NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED

Financial Statements
31 March 2013

(Expressed in Eastern Caribbean dollars)

NATIONAL BANK OF ANGUILLA (PRIVATE BANKING AND TRUST) LIMITED
Financial Statements
31 March 2013

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of
National Bank of Anguilla (Private Banking and Trust) Limited

We have audited the accompanying financial statements of National Bank of Anguilla (Private Banking and Trust) Limited (the "Bank"), which comprise the statement of financial position as at 31 March 2013, and the related statements of comprehensive loss, changes in shareholder's deficiency and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT *(continued)*

To the Shareholder of
National Bank of Anguilla (Private Banking and Trust) Limited

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 March 2013, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2 to the financial statements which indicates the existence of a material uncertainty that may cast significant doubt about the Bank's ability to continue as a going concern.

KPMG

Chartered Accountants
17 November 2014

Antigua and Barbuda

NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED
Statement of Financial Position
As at 31 March 2013

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	**2013**	2012
Assets			
Cash	*9*	**82,086,249**	81,372,126
Loans and advances – net	*10*	**29,857,128**	52,010,378
Other assets and receivables – net	*12*	**891,997**	753,142
Investment securities	*13*	**8,774,688**	8,805,811
Investment properties	*16*	**11,576,844**	-
Property, plant and equipment – net	*14*	**31,283**	80,034
Intangible assets – net	*15*	**12,825**	27,648
Total Assets		**133,231,014**	143,049,139
Liabilities and Shareholder's (Deficiency) Equity			
Liabilities			
Deposits from customers	*17*	**134,716,569**	139,959,721
Other liabilities	*18*	**1,397,341**	1,243,877
Total liabilities		**136,113,910**	141,203,598
Shareholder's (Deficiency) Equity			
Share capital	*19*	**8,700,000**	8,700,000
Other reserves	*20*	**14,951**	191,399
Accumulated deficit		**(11,597,847)**	(7,045,858)
Total shareholder's (deficiency) equity		**(2,882,896)**	1,845,541
Total Liabilities and Shareholder's (Deficiency) Equity		**133,231,014**	143,049,139

These financial statements were approved on behalf
of The Oversight Committee on Intervened Banks on 17 November 2014 by the following:

Kennedy Byron
Director, Bank Supervision Department, ECCB

Hudson Carr
ECCB Officer-In-Charge

The accompanying notes on pages 9 to 58 are an integral part of these financial statements.

NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED
Statement of Comprehensive Loss
For the year ended 31 March 2013

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	**2013**	2012
Interest and similar income			
Loans and advances		**3,872,151**	6,103,026
Placements with banks		**3,833,523**	3,293,150
Investment securities		**43,393**	189,660
		7,749,067	9,585,836
Interest and similar expenses			
Time		**(3,381,029)**	(3,534,708)
Savings		**(595,266)**	(628,444)
Other		**(299,169)**	(248,158)
		(4,275,464)	(4,411,310)
Net interest income		**3,473,603**	5,174,526
Net loan impairment charges	*11*	**(3,716,936)**	(9,418,114)
Net interest loss after loan impairment charges		**(243,333)**	(4,243,588)
Fees, commissions and other income		**779,794**	517,602
Foreign exchange loss		**(78,039)**	(72,437)
Net interest and fee income (loss) after loan impairment charges		**458,422**	(3,798,423)
Expenses			
Fair value loss on investment properties	*16*	**(3,705,156)**	-
General and administrative expenses	*21*	**(1,312,592)**	(1,252,992)
Directors' fees	*24*	**(102,813)**	(103,800)
Depreciation	*14*	**(48,751)**	(49,303)
Amortization	*15*	**(14,823)**	(14,823)
Bank charges		**(2,724)**	(19,011)
		(5,186,859)	(1,439,929)
Net loss and total comprehensive loss		**(4,728,437)**	(5,238,352)

The accompanying notes on pages 9 to 58 are an integral part of these financial statements.

NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED
Statement of Changes in Shareholder's Deficiency
For the year ended 31 March 2013

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	**2013**	2012
Share capital			
Issued	*19*	**8,700,000**	8,700,000
Other reserves			
Balance at beginning of year		**191,399**	313,248
Reserve for loan impairment	*20*	**-**	-
Reserve for interest receivable on non-performing loans	*20*	**(176,448)**	(121,849)
Balance at end of year		**14,951**	191,399
Accumulated deficit			
Balance at beginning of year		**(7,045,858)**	(1,929,355)
Net loss		**(4,728,437)**	(5,238,352)
Reserve for loan impairment	*20*	**-**	-
Reserve for interest receivable on non-performing loans	*20*	**176,448**	121,849
Balance at end of year		**(11,597,847)**	(7,045,858)
		(2,882,896)	1,845,541

The accompanying notes on pages 9 to 58 are an integral part of these financial statements.

NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED
Statement of Cash Flows
For the year ended 31 March 2013

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	**2013**	2012
Cash flows from operating activities			
Net loss		**(4,728,437)**	(5,238,352)
Adjustments for items not affecting cash:			
Loan impairment charges	*11*	**3,716,936**	9,418,114
Loans written off	*11*	**(8,450,312)**	(676,716)
Depreciation	*14*	**48,751**	49,303
Amortization	*15*	**14,823**	14,823
Fair value loss on investment properties	*16*	**3,705,156**	-
Interest and similar income		**(7,749,067)**	(9,585,836)
Interest and similar expenses		**4,275,464**	4,411,310
		(9,166,686)	(1,607,354)
Interest received		**4,196,090**	6,460,596
Interest paid		**(3,650,956)**	(5,041,890)
Cash flows from operating income before changes in operating assets and liabilities		**(8,621,552)**	(188,648)
Changes in operating assets and liabilities			
Decrease/(increase) in:			
Loans and advances	*10*	**30,430,204**	10,632,147
Other assets and receivables	*12*	**(138,855)**	(614,255)
Increase/(decrease) in:			
Deposits from customers	*17*	**(5,867,660)**	6,973,334
Other liabilities	*18*	**153,464**	105,235
Net cash provided by operating activities		**15,955,601**	16,907,813
Cash flows from investing activities			
Redemption of available-for-sale security	*13*	**385,715**	385,718
Acquisition of investment securities	*13*	**(345,193)**	(8,100,000)
Acquisition of investment properties	*16*	**(15,282,000)**	-
Net cash used in investing activities		**(15,241,478)**	(7,714,282)
Net increase in cash during the year		**714,123**	9,193,531
Cash at beginning of year		**81,372,126**	72,178,595
Cash at end of year	*9*	**82,086,249**	81,372,126

The accompanying notes on pages 9 to 58 are an integral part of these financial statements.

1. Reporting entity

The National Bank of Anguilla (Private Banking and Trust) Limited (the "Bank") is a wholly-owned subsidiary of National Bank of Anguilla Limited (NBA), a company incorporated in Anguilla. The Bank was incorporated on February 4, 2002 under the Companies Act 2000 I.R.S.A.c1.

The Bank was created to conform with the Trust Companies and Offshore Banking Act which requires all banks operating within Anguilla and conducting business in currencies other than Eastern Caribbean Dollars (EC Dollars) with persons or entities who are not citizens or residents of Anguilla to obtain an offshore banking license and keep those accounts within a separate bank.

The principal activity of the Bank is to carry on the business of banking, including accepting deposits from customers, making loans to customers and investing in debt and equity securities for persons or entities not citizens or residents of Anguilla. The Bank commenced its operations on April 1, 2005.

On August 12, 2013 the Eastern Caribbean Central Bank (ECCB) intervened and assumed control of the National Bank of Anguilla Limited and all of its property and undertakings including National Bank of Anguilla (Private Banking and Trust) Limited. The ECCB's assumption and control was undertaken in accordance with the special Emergency Powers conferred on it under Part IIA, Article 5B of the schedule to the Eastern Caribbean Central Bank Act, R.S.A. c. E5 of the Laws of Anguilla. The ECCB has placed the Bank in conservatorship while a sustainable resolution strategy is implemented.

2. Status of operations

Going concern
These financial statements have been prepared on the going concern basis, which contemplates the realization of assets and liabilities in the normal course of business, and assumes the Bank will continue in operation for the foreseeable future. However, the Bank incurred a net loss of $4,728,437 (2012: $5,238,352) resulting in an accumulated deficit of $11,597,847 (2012: $7,045,858) and net cash inflows from operating activities amounting to $15,955,601 (2012: $16,907,813). Additionally on occasions during the years mentioned above and subsequently until early 2013, NBA, the parent company, was not in compliance with the liquidity reserve requirement as established by the Eastern Caribbean Central Bank.

