937,037

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(Expressed in Eastern Caribbean Dollars)

5. Financial Instrument risk (cont'd)

5.5 Financial assets and liabilities by category

The table below analyses the Group's financial assets and liabilities by category.

As of September 30, 2017	<u>Loans and Receivables</u>	<u>Available- for-sale</u>	<u>Total</u>
Assets			
Due from banks and other financial institutions	\$ 314,502,396	-	314,502,396
Treasury bills	95,412,546	-	95,412,546
Loans and advances	638,778,448	-	638,778,448
Investment securities	50,510,406	14,414,365	64,924,771
Other financial assets	<u>21,030,962</u>	<u>-</u>	<u>21,030,962</u>
Total financial assets	\$ <u>1,120,234,758</u>	<u>14,414,365</u>	<u>1,134,649,123</u>
Liabilities			
Deposits due to customers	\$ 935,685,361		935,685,361
Other liabilities and accrued expenses	<u>4,855,441</u>		<u>4,855,441</u>
Total financial liabilities	\$ <u>940,540,802</u>	<u>940,540,802</u>	<u>940,540,802</u>
Financial Liabilities at amortised cost			
Total			
As of September 30, 2016			
Assets			
Due from banks and other financial institutions	\$ 324,200,898	-	324,200,898
Treasury bills	81,475,280	-	81,475,280
Loans and advances	620,104,420	-	620,104,420
Investment securities	38,799,177	15,212,520	54,011,697
Other financial assets	<u>16,607,678</u>	<u>-</u>	<u>16,607,678</u>
Total financial assets	\$ <u>1,081,187,453</u>	<u>15,212,520</u>	<u>1,096,399,973</u>
Liabilities			
Deposits due to customers	\$ 933,742,962		933,742,962
Other liabilities and accrued expenses	<u>1,664,138</u>		<u>1,664,138</u>
Total financial liabilities	\$ <u>935,407,100</u>	<u>935,407,100</u>	<u>935,407,100</u>
Financial Liabilities at amortised cost			
Total			

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6. Capital management policies and procedures

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

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

Capital adequacy and the use of regulatory capital are monitored quarterly by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and as implemented by the Group's management for supervisory purposes. The required information is filed with the Eastern Caribbean Central Bank (ECCB) quarterly.

The regulatory capital requirements are strictly observed when managing economic capital. The Group's regulatory capital is managed by senior management and comprises two tiers:

- Tier 1 capital: share capital (net of any book values of treasury shares), general bank reserves, statutory reserve, non-controlling interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill (if applicable) is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale.

Investments in associates (of which there are none) are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended September 30, 2017 and 2016. During those two years, the Group complied with all of the externally imposed capital requirements to which they are subject.

	<u>2017</u>	<u>2016</u>
Tier 1 capital		
Stated capital (net of treasury shares)	\$ 36,000,000	36,000,000
Statutory reserve	20,768,281	18,013,557
General banking and other reserves	7,461,949	7,461,949
Retained earnings	<u>106,211,571</u>	<u>95,575,499</u>
Total qualifying Tier 1 capital	\$ <u>170,441,801</u>	<u>157,051,005</u>
Tier 2 capital		
Revaluation reserve: available-for-sale investments	\$ 2,107,502	2,112,502
Reserves for loan loss	<u>16,438,353</u>	<u>14,028,439</u>
Total qualifying Tier 2 capital	\$ <u>18,545,855</u>	<u>16,140,941</u>
Total regulatory capital	\$ <u>188,987,656</u>	<u>173,191,946</u>

ANTIGUA COMMERCIAL BANK LTD.

Notes to Consolidated Financial Statements

For the year ended September 30, 2017

(Expressed in Eastern Caribbean Dollars)

6. Capital management policies and procedures *(cont'd)*

	<u>2017</u>	<u>2016</u>
Risk-weighted assets:		
On-balance sheet	\$ 626,746,000	611,075,000
Off-balance sheet	<u>38,053,415</u>	<u>18,198,064</u>
Total risk-weighted assets	<u>\$ 664,799,415</u>	<u>629,273,064</u>
Basel ratio	<u>28.4%</u>	<u>27.5%</u>
Mandatory minimum	<u>8%</u>	<u>8%</u>

Capital adequacy and the use of regulatory capital for the mortgage company are managed based on the following.

The Financial Institutions (Non-Banking) Act requires a reserve fund into which no less than ten per cent of the net profit of the institution after deduction of taxes shall be transferred each year until the amount standing to the credit of the reserve fund is equal at least to the paid up capital of that institution. There are no further capital and reserve requirements by the regulators and no external monitoring of the capital base is conducted. The subsidiary was compliant with these requirements as of September 30, 2017 and September 30, 2016.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

7. Significant management judgement in applying accounting policies and estimation uncertainty

The Group's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgements, which necessarily have to be made in the course of preparation of the financial statements.

Accounting policies and management's judgements for certain items are especially critical for the Group's results and financial situation due to their materiality.

Estimation uncertainty

(a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on an annual basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

To the extent that the net present value of estimated cash flows differs by +/-10%, the provision would be estimated \$3,520,828 lower or \$6,037,953 higher.

