NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Audited Financial Statements

For The Year Ended December 31, 2016

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

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NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

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Board of Directors

Mr. Clarence Faulkner	Chairman
Mr. Audley Maduro	Member
Dr. Benedicta Samuels	Member
Dr. Drexel Glasgow	Member
Ms. Nona Vanterpool	Member
Ms. Joy Francis	Ex-Officio Member
Ms. Stephanie George	Ex-Officio Member

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Independent Auditors' Report to the Board of Directors

Opinion

We have audited the financial statements of National Bank of the Virgin Islands Limited (the "Bank"), which comprise the statement of financial position as at December 31, 2016, the statements of 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 financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016, and its financial performance and 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 Financial Statements*" section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") together with ethical requirements that are relevant to our audit of the financial statements in the British Virgin Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Bank as at and for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on July 25, 2016.

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

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

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

KPMG

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Bank'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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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.

KPMG (BVI) LIMITED

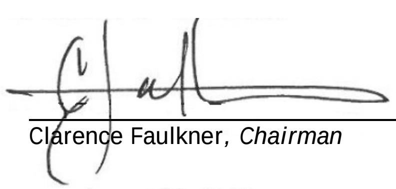
August 22, 2017

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Statement of Financial Position
As at December 31, 2016
Expressed in United States Dollars

	Notes	2016	2015
ASSETS			
Cash and cash equivalents		28,549,514	18,126,761
Due from banks	3	4,875,034	17,397,645
Loans and advances to customers	4	163,339,741	145,127,618
Other customer receivables	6	316,130	369,832
Other receivables	7	195,000	225,000
Financial investments held-to-maturity	8	15,883,773	904,163
Prepayments		214,499	278,908
Property and equipment	10	3,536,719	3,703,675
General banking licence deposit	11	500,000	500,000
TOTAL ASSETS		**$217,410,410**	**$186,633,602**
SHAREHOLDER'S EQUITY AND LIABILITIES			
Share capital and retained earnings			
Share capital	12	-	-
Additional paid-in capital	12	13,738,100	13,738,100
Retained earnings		14,510,603	13,390,835
Total share capital and retained earnings		28,248,703	27,128,935
Liabilities			
Amounts owed to savings depositors	13	53,897,514	42,942,252
Amounts owed to certificate of deposit holders	14	134,756,419	116,085,406
Trade and other payables	15	507,774	477,009
Total liabilities		189,161,707	159,504,667
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		**$217,410,410**	**$186,633,602**

APPROVED BY THE BOARD



______________________________Director
Clarence Faulkner*, Chairman*

August 22, 2017______________Date approved

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

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Statement of Comprehensive Income
For The Year Ended December 31, 2016
Expressed in United States Dollars

	Notes	2016	2015
Interest and similar income	16	10,352,761	8,313,945
Interest expense	17	(1,804,787)	(1,610,875)
Net interest income		8,547,974	6,703,070
Fees and commissions	18	755,092	600,763
Other operating income		184,276	40,895
Total operating income		9,487,342	7,344,728
Credit loss expenses	5	(2,344,158)	(1,474,070)
Net operating income		**7,143,184**	**5,870,658**
EXPENSES			
Depreciation	10	(586,690)	(573,766)
Other operating expenses	19	(5,436,726)	(5,168,341)
Total operating expenses		(6,023,416)	(5,742,107)
NET PROFIT FOR THE YEAR		**$1,119,768**	**$128,551**

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

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Statement of Changes in Equity
For The Year Ended December 31, 2016
Expressed in United States Dollars

2016	Share Capital	Additional Paid-in Capital	Retained Earnings	Total
Balance at beginning of the year	-	13,738,100	13,390,835	27,128,935
Net profit for the year	-	-	1,119,768	1,119,768
BALANCE AT THE END OF THE YEAR	**$ -**	**$13,738,100**	**$14,510,603**	**$28,248,703**

2015	Share Capital	Additional Paid-in Capital	Retained Earnings	Total
Balance at beginning of the year	-	13,738,100	13,262,284	27,000,384
Net profit for the year	-	-	128,551	128,551
BALANCE AT THE END OF THE YEAR	**$ -**	**$13,738,100**	**$13,390,835**	**$27,128,935**

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

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Statement of Cash Flows
For The Year Ended December 31, 2016
Expressed in United States Dollars

	2016	2015
OPERATING ACTIVITIES		
Interest, commission and other income received	11,466,391	8,840,223
Interest paid	(1,634,080)	(1,607,856)
Credit loss expense	(2,344,158)	(1,474,070)
General and administrative expenses paid	(5,333,380)	(5,099,201)
	2,154,773	659,096
Changes in operating assets and liabilities:		
Net increase in loans advanced to customers	(18,142,329)	(6,655,057)
Net decrease/(increase) in other receivables	30,000	(100,000)
Net increase in savings deposits	10,955,262	3,011,580
Net increase in certificates of deposit	18,500,306	5,275,749
Cash flows from operating activities	13,498,012	2,191,368
INVESTING ACTIVITIES		
Net movement on amounts due from banks	12,517,603	(13,085,188)
Net movement on held-to-maturity investments	(15,173,125)	229,463
Purchase of fixed assets	(419,737)	(1,568,648)
Cash flows used in investing activities	(3,075,259)	(14,424,373)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	10,422,753	(12,233,005)
CASH AND CASH EQUIVALENTS		
At beginning of year	18,126,761	30,359,766
At end of year	**$28,549,514**	**$18,126,761**
CASH AND CASH EQUIVALENTS:		
Cash in hand and current account balances with other banks	15,933,751	9,228,832
Fixed deposits with brokers	615,763	381,064
Certificates of deposit with other banks	12,000,000	8,516,865
	$28,549,514	**$18,126,761**

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

1. ORGANIZATION AND ACTIVITIES

The National Bank of the Virgin Islands Limited (the "Bank") was incorporated in the British Virgin Islands under the Companies Act, Cap. 285 on February 1, 2005 and re-registered under the BVI Business Companies Act, 2004 on February 29, 2008.