Further, the timing of contractual cash flows disclosed in note 5 (c) indicates the Bank's mandatory commitments to pay its contractual obligations.

2. Status of operations (continued)

Going concern (continued)

On August 12, 2013, the Eastern Caribbean Central Bank assumed control of the Bank's operations under the powers conferred on it by Part IIA article 5B of the Eastern Caribbean Central Bank Agreement Act 1983. With this occurrence, the ECCB assumed responsibility for the management and oversight of the daily operations of the bank through the appointment of a Conservator.

The ability of the Bank to continue as a going concern is dependent upon it remaining liquid and ultimately being fully recapitalized in accordance with the Eastern Caribbean Central Bank regulatory requirements. This will in turn assist in returning the Bank to an operating profit, along with improving and maintaining adequate liquidity reserves, thus allowing the Bank's financial obligations to be met as they fall due.

The ECCB and the Conservator expects that these profitability and liquidity challenges will be resolved in the near future with certain strategic initiatives as outlined below being pursued by the Bank and the Group as a whole:

- Improving profitability within the next twelve (12) months.
- Enhancing collection efforts on non-performing loans and improving the spread in the investment portfolio by strengthening the Asset and Liability management capability.
- Restructuring of management and organizational functions.
- Rationalization of IT functions and reduction of outsourcing costs.
- Improvement in liquidity with results within twelve (12) months and realization of major improvements in fifteen (15) months.
- Enhancement of Tier 1 capital of the Bank/Group under the strategic direction of the ECCB.

Based on various initiatives undertaken during the conservatorship, an expected improvement in the economic environment and performance of the Anguilla economy in the next twelve (12) months and in the future, management's assessment and analysis of the maturity profile of the Group's financial liabilities and the consequential liquidity needs in the normal course of business, the ECCB Conservator is confident that the Group will be able to meet its liquidity and cash flow requirements in the short and medium term.

3. Basis of preparation

a. Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Bank's financial statements as at and for the year ended 31 March 2013 were approved and authorized for issue by the Oversight Committee on Intervened Banks on 17 November 2014.

b. Basis of measurement

The financial statements have been prepared on the historical cost basis except for available-for sale financial assets which have been measured at fair value.

c. Functional and presentation currency

These financial statements have been prepared in Eastern Caribbean Dollars (EC Dollars), which is the Bank's presentation currency. The Bank’s functional currency is the United States Dollar (US Dollars). Except as otherwise indicated, financial information presented in EC Dollars has been rounded to the nearest dollar.

d. Use of estimates and judgments

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 6.

3. Basis of preparation *(continued)*

e. Change in accounting policies and disclosures

New standards issued but not effective for the financial year beginning 1 April 2012 and not early adopted.

Effective for annual periods beginning on or after 1 January 2013

- *Amendments to IFRS 1 Government Loans*
- *Amendments to IFRS 7- Disclosures: Offsetting Financial Assets and Financial Liabilities*
- *IFRS 10 Consolidated Financial Statement*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosures of Interest in Other Entities*
- *IFRS 13 Fair Value Measurement*
- *Amendment to IAS 19 Employee Benefits*
- *Amendment to IAS 28 Investments in Associates and Joint Ventures*

Effective for annual periods beginning on or after 1 January 2014

- *Amendments to IFRS 10, IFRS 12, IAS 27*
- *Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities*
- *Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets*

Effective for annual periods beginning on or after 1 July 2014

- *Amendments to IAS 19*

Effective for annual periods beginning on or after 1 January 2016

- *Amendments to IFRS 11*
- *Amendments to IAS 16 and IAS 38*

Effective for annual periods beginning on or after 1 January 2017

- *IFRS 15 Revenue from Contracts with Customers*

Effective for annual periods beginning on or after 1 January 2018

- *IFRS 9 Financial Instruments*

4. Significant accounting policies

The accounting policies set out below have been applied consistently by the Bank to all periods presented in these financial statements.

(a) Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(b) Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities have to be recognized in the statement of financial position and measured in accordance with their assigned category.