ANTIGUA COMMERCIAL BANK LTD.

Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)

7. Significant management judgement in applying accounting policies and estimation uncertainty (cont'd)

Estimation uncertainty (cont'd)

(b) Impairment on investment securities

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, for unquoted available-for-sale equity investments, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. Where observable impairment factors are identified, this may give rise to an uncertainty regarding the recoverability of the carrying value in the subsequent period and/or the eventual recoverability of the amounts invested in full. The Group recognized provision for impairment of available-for-sale equity investments during the year of \$789,822 (2016: \$252,419).

(c) Estimate of pension benefits

The present value of the pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of Government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 16.

8. Cash and balances with the Central Bank

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Cash on hand		\$ 8,518,272	6,427,950
Balances with the ECCB other than mandatory reserve deposits		<u>185,084,162</u>	<u>143,378,160</u>
Included in cash and cash equivalents	28	193,602,434	149,806,110
Mandatory reserve deposits with the ECCB		<u>44,701,304</u>	<u>43,537,976</u>
Total cash and balances with the Central Bank		\$ <u>238,303,738</u>	<u>193,344,086</u>

Commercial banks operating in member states of the Organization of the Eastern Caribbean States are required to maintain a reserve with the ECCB equivalent to 6% of their total deposit liabilities (excluding inter-bank deposits and foreign currencies). This reserve deposit is not available for use in the Group's day-to-day operations, and is non-interest bearing.

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*(Expressed in Eastern Caribbean Dollars)***9. Due from other banks**

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Term deposits and operating accounts with other banks with original maturities of 3 months or less	\$	16,343,328	58,404,942
Items in the course of collection from other banks		<u>4,364,316</u>	<u>3,967,950</u>
Included in cash and cash equivalents	28	20,707,644	62,372,892
Term deposits and operating accounts with other banks with original maturities greater than 3 months		28,725,258	62,719,406
Interest receivable		<u>307,788</u>	<u>739,870</u>
Total due from other banks		\$ <u>49,740,690</u>	<u>125,832,168</u>

10. Treasury bills

	<u>Note</u>	<u>Nominal Value 2017</u>	<u>Cost 2017</u>	<u>Nominal Value 2016</u>	<u>Cost 2016</u>
Treasury bills at amortised cost-OECS Government with original maturities of 3 months or less and interest rates ranging from 3.5% to 7%		\$ <u>49,700,000</u>	<u>49,191,060</u>	<u>52,200,000</u>	<u>51,538,676</u>
Included in cash and cash equivalents	28	49,700,000	49,191,060	52,200,000	51,538,676
Treasury bills at amortised cost-OECS Government with original maturities of 3 months or less and interest rates ranging from 5% to 6.34%		46,834,000	46,221,486	30,000,000	29,936,604
Interest receivable		<u>-</u>	<u>1,315,777</u>	<u>-</u>	<u>909,601</u>
Total treasury bills		\$ <u>96,534,000</u>	<u>96,728,323</u>	<u>82,200,000</u>	<u>82,384,881</u>

11. Statutory deposit

	<u>2017</u>	<u>2016</u>
Statutory reserve deposit with the Government of Antigua and Barbuda	\$ <u>5,845,549</u>	<u>5,764,514</u>

A subsidiary company has placed a statutory deposit with the Government of Antigua and Barbuda equivalent to 2½% of its deposit liabilities. The statutory reserve deposit is a statutory requirement as per section 17(a) of the Financial Institutions (Non-Banking) Act, 1985. This reserve is non-interest bearing and is not available for the Group's day-to-day operations.

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*(Expressed in Eastern Caribbean Dollars)***12. Loans and advances**

	<u>2017</u>	<u>2016</u>
Mortgage loans	\$ 309,777,149	287,656,034
Business loans	266,385,801	267,720,616
Personal loans	48,700,636	43,579,466
Bridging Loans	18,787,862	28,590,910
Staff loans	6,255,036	5,768,893
Credit card advances	1,584,087	1,579,705
Central Housing and planning Authority (CHAPA) loans	1,010,758	1,054,832
Directors' loans	<u>426,359</u>	<u>634,369</u>
	652,927,688	636,584,825
Less: Allowance for loan impairment	<u>(14,149,240)</u>	<u>(16,480,405)</u>
	638,778,448	620,104,420
Add:		
Interest receivable	16,291,799	15,680,934
Deferred interest income	(3,314,766)	(3,501,861)
Deferred fees	<u>(2,070,186)</u>	<u>(2,288,840)</u>
Total loans and advances	\$ <u>649,685,295</u>	<u>629,994,653</u>

Allowance for loan impairment

The movement in allowance for loan impairment is as follows:

Balance, beginning of year	\$ 16,480,405	17,567,685
Write-off of impaired loan balances	(868,681)	-
Recovery of loan impairment	<u>(1,462,484)</u>	<u>(1,087,280)</u>
Balance, end of year	\$ <u>14,149,240</u>	<u>16,480,405</u>

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to \$17,030,449 (2016: \$17,719,668) and the difference between this figure and the loan loss provision under IAS 39 has been set aside as a specific reserve through equity. The gross carrying value of impaired loans at the year-end was \$53,700,436 (2016: \$63,637,703). Interest receivable on loans that would not be recognised under ECCB guidelines amounted to \$13,557,144 (2016: \$12,789,176), and is also included in the specific regulatory reserve (note 24).