The Bank operates under a general banking licence in accordance with the Banks and Trust Companies Act, 1990 (as amended). The principal activity of the Bank is to provide personal and commercial banking services in the British Virgin Islands. The Bank is wholly owned by the Government of the Virgin Islands (the "Government"). The Bank's registered office is located at Harneys Corporate Services Limited, Craigmuir Chambers, P.O. Box 71, Road Town, Tortola VG1110, British Virgin Islands. The Bank operates out of its sole branch on Wickham's Cay I, Road Town, Tortola, British Virgin Islands.

The financial statements for the year ended December 31, 2016 were authorized for issue in accordance with a resolution of the directors on August 22, 2017.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB"), under historical costs convention, with adjustments for fair value where applicable. The financial records and statements are maintained and presented in United States ("US") dollars.

The Bank is organized and operates as one segment (both in terms of business and geography). Consequently, no segment reporting is provided in the Bank's financial statements.

2.2 Standards, amendments and interpretations to existing standards effective and relevant to the Bank

- **Disclosure Initiative (Amendments to IAS 1).** There is an emphasis on materiality. Specific single disclosures that are not material do not have to be presented – even if they are a minimum requirement of a standard. The order of notes to the financial statements is not prescribed. Instead, companies can choose their own order, and can also combine, for example, accounting policies with notes on related subjects. It has been made explicit that companies:
    - Should disaggregate line items on the balance sheet and in the statement of comprehensive income, if this provides helpful information to users; and
    - Can aggregate line items on the balance sheet if the line items specified by IAS 1 are immaterial.

Specific criteria are provided for presenting subtotals on the balance sheet and in the statement of comprehensive income.

None of the other new standards, interpretations and amendments, which are effective for periods beginning after January 1, 2016 had any effect on the Bank's financial statements.

2. ACCOUNTING POLICIES (Continued)

2.3 Standards, amendments and interpretations to existing standards in issue but not yet effective and relevant to the Bank

The following new standards, interpretations and amendments, which have not been applied in these financial statements will or may have an effect on the Bank's future financial statements:

- **IFRS 9, Financial Instruments.** IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement.

  IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Bank is assessing the potential impact on the financial statements resulting from the application of IFRS 9.

- **IFRS 15, Revenue from Contracts with customers.** IFRS 15 was issued in May 2015 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required date.

- **IFRS 16, Leases.** On January 13, 2016, the IASB issued IFRS 16, Leases, which requires a lessee to recognize an asset for the right to use the leased item and a liability for the present value of its future lease payments. IFRS 16 will result in leases being recorded on the Bank's statement of financial position, including those currently classified as operating leases except for short-term leases and leases with low value of the underlying asset. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

  A lessee will apply IFRS 16 to its leases either retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying IFRS 16 being recognized at the date of initial application. IFRS 16 is effective for the Bank on January 1, 2019, with early adoption permitted from the date the Bank applies IFRS 15 Revenue from Contracts with Customers, on or before the date of initial application of IFRS 16. On transition, there are practical expedients available whereby the Bank will not need to reassess whether a contract is, or contains a lease, or reassess the accounting of sale leaseback transactions recognized prior to the date of initial application. The Bank is assessing the potential impact on the financial statements resulting from the application of IFRS 16.

- **Disclosure Initiative (Amendment to IAS 7).** The amendments require disclosures that enable users of the financial statement 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 January 1, 2017 with early adoption permitted.

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

None of the other new standards, interpretations and amendments, which are effective for periods beginning after January 1, 2017 and which have not been adopted early, are expected to have a material effect on the Bank's future financial statements.

2. ACCOUNTING POLICIES (Continued)

2.4 Comparative figures

Certain comparative figures in the financial statements have been reclassified to conform with the current year's presentation.

2.5 Significant accounting judgments and estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a 'going concern' basis.

Impairment losses on loans and advances

The Bank reviews its non-performing loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, estimation of the impairment loss allowance on an individual basis requires management to make judgments to determine whether there is objective evidence of impairment and to make assumptions about the financial condition of the borrowers and expected future cash flows. As such the actual results may differ, resulting in future changes to the allowance.

2.6 Foreign currency translation

Transactions in foreign currencies are converted at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the foreign currency exchange rate ruling at the statement of financial position date. Foreign currency exchange differences arising on conversion or translation and realized gains and losses on disposals or settlements of monetary assets and liabilities are recognized in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies which are stated at historical cost are translated at the foreign currency exchange rate ruling at the date of the transaction, or if impaired, at the date of the impairment recognition. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into United States dollars at the foreign currency exchange rates ruling at the dates that the values were determined.

2. ACCOUNTING POLICIES (Continued)

2.7 Financial instruments – initial recognition and subsequent measurement

Date of recognition

The Bank recognizes loans and advances and deposits on the date on which they are originated. All other financial assets and liabilities are initially recognized on the trade date, i.e., the date the Bank becomes a party to the contracted provisions of the instrument.

Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value. In the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue are also included.

Financial assets

The Bank classifies its financial assets into one of the categories discussed below. The Bank's accounting policy for each category is as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured initially at fair value plus transaction costs that are directly related to their acquisition on issue.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in 'Interest and similar income' in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in 'Credit loss expenses'.

The Bank's loans and receivables comprise of cash and cash equivalents, due from banks, loans and advances to customers, other customer receivables, other receivable and general banking licence deposit.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables that the Bank's management has the positive intention and ability to hold to maturity. These assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debt securities held to maturity is established when there is objective evidence that the Bank will not be able to collect all amounts due according to their original terms.

Financial Liabilities

These are financial instruments where the substance of the contractual arrangement results in the Bank having an obligation to deliver cash or another financial asset to the counterparty, in order to satisfy their obligation. The Bank recognizes its financial liabilities on the date it becomes a party to the contractual provisions of these instruments. Financial liabilities are not recognized unless one of the parties has performed. Financial liabilities are measured initially at fair value (transaction price) plus transaction costs that are directly attributable to the issue of the financial liability. After initial measurement, borrowings are subsequently measured at amortized cost using the effective interest rate method. The Bank's financial liabilities comprise of amounts owed to savings depositors and certificate of deposit holders and trade and other payables.