Financial assets

The Bank classifies its financial assets in the following categories: loans and receivables and available-for-sale securities. Management determines the classification of its investments at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than;

- those that the Bank upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognized at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortized cost using the effective interest rate method. Loans and receivables are reported in the statement of financial position as cash, loans and advances, other assets and receivables and investment security. Interest on loans is included in the statement of comprehensive (loss)/income and is reported as 'Interest and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognized in the statement of comprehensive (loss)/income as 'Loan impairment charges'.

4. Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(ii) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables. Available-for-sale financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in the statement of comprehensive (loss)/income as "other comprehensive income", except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognized in the statement of comprehensive (loss)/income as "other comprehensive income" is recognized in the profit and loss. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the profit and loss. Dividends on available-for-sale equity instruments are recognized in the profit and loss as 'Dividend income' when the Bank's right to receive payment is established.

(iii) Recognition

The Bank uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or re-pledge them.

Financial liabilities

The Bank's holding in financial liabilities is measured in financial liabilities at amortized cost. Financial liabilities are derecognized when extinguished.

(i) Other liabilities measured at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost. Financial liabilities measured at amortized cost are deposits from banks or customers and other financial liabilities.

4. Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the reporting periods. In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to banks, other financial institutions and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

Derecognition

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

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognized because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitization transactions in which the Bank retains a portion of the risks.

4. Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

Reclassification of financial assets

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

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

(c) Impairment of financial assets

(i) Assets carried at amortized cost

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

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

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

4. Significant accounting policies *(continued)*

(c) Impairment of financial assets *(continued)*

(i) Assets carried at amortized cost (continued)

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months.

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

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

The calculation of the present value of the estimated future cash flows of a collateralized 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 (that is, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors).

Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

4. Significant accounting policies *(continued)*

(c) Impairment of financial assets *(continued)*

(i) Assets carried at amortized cost (continued)
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 Bank to reduce any differences between loss estimates and actual loss experience. Statutory and other regulatory loan reserve requirements that exceed these amounts are dealt with in the other reserves as an appropriation of retained earnings.

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.

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 recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive (loss)/income.

4. Significant accounting policies *(continued)*

(c) Impairment of financial assets *(continued)*

(ii) Assets classified as available-for-sale

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss – is removed from equity and recognized in the statement of comprehensive (loss)/income. Impairment losses recognized in the statement of comprehensive (loss)/income on equity instruments are not reversed through the statement of comprehensive (loss)/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 recognized in profit or loss, the impairment loss is reversed through the statement of comprehensive (loss)/income.

(iii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

(d) Offsetting of financial instruments

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

(e) Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

4. Significant accounting policies *(continued)*

(e) Provisions *(continued)*

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as an expense.

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal within the carrying amount of property, plant and equipment and are recognized net within "fees, commissions and other income" in the statement of comprehensive (loss)/income.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive (loss)/income during the financial period in which they are incurred. Depreciation is calculated using the straight line method to allocate the cost of assets to their residual values over their estimated useful lives, as follows:

Furniture, fittings and equipment	5-10 years
Computers	5-6 years
Automation	3 years
Machinery and equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. 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.

4. Significant accounting policies *(continued)*

(g) Intangible assets

Intangible assets comprise computer software licenses and are recognized at cost. Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Generally, the identified intangible assets of the Bank have a definite useful life. At each reporting date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analyzed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount. The Bank uses the cost model for the measurement after recognition.

Computer software
Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of software is three to five years.

Costs associated with maintaining computer software program are recognized as an expense when incurred.

(h) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. The Bank acquired property through the enforcement of security over loans and advances. Investment property is initially measured at cost and subsequently at fair value with changes therein recognised in profit and loss within other income. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property is recognised in profit and loss.

(i) Impairment of non-financial assets

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

(j) Interest income and expense

Interest income and expenses are recognized in the statement of comprehensive loss for all instruments measured at amortized cost using the effective interest method.

4. Significant accounting policies *(continued)*

(j) Interest income and expense *(continued)*

The effective interest method is a method of calculating the amortized 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 Bank estimates cash flows considering all contractual terms of the financial instrument 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 recognized using the rate of interest to discount the future cash flows for the purpose of measuring the impairment loss.

(k) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive (loss)/income on a straight line basis over the period of the lease.

(l) Fees and commissions and revenue recognition

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down are deferred (together with related direct costs) and recognized over the life of the loan, using the effective interest method. 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 recognized on completion of the underlying transaction.