	<u>2017</u>	<u>2016</u>
Current	\$ 148,469,376	135,893,682
Non-current	<u>501,215,919</u>	<u>494,100,971</u>
	\$ <u>649,685,295</u>	<u>629,994,653</u>

ANTIGUA COMMERCIAL BANK LTD.

Notes to Consolidated Financial Statements

For the year ended September 30, 2017

*(Expressed in Eastern Caribbean Dollars)***13. Other assets**

	<u>2017</u>	<u>2016</u>
Depositor Protection Trust	\$ 12,756,511	14,366,254
Credit card receivables	8,148,912	2,155,970
Prepayments	1,097,089	1,016,308
Miscellaneous receivables	86,010	48,051
Suspense accounts	<u>39,529</u>	<u>38,314</u>
Total other assets	\$ <u>22,128,051</u>	<u>17,624,897</u>
Current	\$ <u>22,128,051</u>	<u>17,624,897</u>

The amounts classified as Depositor Protection Trust represent amounts formerly held on deposit with ABI Bank Ltd. which were previously classified as Due from Banks. The amounts are now held in a trust and will be repaid in line with an agreed payment schedule, scheduled to be completed by 2025 earning interest at a rate of 2% per annum.

14. Investment securities

	<u>2017</u>	<u>2016</u>
Available-for-sale - unquoted		
Equity securities	\$ <u>6,768,030</u>	<u>6,743,030</u>
Available-for-sale - quoted		
Equity securities	<u>9,426,158</u>	<u>9,459,491</u>
Loans and receivables		
Government securities	\$ 1,500,000	1,500,000
Corporate securities	<u>53,010,405</u>	<u>41,299,176</u>
Total loans and receivables	<u>54,510,405</u>	<u>42,799,176</u>
	\$ <u>70,704,593</u>	<u>59,001,697</u>
Allowance for impairment – available for sale unquoted	(990,000)	(990,000)
Allowance for impairment – available for sale quoted	(789,822)	-
Allowance for impairment – loans and receivables	<u>(4,000,000)</u>	<u>(4,000,000)</u>
Total allowance for impairment	\$ <u>(5,779,822)</u>	<u>(4,990,000)</u>
	\$ 64,924,771	54,011,697
Interest receivable	<u>963,186</u>	<u>888,341</u>
Total investment securities	\$ <u>65,887,957</u>	<u>54,900,038</u>

ANTIGUA COMMERCIAL BANK LTD.

Notes to Consolidated Financial Statements

For the year ended September 30, 2017

(Expressed in Eastern Caribbean Dollars)

14. Investment securities (cont'd)

The movement in investment securities may be summarised as follows:

	<u>2017</u>	<u>2016</u>
Available-for-sale		
Beginning of year	\$ 15,212,520	18,266,573
Disposals	-	(2,794,500)
Unrealised losses from changes in fair value	(688,873)	(125,191)
Impairment loss	<u>(109,282)</u>	<u>(134,362)</u>
End of year	\$ <u>14,414,365</u>	<u>15,212,520</u>

All available for sale securities are non-current.

Loans and receivables

Beginning of year	\$ 39,687,518	40,789,987
Additions	13,037,336	-
Disposals (sale and redemption)	<u>(1,251,262)</u>	<u>(1,102,469)</u>
	\$ <u>51,473,592</u>	<u>39,687,518</u>

All loans and receivables, except for the cash and cash equivalents, are non-current.

Loans and receivables include \$269,393 (2016: \$269,393) classified under cash and cash equivalents (note 28).

During the previous year, quoted equity securities with an original cost of \$310,500 were sold for \$2,794,500. A gain on disposal of \$2,484,000 was recorded.

The total impairment on investments for the year was \$789,822 (2016: \$252,419).

ANTIGUA COMMERCIAL BANK LTD.

Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)