2. ACCOUNTING POLICIES (Continued)

2.8 Derecognition of financial assets and financial liabilities

Financial assets

A financial asset is derecognized when the Bank's contractual rights to receive the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which all of the risks and rewards of ownership of the financial asset are transferred.

Financial liabilities

The Bank derecognizes financial liabilities when the obligation specified in the contract is discharged, cancelled, expired or surrendered. This is generally considered to be the trade date or transaction date.

2.9 Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and the loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in principal and/or interest payments.

Loans and advances to customers

Allowance for impairment of loans and advances is established when there is objective evidence that the Bank will not be able to collect all amounts due according to the original terms of the loans and advances. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loan or receivable is impaired. When assessing loans individually for impairment, the amount of the allowance is the difference between the asset's carrying value and an estimated foreclosure value based on the appraised value of the collateral in accordance with IAS 39. Loans and advances that have been individually assessed, and found not to be impaired, are then grouped with assets having similar credit risk characteristics for further review. Categories utilized by the Bank to perform a collective assessment of impairment for the remaining loans are satisfactory, special mention, substandard, doubtful, loss and non-accrual. Each category is assigned a level of provision (currently up to 100%), which is multiplied by the current balance to determine the allowance assigned to the loan category.

The amount of the allowance is recognized in the statement of comprehensive income and is based on estimates made by management. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

The Bank's loans and advances include a sub-type classification identified as non-performing (or non-current) loans, which are classified as non-performing when payment of principal or interest is contractually 90 days (2015: 90 days) or more past due or the loan matures with a balance.

Loans and advances are also classified in the "Watch List" when:

- payment of principal or interest is contractually 60 – 89 days (2015: 60 – 89 days) past due; or
- in the opinion of management there is reasonable doubt as to the ultimate collectability of principal or interest; or
- the loan was recently brought current and de-classified from the non-performing loan portfolio, but requires continued monitoring for a minimum 90 day period; or
- a related loan is classified as non-performing.

2. ACCOUNTING POLICIES (Continued)

2.9 Impairment of financial assets (continued)

When a loan is classified as non-performing, all accrued and accruing interest which has not yet been paid is provided for to the extent the amount is determined as not recoverable. When a repayment is received against a non-current loan, the repayment is recorded as a reduction, first, against any outstanding interest receivable on the loan, and second, against the outstanding principal balance. Non-performing loans may revert to performing status when all payments become fully current and remain fully current for 90 consecutive days.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and/or all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to ‘Provision for loan losses’.

As part of its operating activities, the Bank also restructures loans where the terms of contract or contracts have been modified as a result of the weakened financial position of the borrower.

When a loan is restructured, all accrued and unpaid interest is either rolled up into a new loan contract along with the outstanding principal, or converted into a new separate loan or all interest, or portion thereof, is forgiven. Subsequent payments received on restructured loans are applied in the same way as for normal loans.

Restructured loans are moved to performing status, after remaining current for 90 consecutive days. Thereafter, loans are transferred to the Watch List for continued monitoring for a minimum of 90 days, during which time they must remain current. If the loans do not remain current, they will remain on the Watch List or be reclassified to non-performing status, as applicable.

Held-to-maturity investments

For held-to-maturity investments, the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, 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. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of comprehensive income. In the absence of estimated future cash flows, the Bank uses the instrument’s fair value using an observable market price when calculating impairment.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the statement of comprehensive income.

2.10 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a current enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2. ACCOUNTING POLICIES (Continued)

2.11 Fair value measurements

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price. Any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument, but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognized in profit or loss immediately. Rather, the difference is recognized over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or ask price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category also includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.12 Administrative services

The Bank provides administrative services that result in the holding of assets on behalf of Government agencies. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Bank. The value of such assets as at December 31, 2016 is $1,764,355 (2015: $1,949,878).

2.13 Recognition of revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income

Interest income on loans and advances to customers are recorded in the statement of comprehensive income as it accrues until such time as the loan is classified as non-performing. At that time, a provision is raised for all accrued but non-recoverable interest. Interest is calculated using the simple interest method on daily balances of the principal amount outstanding. For all financial instruments measured at amortized cost, interest income or expense is recorded at the effective interest rate, which is the exact rate for discounting estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

Fee and commission income

Fees and commissions are recognized on an accrual basis when the service has been provided. The Bank earns fees and commissions from a range of services it provides to its customers. Fees and commissions that are linked to provision of a service are recognized after fulfilling the requisite service.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, deposits held at call, cash held with broker and short-term highly liquid investments with maturities of three months or less from the date of acquisition. Bank deposits with maturities of more than three months from date of acquisition are classified as due from banks.

2.15 Pension

The Bank is a member of a defined contribution pension plan. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate legal entity. Once the contributions have been paid, the Bank has no further obligations. The Bank's contributions to the defined contribution pension plan are charged to the statement of comprehensive income in the year to which they relate.

2.16 Taxation

The Bank is not subject to income taxes within the British Virgin Islands. Accordingly, no provision has been made for income tax.

2.17 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment in value. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Motor vehicles	5 years
Furniture and fixtures	3-10 years
Computer equipment	2-5 years
Leasehold improvements	3-10 years

Assets are depreciated from the date that the asset is available for use. Expenditure on repairs and maintenance of fixed assets made to restore or maintain future economic benefits expected from the assets is recognized as an expense when incurred.

2. ACCOUNTING POLICIES (Continued)

2.18 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized in the statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is estimated as the greater of an asset's net selling price and value in use. If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the statement of comprehensive income. An impairment 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 amortization, if no impairment loss had been recognized.

2.19 Collateral Valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms, but primarily as cash or real estate. The fair value of collateral is generally assessed, at a minimum, at inception and periodically updated based on the Bank's policies and type of collateral.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent appraisers and quantity surveyors.

2.20 Operating Lease Agreement

Lease agreements which do not transfer substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating lease payments are recorded in the statement of comprehensive income on a straight-line basis over the lease term.

2.21 Related Parties

For the purposes of these financial statements, a party is considered to be related to the Bank if:

- the party has the ability, directly or indirectly through one or more intermediaries, to control the Bank or exercise significant influence over the Bank in making financial and operating policy decisions, or has joint control over the Bank;
- the Bank and the party are subject to common control;
- the party is an associate of the Bank;
- the party is a member of key management personnel of the Bank, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- the party is a close family member of a party referred to in first point or is an entity under the control, joint control or significant influence of such individuals; or

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the Bank.