(m) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction net of tax, from the proceeds.

(n) Dividend income

Dividends are recognized in the statement of comprehensive (loss)/income when the entity's right to receive payment is established.

4. Significant accounting policies *(continued)*

(o) Declaration of dividend

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Board of Directors. Dividends for the year which are approved after the balance sheet date are disclosed as a subsequent event.

(p) Foreign currency transaction

Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (the "functional currency"), which is United States Dollars. The financial statements are presented in Eastern Caribbean dollars, which is the Bank's presentation currency.

Transaction and balances
Monetary assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean dollars at the closing rates of exchange prevailing as at the reporting date. Foreign currency transactions are translated at the rates prevailing on the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive (loss)/income.

(q) Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(r) Tax on income

No provision is made for income tax since Anguilla does not have any form of income tax.

(s) Events after reporting date

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

(t) Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

5. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Board's objectives, policies and processes for measuring and managing risk and the Board's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework
The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Investment and Loan committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers, deposits with other banks, other financial assets and receivables and investment securities.

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Management of credit risk
Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers. The Board of Directors has delegated responsibility for the management of credit risk to its Loan Committee.

The Loan Committee is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with management and staff, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to the Credit Manager and Senior Manager by the Loan Committee as appropriate.

- Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band and market liquidity.

- Developing and maintaining the Bank's risk gradings in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation.

  The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews by the Loan Committee.

- Reviewing compliance with agreed exposure limits, including those for selected industries, country risk and product type. Regular reports are provided to the Loan Committee on the credit quality of loan portfolios and appropriate corrective action is taken.

- Providing advice, guidance and specialist skills to departments to promote best practice throughout the Bank in the management of credit risk.

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Management of credit risk *(continued)*
The credit department is required to implement the Bank's credit policies and procedures, with credit approval authorities delegated from the Loan Committee. The credit department has a Credit Manager who reports on all credit related matters to top management and the Loan Committee. The credit department is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Audits of the credit department processes are undertaken by Internal Audit.

(a) Loans and advances
The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed based on the Eastern Caribbean Central Bank guidelines. Customers of the Bank are segmented into five rating classes. The Bank'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 ratings tools are kept under review and upgraded as necessary.

Bank's rating	Description of the grade
1	Pass
2	Special mention
3	Substandard
4	Doubtful
5	Loss

(b) Debt and equity securities
The Bank's portfolio of debt and equity securities consists of investments in local and regional Governments and companies and other debt obligations by regional banking and non banking financial institutions, all of which are unrated. The Bank assesses the risk of default on Government obligations by regularly monitoring the performance of the respective Governments, through published government data 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.

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Risk limit control and mitigation policies
The Bank manages limits and controls concentrations of credit risk wherever they are identified, in particular to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to regular 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 exposures, and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored.

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

The following specific control and mitigation measures are also utilized:

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

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

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

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

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Risk limit control and mitigation policies *(continued)*

(ii) Credit related commitments

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

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter term commitments.

Impairment and provision policies

The Bank's internal rating system focuses 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 the objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment provision shown in the 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 and doubtful grades. The following table shows the percentage of the Bank's statement of financial position items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories.

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impairment and provision policies *(continued)*

	Loans and advances		Impairment provision		Net total
	$	%	$	%	$
At March 31, 2013					
Pass	14,538,498	28%	357,825	2%	14,180,673
Special mention	3,405,857	7%	30,537	0%	3,375,320
Substandard	18,472,859	36%	8,474,333	39%	9,998,526
Doubtful	30,348	0%	30,348	0%	-
Loss	10,927,530	21%	8,810,731	41%	2,116,799
Interest risk provision	-	0%	9,559	0%	(9,559)
	47,375,092	**92%**	**17,713,333**	**82%**	**29,661,759**
Interest receivable	3,970,270	8%	3,774,901	18%	195,369
	51,345,362	**100%**	**21,488,234**	**100%**	**29,857,128**