15. Property and equipment

	Land	Buildings & building improvements	Furniture and fixtures	Equipment	Motor vehicles	Computer hardware	Computer software	Leasehold improvements	Work in progress	Total
At September 30, 2016										
Cost or valuation	\$ 8,880,000	14,166,342	5,555,274	10,383,119	677,444	13,027,051	8,146,079	170,187	2,706,310	63,711,806
Accumulated depreciation	-	(918,473)	(5,174,675)	(7,862,600)	(400,190)	(10,620,807)	(7,952,383)	(102,879)	-	(33,032,007)
Net book amount	<u>8,880,000</u>	<u>13,247,869</u>	<u>380,599</u>	<u>2,520,519</u>	<u>277,254</u>	<u>2,406,244</u>	<u>193,696</u>	<u>67,308</u>	<u>2,706,310</u>	<u>30,679,799</u>
Year ended September 30, 2017										
Opening net book amount	\$ 8,880,000	13,247,869	380,599	2,520,519	277,254	2,406,244	193,696	67,308	2,706,310	30,679,799
Additions	-	128,048	1,440	267,912	51,590	301,212	-	-	2,012,773	2,762,975
Disposals/adjustments	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation - disposal/adjustments	-	-	-	-	-	-	-	-	-	-
Transfers	-	1,217,055	262,839	-	-	122,531	-	-	(1,602,425)	-
Depreciation charge	-	(500,886)	(207,392)	(431,480)	(116,761)	(762,506)	(149,899)	(14,192)	-	(2,183,116)
Closing net book amount	<u>\$ 8,880,000</u>	<u>14,092,086</u>	<u>437,486</u>	<u>2,356,951</u>	<u>212,083</u>	<u>2,067,481</u>	<u>43,797</u>	<u>53,116</u>	<u>3,116,658</u>	<u>31,259,658</u>
At September 30, 2017										
Cost or valuation	\$ 8,880,000	15,511,445	5,819,553	10,651,031	729,034	13,450,794	8,146,079	170,187	3,116,658	66,474,781
Accumulated depreciation	-	(1,419,359)	(5,382,067)	(8,294,080)	(516,951)	(11,383,313)	(8,102,282)	(117,071)	-	(35,215,123)
Net book amount	<u>\$ 8,880,000</u>	<u>14,092,086</u>	<u>437,486</u>	<u>2,356,951</u>	<u>212,083</u>	<u>2,067,481</u>	<u>43,797</u>	<u>53,116</u>	<u>3,116,658</u>	<u>31,259,658</u>

ANTIGUA COMMERCIAL BANK LTD.

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(Expressed in Eastern Caribbean Dollars)

15. Property and equipment (cont'd)

		Buildings & building Land improvements	Furniture and fixtures	Equipment	Motor vehicles	Computer hardware	Computer software	Leasehold improvements	Work in progress	Total
At September 30, 2016										
Cost or valuation	\$ 8,880,000	14,078,093	5,395,418	9,170,959	677,444	10,763,037	8,076,288	174,460	3,476,682	60,692,381
Accumulated depreciation	-	(463,573)	(4,943,078)	(7,459,347)	(263,412)	(10,108,620)	(7,791,658)	(86,791)	-	(31,116,479)
Net book amount	8,880,000	13,614,520	452,340	1,711,612	414,032	654,417	284,630	87,669	3,476,682	29,575,902
Year ended September 30, 2017										
Opening net book amount	\$ 8,880,000	13,614,520	452,340	1,711,612	414,032	654,417	284,630	87,669	3,476,682	29,575,902
Additions	-	-	60,174	45,814	-	201,625	69,791	-	2,683,183	3,060,587
Disposals/adjustments	-	-	-	-	-	-	-	(53,207)	(16,232)	(69,439)
Accumulated depreciation - disposal/adjustments	-	-	-	-	-	-	-	28,277	-	28,277
Transfers	-	88,249	99,682	1,166,346-	-	2,062,389	-	20,657	(3,437,323)	-
Depreciation charge	-	(454,900)	(231,597)	(403,253)	(136,778)	(512,187)	(160,725)	(16,088)	-	(1,915,528)
Closing net book amount	\$ 8,880,000	13,247,869	380,599	2,520,519	277,254	2,406,244	193,696	67,308	2,706,310	30,679,799
At September 30, 2017										
Cost or valuation	\$ 8,880,000	14,166,342	5,555,274	10,383,119	677,444	13,027,051	8,146,079	170,187	2,706,310	63,711,806
Accumulated depreciation	-	(918,473)	(5,174,675)	(7,862,600)	(400,190)	(10,620,807)	(7,952,383)	(102,879)	-	(33,032,007)
Net book amount	\$ 8,880,000	13,247,869	380,599	2,520,519	277,254	2,406,244	193,696	67,308	2,706,310	30,679,799

ANTIGUA COMMERCIAL BANK LTD.

Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)**15. Property and equipment (cont'd)**

As of September 30, 2014, all of the Group's land and buildings and improvements were revalued based on the appraisal performed by an independent firm of professional appraisers. The revaluation resulted in an impairment loss amounting to \$5,234,360. The remaining revaluation surplus net of applicable deferred income taxes, is within 'other reserves' in shareholders' equity (note 24).

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of September 30, 2017.

		Land	Buildings	Total
Cost	\$	3,562,078	31,608,727	35,170,805
Accumulated depreciation		<u>-</u>	<u>(14,366,573)</u>	<u>(14,366,573)</u>
Net book value	\$	<u>3,562,078</u>	<u>17,242,154</u>	<u>20,804,232</u>

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of September 30, 2016.

		Land	Buildings	Total
Cost	\$	3,562,078	31,608,727	35,170,805
Accumulated depreciation		<u>-</u>	<u>(13,705,667)</u>	<u>(13,705,667)</u>
Net book value	\$	<u>3,562,078</u>	<u>17,903,060</u>	<u>21,465,138</u>

The following is the analysis of property and equipment revaluation (surplus)/impairment loss as of September 30, 2014.