2.22 Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Expressed in United States Dollars

3. DUE FROM BANKS

	2016	2015
Certificates of deposit	4,852,067	17,369,670
Add: interest receivable	22,967	27,975
	$4,875,034	$17,397,645

The Bank has pledged $100,000 of amounts due from banks as security for corporate credit cards with an aggregate credit limit of $80,000 (2015: $77,500) as at December 31, 2016.

4. LOANS AND ADVANCES TO CUSTOMERS

The Bank lends funds for commercial and development purposes for periods primarily between 5 and 30 years. These funds are largely secured by commercial real estate, business assets and residential property.

The Bank analyses its loan portfolio by category as follows:

2016	Commercial	Mortgages	Personal	Total
Performing loans	35,255,990	94,340,377	14,623,962	144,220,329
Non-performing loans	15,639,926	7,170,277	608,058	23,418,261
Gross loans	50,895,916	101,510,654	15,232,020	167,638,590
Less: allowance for credit losses (Note 5)	(2,215,900)	(1,278,192)	(118,748)	(3,612,840)
	$48,680,016	$100,232,462	$15,113,272	$164,025,750
Add: interest receivable				3,030,371
Less: interest provision on restructuring and non-performing loans				(3,716,380)
				$163,339,741

2015	Commercial	Mortgages	Personal	Total
Performing loans	26,560,732	80,575,954	13,939,275	121,075,961
Non-performing loans	16,222,382	10,192,428	1,066,909	27,481,719
Gross loans	42,783,114	90,768,382	15,006,184	148,557,680
Less: allowance for credit losses (Note 5)	(949,204)	(1,433,809)	(135,915)	(2,518,928)
	$41,833,910	$89,334,573	$14,870,269	$146,038,752
Add: interest receivable				3,251,795
Less: interest provision on restructuring and non-performing loans				(4,162,929)
				$145,127,618

In general, interest rates on loans and advances range between 3.5% and 14.0% (2015: 3.5% and 14.0%) per annum. The weighted average interest rate on these loans was 5.6% (2015: 6.0%).

Expressed in United States Dollars

4. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Interest accruals on non-performing loans

The interest receivable includes interest on non-performing loans totaling to $2,501,907 (2015: $2,793,125) and the same has been fully provided. The corresponding provision is included within interest provision on restructured and non-performing loans.

Renegotiated loans

As at December 31, 2016, the loans and advances to customers includes $1,214,473 (2015: $1,369,804) of interest which was outstanding at the date of restructuring. This interest is included as part of the restructured loans and advances as principal or converted into new loans. A corresponding provision has been recorded, which offsets the interest capitalized. As payments on these restructured loans are received, this provision is reduced in proportion to balance received, in the same manner as the interest recognized to income.

5. ALLOWANCE FOR CREDIT LOSSES

	2016	**2015**
Opening balance	2,518,928	1,325,952
Provision for loan losses	2,344,158	1,474,070
Releases	(50,158)	(26,463)
Write-offs	(1,200,088)	(254,631)
Ending balance	$3,612,840	$2,518,928

Collateral repossessed

During the year, the Bank exercised its power of sale over real estate collateral with a market value of $1,242,000 (2015: $422,000).

6. OTHER CUSTOMER RECEIVABLES

	2016	**2015**
Late charges	102,208	116,884
Insurance	63,245	63,245
Other	150,677	189,703
	$316,130	$369,832

7. OTHER RECEIVABLES

Other receivables include a settlement from another bank in the amount of $195,000 (2015: $Nil). The Bank has not recorded any impairment relating to this receivable.

In addition, the prior year's balance relates to a short-term advance to the Scholarship Trust Fund (the 'Fund'). The Bank acts as the administrator of the Fund. The outstanding balance $Nil (2015: $225,000) at year end is unsecured, interest free and has no fixed repayment terms.

Expressed in United States Dollars

8. HELD-TO-MATURITY INVESTMENTS

	2016	2015
Asset-backed securities	693,419	901,002
Government note	15,000,000	-
	15,693,419	901,002
Add: Interest receivable	190,354	3,161
	15,883,773	904,163
Less: Allowance for impairment	-	-
	$15,883,773	$904,163

The following table presents movement in held-to-maturity investments (excluding interest receivable).

	2016	2015
Beginning balance	901,002	1,133,627
Net losses recognized in the statement of comprehensive income	-	-
Purchases	15,000,000	-
Sales and repayments	(207,583)	(232,625)
	$15,693,419	$901,002

Interest rates on the asset-backed securities range from 3.0% to 6.5% per annum. The remaining life of these securities range from 0.76 to 26.75 (2015: 0.12 to 27.75) years.

The government note is issued by the government of St. Lucia. The note matures on October 6, 2017 and carries an interest rate of 5.25%.

Expressed in United States Dollars

9. FAIR VALUE INFORMATION

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

	Level 1	Level 2	Level 3	Total	Carrying Value
At December 31, 2016					
Financial instruments not measured at fair value					
Assets					
Cash and cash equivalents	28,549,514	-	-	28,549,514	28,549,514
Due from banks	4,875,034	-	-	4,875,034	4,875,034
Loans and advances to customers	-	-	163,339,741	163,339,741	163,339,741
Other customer receivables	-	316,130	-	316,130	316,130
Other receivables	-	195,000	-	195,000	195,000
Financial investments held to maturity	-	15,883,773	-	15,883,773	15,883,773
General banking licence deposit	-	500,000	-	500,000	500,000
Total	$33,424,548	$16,894,903	$163,339,741	$213,659,192	$213,659,192
Liabilities					
Amounts owed to savings depositors	-	53,897,514	-	53,897,514	53,897,514
Amount owed to certificate of deposit holders	-	134,756,419	-	134,756,419	134,756,419
Trade and other payables	-	507,774	-	507,774	507,774
Total	-	$189,161,707	-	$189,161,707	$189,161,707