		Land	Buildings	Total
Net book value	\$	3,562,078	19,284,360	22,846,438
Market value per independent valuation		<u>(8,880,000)</u>	<u>(14,050,000)</u>	<u>(22,930,000)</u>
Revaluation (surplus)/impairment loss	\$	<u>(5,317,922)</u>	<u>5,234,360</u>	<u>(83,562)</u>

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*(Expressed in Eastern Caribbean Dollars)***16. Pension plan**

Eligible employees are enrolled in a defined benefit pension scheme which commenced October 1, 1991. The assets of the plan are held in a seven member trustee administered fund. The Board of Trustees comprises four trustees appointed by the Board of Directors and three appointed by the employees. The funds of the scheme are invested solely under the control of the trustees and may be used only for the purposes of the scheme.

The Plan is valued every three years by an independent qualified actuary. The latest available valuation was performed at September 30, 2017 using the projected unit credit method. At September 30, 2017, the actuarial valuation showed that the Plan is overfunded with net assets available for benefits representing 101% of accrued projected plan benefits, and indicated a required contribution rate by the Group, for the next three years, of less than 5% of pensionable salaries.

In respect of the defined benefit plan operated by the Group, the amounts recognised in the statement of financial position are as follows:

	<u>2017</u>	<u>2016</u>
Pension plan asset		
Present value of funded obligations	\$ 16,433,180	15,667,965
Fair value of plan assets	<u>(24,684,972)</u>	<u>(23,590,647)</u>
Net asset – end of year	\$ <u>(8,251,792)</u>	<u>(7,922,682)</u>

The movement in the fair value of plan assets over the year are as follows:

	<u>2017</u>	<u>2016</u>
Fair value of plan assets – beginning of year	\$ 23,590,647	22,973,880
Contributions – employer and employees	738,266	741,398
Benefits paid	(558,716)	(487,694)
Plan administration expenses	(55,103)	(59,577)
Actuarial loss	(687,752)	(1,194,411)
Interest on plan assets	<u>1,657,630</u>	<u>1,617,051</u>
Fair value of plan assets – end of year	\$ <u>24,684,972</u>	<u>23,590,647</u>

The movement in the present value of funded obligations over the year are as follows:

	<u>2017</u>	<u>2016</u>
Present value of funded obligations – beginning of year	\$ 15,667,965	13,651,036
Current service cost	708,054	680,704
Interest cost	1,126,766	986,152
Benefits paid	(558,716)	(487,694)
Actuarial (gain)/loss	<u>(510,889)</u>	<u>837,767</u>
Present value of funded obligations – end of year	\$ <u>16,433,180</u>	<u>15,667,965</u>

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Notes to Consolidated Financial Statements

For the year ended September 30, 2017

(Expressed in Eastern Caribbean Dollars)**16. Pension plan (cont'd)**

The movements in the net asset recognized in the statement of financial position are as follows:

	<u>2017</u>	<u>2016</u>
Net asset – beginning of year	\$ (7,922,682)	(9,322,844)
Net pension income included in the statement of income	(139,244)	(263,709)
Actuarial losses included in other comprehensive income	176,863	2,032,178
Contributions paid - employer	<u>(366,729)</u>	<u>(368,307)</u>
Net asset – end of year	\$ <u>(8,251,792)</u>	<u>(7,922,682)</u>

The amounts recognized in the statement of income are as follows:

	<u>2017</u>	<u>2016</u>
Current service cost	\$ 336,516	307,612
Net interest income on the net defined benefit asset	(530,863)	(630,898)
Plan administration expenses	<u>55,103</u>	<u>59,577</u>
Net gain recognized in the statement of income	\$ <u>(139,244)</u>	<u>(263,709)</u>

The amounts recognized in other comprehensive income are as follows:

	<u>2017</u>	<u>2016</u>
Actuarial (gain)/loss for the year – obligation	\$ (510,889)	837,767
Actuarial loss for the year – plan assets	<u>687,752</u>	<u>1,194,411</u>
Actuarial loss recognized in other comprehensive income	\$ <u>176,863</u>	<u>2,032,178</u>

The major categories of plan assets as a percentage of total plan assets are as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	53%	44%
Debt securities	9%	15%
Equity securities	20%	23%
Property	18%	18%

The pension plan assets include ordinary shares issued by the Bank with a value of \$75,852 (2016: \$75,852). Plan assets include deposits held with the Bank with a fair value of \$3,960,073 (2016: \$6,300,488).

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Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)

16. Pension plan (cont'd)

Amounts for the current period and previous four periods are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Defined benefit obligation \$	16,433,180	15,667,965	13,651,036	13,544,517	13,380,298
Plan assets	<u>(24,684,972)</u>	<u>(23,590,647)</u>	<u>(22,973,880)</u>	<u>(22,244,699)</u>	<u>(20,830,425)</u>
Surplus	\$ (8,251,792)	(7,922,682)	(9,322,844)	(8,700,182)	(7,450,127)

Principal actuarial assumptions used for accounting purposes were as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	7.0%	7.0%
Future promotional salary increases	3.5%	4.0%
Future pension increases	-	-
Future changes in Social Security ceiling	-	-

Contributions to the pension scheme for the year ended September 30, 2017 amounted to \$366,729, being Antigua Commercial Bank Ltd: \$320,438; ACB Mortgage & Trust Limited: \$46,291 (2016: \$368,307, being Antigua Commercial Bank Ltd.: \$322,429; ACB Mortgage & Trust Limited: \$45,878). The Bank's contributions are adjusted according to the actuary's recommendations. Contributions expected to be paid to the plan for the subsequent period are budgeted at \$426,708, being ACB Mortgage and Trust Company Limited: \$48,100; ACB Mortgage & Trust Limited: \$378,608.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