	Level 1	Level 2	Level 3	Total	Carrying Value
At December 31, 2015					
Financial instruments not measured at fair value					
Assets					
Cash and cash equivalents	18,126,761	-	-	18,126,761	18,126,761
Due from banks	17,397,645	-	-	17,397,645	17,397,645
Loans and advances to customers	-	-	145,127,618	145,127,618	145,127,618
Other customer receivables	-	369,832	-	369,832	369,832
Other receivable	-	225,000	-	225,000	225,000
Financial investments held to maturity	-	904,163	-	904,163	904,163
General banking licence deposit	-	500,000	-	500,000	500,000
Total	$35,524,406	$1,998,995	$145,127,618	$182,651,019	$182,651,019
Liabilities					
Amounts owed to savings depositors	-	42,942,252	-	42,942,252	42,942,252
Amount owed to certificate of deposit holders	-	116,085,406	-	116,085,406	116,085,406
Trade and other payables	-	477,009	-	477,009	477,009
Total	-	$159,504,667	-	$159,504,667	$159,504,667

Expressed in United States Dollars

10. PROPERTY AND EQUIPMENT

	Motor Vehicles	Furniture & Fixtures	Computer Equipment	Leasehold Improvements	Land	Work in Progress	Total
Cost							
January 1, 2016	62,895	904,715	1,394,200	2,794,228	1,210,000	203,080	6,569,118
Additions	-	6,659	57,128	-	-	394,519	458,306
Transfers	-	53,839	111,068	60,738	-	(225,645)	-
Write-downs	-	-	-	-	-	(38,572)	(38,572)
December 31, 2016	$62,895	$965,213	$1,562,396	$2,854,966	$1,210,000	$333,382	$6,988,852
Accumulated Depreciation							
January 1, 2016	44,931	544,611	1,038,272	1,237,629	-	-	2,865,443
Charge	7,699	95,678	186,137	297,176	-	-	586,690
December 31, 2016	$52,630	$640,289	$1,224,409	$1,534,805	-	-	$3,452,133
Net Book Value							
December 31, 2016	$10,265	$324,924	$337,987	$1,320,161	$1,210,000	$333,382	$3,536,719
December 31, 2015	$17,964	$360,104	$355,928	$1,556,599	$1,210,000	$203,080	$3,703,675

There are no capitalized borrowing costs related to the acquisition of property and equipment during the year (2015: $Nil).

Expressed in United States Dollars

11. GENERAL BANKING LICENCE DEPOSIT

In accordance with the Banks and Trust Companies Act, 1990 (as amended), a deposit of $500,000 (2015: $500,000) has been lodged with the British Virgin Islands Financial Services Commission ("BVI FSC"). The deposit is in the form of a non-negotiable certificate of indebtedness. Interest is earned semi-annually at a rate fixed periodically by the BVI FSC. The average rate of interest as of December 31, 2016 was 0.04% (2015: 0.04%).

12. SHARE CAPITAL

	2016	2015
Authorized:		
15,000,000 (2015: 15,000,000) no par value shares	-	-
Issued and fully paid:		
9,738,100 (2015: 9,738,100) no par value shares	-	-

As at December 31, 2016, the Bank has issued 9,738,100 no par value shares for a consideration of $13,738,100 (2015: $13,738,100). The Bank is wholly owned by the Government. The liability of the sole shareholder is limited by shares.

The shareholder is entitled to receive dividends as declared from time to time and to one vote per share at a meeting or on any resolution of the members and to an equal share in the distribution of the surplus assets of the Bank.

13. AMOUNTS OWED TO SAVINGS DEPOSITORS

	2016	2015
Individuals	39,770,198	37,199,625
Businesses	14,127,316	5,742,627
	$53,897,514	$42,942,252

The average effective rate of interest on customer deposits during the year was 0.50% (2015: 0.50%).

During the period ended December 31, 2016, the Bank transferred 18 (2015: 73) dormant accounts totaling $184,414 (2015: $36,898) to a special fund established for that purpose in accordance with the Dormant Accounts Act, 2011.

14. AMOUNTS OWED TO CERTIFICATE OF DEPOSIT HOLDERS

	2016	2015
Individuals	35,595,382	39,127,364
Businesses	98,440,366	76,408,078
	134,035,748	115,535,442
Add: Interest payable	720,671	549,964
	$134,756,419	$116,085,406

The average effective rate of interest on certificates of deposit during the year was 1.18% (2015: 1.22%)

Expressed in United States Dollars

15. TRADE AND OTHER PAYABLES

	2016	2015
Insurance escrow	236,773	196,536
Accrued pension liability (Note 19)	23,421	22,976
Trade payables	247,580	257,497
	$507,774	$477,009

16. INTEREST AND SIMILAR INCOME

	2016	2015
Loans and advances to customers	9,558,369	8,187,909
Held-to-maturity investments	613,972	45,076
Cash and placements	180,219	80,769
Other	201	191
	$10,352,761	$8,313,945

17. INTEREST EXPENSE

	2016	2015
Certificate of deposit holders	1,546,442	1,418,786
Savings depositors	258,345	192,089
	$1,804,787	$1,610,875

18. FEES AND COMMISSIONS

	2016	2015
Commitment fees	337,604	246,758
Late charges	124,801	101,321
Other fees received	170,636	146,213
Commission earned on administrative services	122,051	106,471
	$755,092	$600,763

Expressed in United States Dollars

19. OTHER OPERATING EXPENSES

	2016	2015
Staff costs	3,453,584	3,367,276
Rent	395,892	417,922
Professional fees	313,607	221,193
Repairs and maintenance	243,496	236,455
Marketing and advertising	188,482	180,835
Systems and communications	162,753	171,723
Licence fees and bank charges	153,829	123,546
Business insurance	99,720	103,947
Travel and entertainment	95,340	77,828
Security services	91,012	75,628
Electricity and water	84,054	97,768
Stationary and postage	58,158	44,517
Staff training	46,975	35,671
Write-down of fixed assets	38,572	-
Other	11,252	14,032
	$5,436,726	$5,168,341

Analysis of staff costs:

	2016	2015
Wages and salaries	2,721,186	2,689,351
Social security and payroll taxes	212,397	211,484
Pension expenses	198,400	203,286
Directors' expenses	137,657	142,526
National health insurance	91,735	-
Staff insurance	37,838	110,560
Other staff-related costs	54,371	10,069
	$3,453,584	$3,367,276

During the year ended December 31, 2016, wages and salaries of $2,721,186 (2015: $2,689,351) were paid to an average of 50 employees (2015: 48).

Pension

The Virgin Islands Labour Code, 2010, stipulates that the employer should make a provision for retirement benefits to be paid to its permanent employees by means of a pension plan, an annuity, provident fund or other form of retirement plan which may be contributory.

Effective January 1, 2015, the Bank became a member of the Multi-Employer Pension Plan (the "Plan") established by the BVI Chamber of Commerce and Hotel Association. The Plan is a defined contribution plan, with contributions from pensionable earnings at a rate of 8% by the Bank and voluntary contributions of at least 4% by employees.

For the year ended December 31, 2016, pension expenses of $198,400 (2015: $203,286) were incurred.

20. RELATED PARTY TRANSACTIONS

(a) During the year ended December 31, 2016, the Bank approved loans issued to current and former directors of the Bank and related persons totaling $46,611 (2015: $100,200). As at December 31, 2016, related party loans totaled $2,075,999 (2015: $2,112,061), which are included as part of loans and advances. The interest rates on these loans were recorded at 4.0% - 8.5% (2015: 4.0% - 8.5%).

(b) As at December 31, 2016, the Government held certificates of deposit totaling $26,257,831 (2015: $21,101,549). These certificates of deposit earn interest at rates ranging from 0.6% to 1.30% (2015: 0.7% to 1.35%) per annum. Additionally, Government statutory bodies held certificates of deposit totaling $70,074,507 (2015: $54,118,497) at interest rates ranging from 0.6% to 1.5% (2015: 1.0% to 1.5%).

(c) As at December 31, 2016, Government statutory bodies held savings deposits totaling $8,562,852 (2015: $3,392). These savings accounts earn interest rates of 0.5% (2015: 0.5%) per annum.

(d) As at December 31, 2016, directors' allowances totaled $122,000 (2015: $126,000). These amounts are included within directors' expenses.

21. COMMITMENTS

Undrawn loan commitments

As at December 31, 2016, the Bank had undrawn commitments under existing customer loan agreements totalling $5,685,437 (2015: $3,221,394).

Lease commitments

Refer to note 22.3 for schedule of future minimum rental payments for the Bank, under non-cancellable operating leases payable as at December 31, 2016.

22. FINANCIAL RISK MANAGEMENT

22.1 Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, market risk and operational risk.

Risk Management Structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are sub-committees of the Board of Directors responsible for managing and monitoring specific risk areas.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and policies of the Bank.

Assets and Liabilities Committee

The Assets and Liabilities Committee is responsible for reviewing policies with respect to the management of asset and liability risks associated with the Bank's operations and monitoring the application and effectiveness of such policies, with recommended amendments for approval by the Board, as needed. The Assets and Liabilities Committee is authorized by the Board to undertake the strategic management of the balance sheet, aimed at achieving sustained growth, profitability and solvency. This includes, but is not necessarily limited to, the formulation of long-term strategic goals and objectives and the management of various risks, including liquidity risk, interest rate risk and market risk.

22. FINANCIAL RISK MANAGEMENT (Continued)

22.1 Introduction (continued)

Risk Management Structure (continued)

Audit and Compliance Committee

The Audit and Compliance Committee is responsible for evaluating whether management is setting the appropriate 'control culture' by communicating the importance of internal control and management of risk. The Audit and Compliance Committee should monitor the controls and processes which ensure that the financial statements derived from the underlying financial systems comply with relevant standards and requirements, and are subject to appropriate management review. In summary, the Audit and Compliance Committee is responsible for the evaluation of the overall effectiveness of the internal control and risk management frameworks. Currently, the Bank's Audit and Compliance Committee depends primarily on the reviews of its Internal Auditor and Compliance Department to determine any operational deficiencies, and thereafter, ensures implementation of requisite corrective measures.

Credit Committee

The Credit Committee is responsible for overseeing the credit risk management function of the Bank and approval of credit requests exceeding Management's lending authority. The Credit Committee establishes the credit risk strategy, as well as significant credit risk policies, on an annual basis at minimum. The Committee is also responsible for ensuring, through inputs to the capital planning processes, that the Bank's capital level is adequate for the risks assumed and assessing the appropriateness of the allowance for credit losses regularly.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss. The Bank also runs worst-case scenarios that would arise if extreme events were likely to occur. If these events in fact do occur, the Board of Directors feels that the Bank is adequately covered.

Reports compiled by the Bank (such as, non-performing loans reports and monthly management accounts) are prepared and reviewed to identify and assess risks at an early stage and effectively mitigate and control such risks. These reports are presented to the Board of Directors on a monthly basis. The monthly management accounts include budget variances, liquidity requirements, loan assets movements, interest rate spread and capital adequacy calculations.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Management has recorded all loans and advances in a manner which allows for loans to be categorized by loan type, collateral and other variables in the Bank's Management Information System. This information can therefore be utilized by Management to identify the Bank's excess risk concentration by the categories noted above.

22.2 Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations to the Bank. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, and by monitoring exposures in relation to such limits.

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.2 Credit risk (continued)

Maximum exposure to credit risk without taking account of collateral and other credit enhancements

The maximum exposure to credit risk before any credit enhancement at December 31, 2016 is the carrying amount of the financial assets in the statement of financial position.

As at December 31, 2016, the Bank's cash and cash equivalents and certificates of deposit were held with three (3) financial institutions.

Deposits totalling $19,884,599 (2015: $15,717,863) or 9% (2015: 8%) of total assets are currently held at Bank of America, which has a long-term credit rating of Baa1 (2015: Baa2) per Moody's rating agency.

Deposits totalling $6,349,828 (2015: $18,356,235) or 3% (2015: 10%) of total assets are currently held at Banco Popular de Puerto Rico (Banco Popular), which has a long-term credit rating of B2 (2015: B2) per Moody's rating agency.