		2017	
		Impact on defined benefit obligation	
Change in assumption		Increase in assumption	Decrease in assumption
Discount rate	1%	\$ (2,046,235)	2,590,270
Salary growth rate	1%	928,150	(822,003)
Life expectancy	1 year	280,701	-

		2016	
		Impact on defined benefit obligation	
Change in assumption		Increase in assumption	Decrease in assumption
Discount rate	1%	\$ (2,042,183)	2,575,207
Salary growth rate	1%	952,961	(843,276)
Life expectancy	1 year	278,027	-

The duration of the benefit obligation is 14.1 years (2016: 14.6 years).

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

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(Expressed in Eastern Caribbean Dollars)

16. Pension plan (cont'd)

When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the year) has been applied as when calculating the pension plan liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

17. Deposits due to customers

	<u>2017</u>	<u>2016</u>
Savings accounts	\$ 448,098,513	418,222,212
Time deposits	253,392,495	279,545,657
Current accounts	198,858,528	200,171,776
Other deposits	<u>35,335,825</u>	<u>35,803,317</u>
	935,685,361	933,742,962
Interest payable	<u>3,160,888</u>	<u>3,293,538</u>
Total deposits due to customers	\$ <u>938,846,249</u>	<u>937,036,500</u>
Current	\$ 793,909,969	776,313,815
Non-current	<u>144,936,280</u>	<u>160,722,685</u>
	\$ <u>938,846,249</u>	<u>937,036,500</u>

18. Other liabilities and accrued expenses

	<u>2017</u>	<u>2016</u>
Trade payables and accrued expenses	\$ 11,181,993	11,971,372
Manager's cheques	4,855,441	1,664,138
Escrow accounts	1,264,357	1,131,584
Other sundry payables	<u>283,410</u>	<u>463,825</u>
Total other liabilities and accrued expenses	\$ <u>17,585,201</u>	<u>15,230,919</u>
Current	\$ 16,320,846	14,099,335
Non-current	<u>1,264,355</u>	<u>1,131,584</u>
	\$ <u>17,585,201</u>	<u>15,230,919</u>

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19. Dividends

During the year, a dividend in respect of the 2016 financial year end of \$4,000,000 was recorded and paid (2016: \$4,000,000 in respect of the 2015 financial year).

The dividend proposed in respect of the 2017 financial year end is \$0.40 for each unit of paid up share capital, or EC\$4,000,000 (2016: \$0.40 or EC\$4,000,000). The consolidated financial statements for the year ended September 30, 2017 do not reflect this proposed dividend which, if ratified, will be accounted for in equity as an appropriation of retained earnings in the year ending September 30, 2018.

20. Taxation**Income tax payable**

	<u>2017</u>	<u>2016</u>
Income tax payable, beginning of year	\$ 5,525,059	3,128,713
Current tax expense	3,955,040	5,552,581
Withholding tax	833	8,956
Payments made during the year	<u>(5,546,518)</u>	<u>(3,165,191)</u>
Income tax payable, end of year	\$ <u>3,934,414</u>	<u>5,525,059</u>

Income tax expense

	<u>2017</u>	<u>2016</u>
Profit before tax	\$ <u>24,951,018</u>	<u>27,553,068</u>
Income tax expense at statutory rates	\$ 6,248,138	6,940,047
Effect of interest income not subject to tax	(1,168,400)	(1,154,092)
Effect of dividend income not subject to tax	(599,932)	(569,765)
Effect of other permanent differences	204,036	68,499
Others	<u>4,708</u>	<u>4,708</u>
Actual income tax expense	\$ <u>4,688,550</u>	<u>5,289,397</u>

The statutory tax rate for Antigua Commercial Bank is 25% (2016: 25%) and for ACB Mortgage and Trust is 20% (2016: 20%).

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20. Taxation (cont'd)**Deferred tax liability (asset), net**

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 4,222,690	5,616,790
Charge/(Credit) for the year	732,677	(272,140)
Movement on revaluation of available for sale securities	(3,333)	7,085
Movement on disposal of available-for-sale securities	-	(621,000)
Actuarial loss	<u>(44,215)</u>	<u>(508,045)</u>
Balance, end of year	\$ <u>4,907,819</u>	<u>4,222,690</u>

The components of the deferred tax liability (net of deferred tax assets) are as follows:

	<u>2017</u>	<u>2016</u>
Statutory loan loss reserve	\$ 3,917,696	3,387,419
Deferred tax on revaluation of available-for-sale securities	700,835	704,168
Pension asset	2,062,948	1,980,671
Deferred commission	(452,098)	(534,819)
Decelerated capital allowances	<u>(1,321,562)</u>	<u>(1,314,749)</u>
Balance, end of year	\$ <u>4,907,819</u>	<u>4,222,690</u>

The income tax payable does not represent amounts agreed with the tax authority. The amount is reflective of the Group's position concerning its tax balance with the Inland Revenue Department (IRD) on the basis of its records. However, as the Group's tax return for the year of assessment 2018 has not been finalised with the IRD, there is uncertainty as to the eventual liability. Additionally, the following still remains in dispute. A credit balance of \$2,573,846 was available as per Inland Revenue Department correspondence dated September 14, 2006. However, the balance as per the Bank's separate audited financial statements as of September 30, 2004 was \$3,708,771 resulting in a difference of \$1,134,925, which to date has not been agreed with the Inland Revenue Department.

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(Expressed in Eastern Caribbean Dollars)

21. Related party balances and transactions

Related party definition

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

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

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

A number of banking transactions were entered into with related parties in the normal course of business. These include loans, deposits and other transactions. With the exception of the amounts due to subsidiary, these transactions were carried out on commercial terms and at market rates.

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Notes to Consolidated Financial Statements

For the year ended September 30, 2017

(Expressed in Eastern Caribbean Dollars)**21. Related party balances and transactions (cont'd)**

The volumes of related party transactions, outstanding balances at the year end and related expenses and income for the year are as follows:

	<u>2017</u>	<u>2016</u>
Loans to directors and key members of management		
Loans outstanding at beginning of year	\$ 3,956,883	2,737,100
Loans issued during the year	286,304	2,233,691
Loan repayments during the year	<u>(339,833)</u>	<u>(1,013,908)</u>
Loans outstanding at end of year	\$ <u>3,903,354</u>	<u>3,956,883</u>

No provisions have been recognised in respect of loans given to related parties (2016: nil).

Interest income earned on directors' and key members of management's loans and advances during the year is \$318,095 (2016: \$1,053,044). The interest rates on these loans range from 7% to 11.5% (2016: 7% to 11.5%) and they are granted on an arm's length basis.

	<u>2017</u>	<u>2016</u>
Deposits by directors and key members of management		
Deposits at beginning of year	\$ 4,754,820	5,900,518
Deposits received during the year	4,871,625	8,353,951
Deposits repaid/reclassified during the year	(3,870,852)	(9,499,649)
Change in status	<u>546,327</u>	<u>-</u>
Deposits at end of year	\$ <u>6,301,920</u>	<u>4,754,820</u>

Interest expense paid on directors' and key members of management's deposits during the year is \$103,632 (2016: \$161,777). Interest rates on directors' deposits range from 2% to 4% (2016: 2% to 4%) and they are accepted on an arm's length basis.

Remuneration of key management personnel

During the year, salaries and related benefits were paid to key members of management allocated as follows:

	<u>2017</u>	<u>2016</u>
Salaries and wages	\$ 834,120	824,734
Other staff costs	174,668	214,420
Pension costs	<u>23,706</u>	<u>22,769</u>
	\$ <u>1,032,494</u>	<u>1,061,923</u>

The Group also incurred directors' fees and expenses amounting to \$906,933 (2016: \$939,612).

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*(Expressed in Eastern Caribbean Dollars)***22. Stated capital**

	<u>2017</u>	<u>2016</u>
Authorised share capital:		
150,000,000 shares at nil par value	\$ <u>150,000,000</u>	<u>150,000,000</u>
Issued and fully paid:		
10,000,000 shares at nil par value	\$ <u>36,000,000</u>	<u>36,000,000</u>

23. Statutory reserve

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 18,013,557	14,727,544
Transfer from profit after taxation	<u>2,754,724</u>	<u>3,286,013</u>
Balance at end of year	\$ <u>20,768,281</u>	<u>18,013,557</u>

Section 45 of the Antigua and Barbuda Banking Act No. 10 of 2015 provides that not less than 20% of each year's net earnings shall be set aside to a reserve fund whenever the fund is less than the paid-up capital of the Group.

24. Other reserves

	<u>2017</u>	<u>2016</u>
Capital reserve	\$ 7,461,949	7,461,949
Regulatory reserve for loan loss and interest recognised	16,438,353	14,028,439
Revaluation reserve – available-for-sale securities	2,107,502	2,112,502
Revaluation reserve – property	5,317,922	5,317,922
Pension reserve	<u>8,251,792</u>	<u>7,922,682</u>
Total other reserves	\$ <u>39,577,518</u>	<u>36,843,494</u>

(a) Capital reserve

Included in this balance is an amount of \$6,171,428 recorded in prior years for share premium recognised.

(b) Regulatory reserve for loan loss and interest recognised.

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 14,028,439	15,706,774
Increase/(Decrease) in reserve for regulatory purposes	<u>2,409,914</u>	<u>(1,678,335)</u>
Balance at end of year	\$ <u>16,438,353</u>	<u>14,028,439</u>

This reserve represents the additional loan loss provision required by the Eastern Caribbean Central Bank's prudential guidelines as compared to the provision measured in accordance with International Financial Reporting Standards, together with a reserve for interest on loans not recognised for regulatory purposes.