Deposits totalling $5,000,000 (2015: $Nil) or 2% (2015: 0%) of total assets are currently held at Raymond James Financial, which has a long-term credit rating of Baa2 per Moody's rating agency.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the customer. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main type of collateral obtained is mortgages over residential properties. The Bank also obtains guarantees from third parties related to their customers.

Management monitors the market value of collateral on non-performing loans at least annually and during its review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of repossessed properties as per legal guidelines. The proceeds are used to repay the outstanding loan balances and related expenses. In general, the Bank does not occupy repossessed properties for business use.

Credit risk exposure for each internal risk rating

For issuers of held-to-maturity investments, the Bank determines the internal rating based on external ratings of the respective issuers of the securities.

In respect of loans and advances to customers, the Bank currently assesses credit risk on loan applications using an internal risk rating based on capacity to repay loan, capital invested, collateral and other conditions. The Bank's management is actively reassessing the existing loan rating system.

The Bank's past due loans and advances to customers which are not considered impaired by management are noted below (excluding non-performing loans totaling $23,418,261 (2015: $27,481,719).

As at December 31, 2016

	Less than 30 days	30 to 59 days	60 to 89 days	90 days or more	Total
Commercial	7,058,861	3,323,572	110,732	-	10,493,165
Mortgages	7,341,776	7,726,348	2,119,968	-	17,188,092
Personal	1,877,322	787,058	281,876	-	2,946,256
	$16,277,959	$11,836,978	$2,512,576	-	$30,627,513

During the year, the Bank renegotiated loans totaling $4,487,408 (2015: $4,687,518).

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.2 Credit risk (continued)

As at December 31, 2015

	Less than 30 days	30 to 59 days	60 to 89 days	90 days or more	Total
Commercial	2,714,371	7,912,090	1,840,410	-	12,466,871
Mortgages	10,495,795	5,168,523	1,591,700	-	17,256,018
Personal	988,542	402,560	268,772	-	1,659,874
	$14,198,708	$13,483,173	$3,700,882	-	$31,382,763

As at December 31, 2016, the credit ratings of issuers of the Bank's held-to-maturity investments (including interest receivable) as provided by the CariCRIS and Moody's rating agencies are as follows:

2016	CariBBB Rated	Aaa Rated	Not Rated	Total
Government note securities	15,190,354	-	-	15,190,354
Asset-backed securities	-	251,443	441,976	693,419
	$15,190,354	$251,443	$441,976	$15,883,773

2015	CariBBB Rated	Aaa Rated	Not Rated	Total
Asset-backed securities	-	343,987	560,176	904,163
	-	$343,987	$560,176	$904,163

As detailed in Note 8, the government note was issued by the government of St. Lucia and is repayable on October 6, 2017. The government note is 7% of total assets and therefore bankruptcy or insolvency of the issuer would have a significant impact on the Bank's financial position.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are past due by 90 days or more, whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment for loans both individually and collectively.

The Bank first determines the allowances appropriate for each non-performing loan or advance. Items considered when determining allowance amounts include the sustainability of the customer's income, the customer's ability to improve performance once a financial difficulty has arisen, projected receipts, the availability of other financial support, the realisable value of collateral, and the timing of expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require enhanced attention.

Loans and advances that have been individually assessed and found not to be impaired are then grouped with assets having similar credit risk characteristics for further review. Categories utilized by the Bank to perform a collective assessment of impairment for the remaining loans are satisfactory, special mention, substandard, doubtful, loss and non-accrual. Each category is assigned a level of provision (currently up to 100%), which is multiplied by the current balance to determine the allowance assigned to the group of loans.

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To date, the Bank's liquidity risk management has been confined to the monitoring approach, specifically, the liquid assets approach.

The Bank maintains liquid assets that can be drawn upon as needed, in the event of unforeseen interruption of cash flows. Liquid assets consist of cash and short-term bank deposits and investments. The Board of Directors has determined that liquid assets held as the Bank's cash reserve, must be at least twenty percent (20%) of deposit liabilities. As at December 31, 2016, the ratio of liquid assets over deposit liabilities (excluding Government held certificate of deposits as disclosed below) was recorded at 30% (2015: 26%).

Liquid assets	**2016**	**2015**
Cash and cash equivalents	28,549,514	18,126,762
Due from bank	4,875,034	17,397,645
Government note	15,190,354	-
	$48,614,902	$35,524,407

Concentration risk

As at December 31, 2016, the Government held certificates of deposit totaling $26,257,831 (2015: $21,101,549) and its statutory bodies held certificates of deposit totaling $70,074,507 (2015: $54,118,497) and savings deposits totaling $8,562,852 (2015: $3,392). Deposits issued to the Government and its statutory bodies represent 56% (2015: 47%) of deposits held, and withdrawal of these deposit would have a significant impact on the Bank's financial position.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, based on its deposit retention history, the Bank does not expect that many customers will request repayment at the contractual maturity date.

2016	**Within 3 months**	**Over 3 months, but within 1 year**	**Over 1 year but within 5 years**	**Over 5 years**	**Total**
Financial liabilities					
Amounts owed to savings depositors	53,992,047	-	-	-	53,992,047
Amounts owed to certificate of deposit holders	54,411,902	68,770,490	13,087,920	-	136,270,312
Trade and other payables	507,774	-	-	-	507,774
Total	$108,911,723	$68,770,490	$13,087,920	-	$190,770,133

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.3 Liquidity risk and funding management (continued)

2015

	Within 3 months	Over 3 months, but within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Liabilities					
Amounts owed to savings depositors	43,031,659	-	-	-	43,031,659
Amounts owed to certificate of deposit holders	47,980,054	69,004,235	-	-	116,984,289
Trade and other payables	477,009	-	-	-	477,009
Total liabilities	$91,488,722	$69,004,235	-	-	$160,492,957

The table below shows the contractual expiration by maturity of the Bank's commitments.

2016	On Demand	Within 3 months	Over 3 months, but within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Commitments:						
Loans and advances	-	1,233,210	4,452,227	-	-	5,685,437
Lease commitments	-	92,721	278,163	1,207,973	1,262,125	2,840,982
	-	$1,325,931	$4,730,390	$1,207,973	$1,262,125	$8,526,419

2015	On Demand	Within 3 months	Over 3 months, but within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Commitments:						
Loans and advances	-	2,498,809	722,586	-	-	3,221,395
Lease commitments	-	99,583	298,749	1,716,100	1,679,242	3,793,674
	-	$2,598,392	$1,021,335	$1,716,100	$1,679,242	$7,015,069

The Bank usually assigns a fixed term for disbursement of loan commitments as per project schedules.