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Notes to Consolidated Financial Statements

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(Expressed in Eastern Caribbean Dollars)**24. Other reserves (cont'd)***(c) Revaluation reserve for available-for-sale securities*

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 2,112,502	3,989,718
Transfer on disposal of securities, net of tax of \$621,000	-	(1,863,000)
Decrease in market value of investment securities, net of tax of \$3,333 (2016: \$7,085)	<u>(5,000)</u>	<u>(14,216)</u>
Balance at end of year	\$ <u>2,107,502</u>	<u>2,112,502</u>

Certain available-for-sale securities are stated at market value with the unrealised gains (losses) reflected in equity until realised.

(d) Revaluation reserve - Property

	<u>2017</u>	<u>2016</u>
Balance at beginning and end of year	\$ <u>5,317,922</u>	<u>5,317,922</u>

A revaluation of land and buildings was conducted in 2014 (note 15).

(e) Pension reserve

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 7,922,682	9,322,844
Increase/(Decrease) in pension reserve	<u>329,110</u>	<u>(1,400,162)</u>
Balance at end of year	\$ <u>8,251,792</u>	<u>7,922,682</u>

The Board of Directors has decided to appropriate annually out of net profits the amounts necessary to maintain a pension reserve equivalent to the pension asset.

25. Other operating income

	<u>2017</u>	<u>2016</u>
Fees and commissions	\$ 7,131,533	5,186,573
Foreign exchange	3,843,827	4,279,461
Dividend income	402,924	282,259
Rental income	101,100	101,100
Recovery of loans written off	184,581	88,340
Miscellaneous income	<u>263,825</u>	<u>267,711</u>
Total other operating income	\$ <u>11,927,790</u>	<u>10,205,444</u>

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26. Earnings per share

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

	<u>2017</u>	<u>2016</u>
Net profit attributable to shareholders	\$ 20,262,468	22,263,671
Weighted average number of ordinary shares in issue	<u>10,000,000</u>	<u>10,000,000</u>
Basic and diluted earnings per share	\$ <u>2.03</u>	<u>2.23</u>

27. General and administrative expenses

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Salaries and related costs	29	\$ 12,684,650	11,228,798
Software operating expenses		930,573	990,332
Utilities		799,258	891,329
Telephone and data charges		784,372	368,418
Advertising and promotion		714,315	812,553
Subscriptions and fees		572,479	760,415
Security services		519,402	519,599
Rent		502,470	505,324
Insurance expense		494,086	502,767
Printing and stationery expenses		497,130	517,821
Cleaning expenses		417,988	417,191
Repairs and maintenance		420,712	341,195
Non-credit losses		401,962	35,412
Audit fees and expenses		397,750	396,456
Legal and other professional fees		378,839	443,192
Licenses and taxes		357,126	308,662
Night depository security		324,296	337,908
Four C's operating expenses		222,978	191,706
Agency expenses		216,724	227,659
Shareholders' meeting expenses		171,786	205,085
Cash purchases expenses		135,800	116,300
ECCB cash expenses		131,864	102,273
ECACH Charges		129,369	126,286
Scholarship fund		108,845	65,154
Wire services expense		101,539	111,147
Commission expenses		101,185	51,700
Vehicle expenses		65,054	61,788
Hospitality Suite		25,000	25,000
Travel and entertainment		23,979	43,094
Miscellaneous expenses		<u>94,563</u>	<u>99,564</u>
Total general and administrative expenses		\$ <u>22,726,094</u>	<u>20,804,128</u>

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*(Expressed in Eastern Caribbean Dollars)***28. Cash and cash equivalents**

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Due from other banks	9	\$ 20,707,644	62,372,892
Cash balances with the Central Bank	8	193,602,434	149,806,110
Treasury bills	10	49,191,060	51,538,676
Investments	14	<u>269,393</u>	<u>269,393</u>
Total cash and cash equivalents		\$ <u>263,770,531</u>	<u>263,987,071</u>

29. Salaries and related costs

	<u>2017</u>	<u>2016</u>
Salaries, wages and allowances	\$ 10,484,089	9,660,689
Statutory deduction costs	848,588	732,526
Other benefits	667,515	479,105
Training and education	309,765	183,834
Staff incentive scheme	279,990	218,224
Group health and life	233,947	218,129
Pension credit	<u>(139,244)</u>	<u>(263,709)</u>
Total salaries and related costs	\$ <u>12,684,650</u>	<u>11,228,798</u>

30. Contingencies and commitments**Pending litigation**

Various actions and legal proceedings may arise against the Group during the normal course of business. The Group is currently involved in certain employee-related legal matters for which the outcome cannot be presently determined. The amount of the liability, if any, will be contingent on the eventual outcome of court proceedings and will be recognised at that time.

Credit related commitments

The contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers are listed below:

	<u>2017</u>	<u>2016</u>
Undrawn commitments to extend advances	\$ <u>38,053,415</u>	<u>18,198,064</u>

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30. Contingencies and commitments (cont'd)

Off-balance sheet items

The maturity profile of off-balance sheet items is as follows:

	<u>Up to 1 year</u>	<u>Total</u>
As of September 30, 2017		
Loan commitments (undrawn)	\$ <u>38,053,415</u>	<u>38,053,415</u>
	<u>Up to 1 year</u>	<u>Total</u>
As of September 30, 2016		
Loan commitments (undrawn)	\$ <u>18,198,064</u>	<u>18,198,064</u>