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.4 Market risk

Market risk arises from the Bank's use of interest-bearing financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Bank has no significant exposure to foreign currency risk and other price risk. It has minimal foreign currency denominated financial instruments and its investments are held-to-maturity.

Interest rate risk

The Bank is exposed to cash flow interest rate risk from floating rates on commercial loans and advances. The interest rates on mortgages, personal loans and advances and balances owed to savings depositors and certificate of deposit holders are generally fixed.

Variable interest rates are utilized for most commercial loans which are based on the US Prime Rate plus a fixed margin determined at the inception of the loan. The Bank has a negative interest rate gap within a year as it holds long-term loans and advances to customers, however the balances owed to savings depositors and certificate of deposit holders are short-term. During periods of rising interest rates, interest rate movements generally will adversely affect the Bank. The Bank manages its interest rate risk by actively monitoring fluctuations in rates on earnings from investments placed with reputable financial institutions. On a periodic basis, the Bank also obtains comparable rates from local and regional banks, which are evaluated by Management prior to interest rate adjustments.

As at December 31, 2016, if market interest rates increased by 25 basis points (0.25%) (2015: 25 basis points), with all other variables held constant, the Bank's profit and total assets would have decreased by $345,445 (2015: $274,987). A decrease in market interest rates of 25 basis points (2015: 25 basis points), with all other variables held constant, would have an equal but opposite effect on the profit or loss and total assets of the Bank. A 25 basis point shift in market interest rates represents management's assumption for the reasonably possible change in interest rates.

The following table details the Bank's exposure to interest rate risk. It includes the Bank's interest bearing financial assets and liabilities, stated at their carrying value gross of any allowance for credit losses, categorized by the earlier of their contractual re-pricing or maturity date.

2016	**Within 3 months**	**Over 3 months, but within 1 year**	**Over 1 year but within 5 years**	**Over 5 years**	**Total**
Financial Assets					
Cash and cash equivalents	28,549,514	-	-	-	28,549,514
Due from banks	1,772,967	3,102,067	-	-	4,875,034
Gross loans and advances to customers	13,559,531	10,360,170	16,267,264	127,451,625	167,638,590
General banking licence deposit	-	-	-	500,000	500,000
Financial investments held-to-maturity	190,354	15,000,000	-	693,419	15,883,773
Total	44,072,366	28,462,237	16,267,264	128,645,044	217,446,911
Financial Liabilities					
Amounts owed to savings depositors	53,897,514	-	-	-	53,897,514
Amounts owed to certificate of deposit holders	54,232,619	68,084,001	12,439,799	-	134,756,419
Total	108,130,133	68,084,001	12,439,799	-	188,653,933
Total interest re-pricing gap	$(64,057,767)	$(39,621,764)	$3,827,465	$128,645,044	$28,792,978

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.4 Market risk (Continued)

2015

	Within 3 months	Over 3 months, but within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Financial Assets					
Cash and cash equivalents	18,126,761	-	-	-	18,126,761
Due from banks	12,249,794	5,147,851	-	-	17,397,645
Gross loans and advances to customers	8,693,258	17,976,821	8,359,644	113,986,627	149,016,350
General banking licence deposit	-	-	-	500,000	500,000
Financial investments held-to-maturity	3,161	-	-	901,002	904,163
Total	39,072,974	23,124,672	8,359,644	115,387,629	185,944,919
Financial Liabilities					
Amounts owed to savings depositors	42,942,252	-	-	-	42,942,252
Amounts owed to certificate of deposit holders	47,809,946	68,275,460	-	-	116,085,406
Total	90,752,198	68,275,460	-	-	159,027,658
Total interest re-pricing gap	$(51,679,224)	$(45,150,788)	$8,359,644	$115,387,629	$26,917,261

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request payment earlier than expected.

There are cases where loans and advances to customers are paid out by other banks or repaid by the customer from their deposit accounts before the due date. To mitigate the possible loss in interest income, the Bank may implement an early repayment penalty clause built into the commitment letter. The penalty is 3 months interest on the outstanding principal balance or 1% of the outstanding principal balance, whichever is greater.

22.5 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff training and assessment processes.

Expressed in United States Dollars

23. CAPITAL ADEQUACY REQUIREMENTS

The Bank is currently subject to financial supervision by the BVI FSC. The regulatory capital guidelines are intended to give effect to the Basel Capital Accord, which is primarily focused on ensuring the capital resources of a bank are adequate to cover the credit risk associated with the on- and off- balance sheet exposures. For the Bank, Tier 1 (core) capital includes capital contributions and retained earnings.

To meet minimum adequately capitalised regulatory requirements, an institution that holds a general banking licence must maintain a Tier 1 capital amount equal to or greater than $2,000,000 and a minimum risk weighted capital adequacy ratio of 12%. The Bank has adopted the regulatory requirements as its minimum standards. In addition, the Bank has further supplemented the risk-based capital adequacy guidelines by adopting a leverage ratio, defined as Tier 1 capital divided by average assets. The leverage ratio guidelines establish a minimum of 10% of the average assets.

The following presents the actual capital ratios and amounts for the Bank as at December 31, 2016:

	2016	2015
Tier 1 Capital	28,248,703	27,128,935
Total Capital	28,248,703	27,128,935
Risk Weighted Capital Adequacy Ratio	21.73%	22.91%
Leverage Ratio	13.72%	14.65%

24. CONTINGENCIES

Based on legal advice, the Bank has determined that there are no contingent liabilities resulting from pending legal cases.

25. SUBSEQUENT EVENTS

The Bank is in the process of negotiating an agreement to issue shares to a Government statutory body. While the agreement has not yet been finalized, under the preliminary term sheet, the Bank intends to issue ordinary shares (2,973,614) at US$1.98 per ordinary share and preference shares (9,112,243) at US$1.00 per preference share to the Government statutory body.