	Loans and advances		Impairment provision		Net total
	$	%	$	%	$
At March 31, 2012					
Pass	16,105,343	20%	-	0%	16,105,343
Special mention	5,113,242	7%	125,707	1%	4,987,535
Substandard	39,653,479	51%	9,853,844	38%	29,799,635
Doubtful	7,905,123	10%	5,852,872	22%	2,052,251
Loss	832,793	1%	832,793	3%	-
Inherent risk provision	-	0%	1,170,916	4%	(1,170,916)
	69,609,980	**89%**	**17,836,132**	**68%**	**51,773,848**
Interest receivable	8,622,008	11%	8,385,478	32%	236,530
	78,231,988	**100%**	**26,221,610**	**100%**	**52,010,378**

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impairment and provision policies *(continued)*

Loans and advances are analyzed as follows:

	2013 $	2012 $
Neither past due nor impaired		
Pass	**13,165,348**	11,657,519
Past due but not impaired		
Pass	**182,817**	4,447,824
Special mention	**776,788**	2,459,388
Substandard	**103,469**	6,602,979
	1,063,074	13,510,191
Individually impaired		
Pass	**1,190,333**	-
Special mention	**2,629,069**	2,653,854
Substandard	**18,369,390**	33,050,500
Doubtful	**30,348**	7,905,123
Loss	**10,927,530**	832,793
	33,146,670	44,442,270
Total gross loans and advances	**47,375,092**	69,609,980
Allowance for impairment	**(17,713,333)**	(17,836,132)
	29,661,759	51,773,848
Interest receivable	**3,970,270**	8,622,008
Allowance for impairment	**(3,774,901)**	(8,385,478)
	195,369	236,530
Total carrying amount	**29,857,128**	52,010,378

The total impairment provision for loans and advances is $21,488,234 (2012: $26,221,610) of which $17,703,774 (2012: $16,665,216) represents the individually impaired loans, $9,559 (2012: $1,170,916) represents the portfolio provision, and $3,774,901 (2012: $8,385,478) represents provision for interest receivable. Further information on the impairment provision for loans and advances to customers is provided in notes 10 and 11.

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impairment and provision policies

The breakdown on loans and allowance for impairment according to type of loans is as follows:

March 31, 2013	**Overdraft $**	**Retail $**	**Total $**
Neither past due nor impaired			
Pass	**120,164**	**13,045,184**	**13,165,348**
Past due but not impaired			
Pass	182,817	-	182,817
Special mention	401	776,387	776,788
Substandard	-	103,469	103,469
	183,218	**879,856**	**1,063,074**
Individually impaired			
Pass	-	1,190,333	1,190,333
Special mention	-	2,629,069	2,629,069
Substandard	18,735	18,350,655	18,369,390
Doubtful	30,348	-	30,348
Loss	599	10,926,931	10,927,530
	49,682	**33,096,988**	**33,146,670**
Total gross loans and advances	**353,064**	**47,022,028**	**47,375,092**
Allowance for impairment	(49,682)	(17,663,651)	(17,713,333)
	303,382	**29,358,377**	**29,661,759**
Interest receivable	-	3,970,270	3,970,270
	-	(3,774,901)	(3,774,901)
	-	**195,369**	**195,369**
Total carrying amount	**303,382**	**29,553,746**	**29,857,128**

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impairment and provision policies *(continued)*

March 31, 2012	Overdraft $	Retail $	Total $
Neither past due nor impaired			
Pass	**-**	**11,657,519**	**11,657,519**
Past due but not impaired			
Pass	454,381	3,993,443	4,447,824
Special mention	-	2,459,388	2,459,388
Substandard	-	6,602,979	6,602,979
	454,381	**13,055,810**	**13,510,191**
Individually impaired			
Special mention	-	2,653,854	2,653,854
Substandard	141	33,050,359	33,050,500
Doubtful	-	7,905,123	7,905,123
Loss	18,381	814,412	832,793
	18,522	**44,423,748**	**44,442,270**
Total gross loans and advances	472,903	69,137,077	69,609,980
Allowance for impairment	(18,522)	(17,817,610)	(17,836,132)
	454,381	**51,319,467**	**51,773,848**
Interest receivable	-	8,622,008	8,622,008
Allowance for impairment	-	(8,385,478)	(8,385,478)
	-	**236,530**	**236,530**
Total carrying amount	**454,381**	**51,555,997**	**52,010,378**

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impairment and provision policies *(continued)*

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are normally graded substandard, doubtful or loss in the Bank's internal credit risk grading system.

Impaired loans

	Overdraft $	Retail $	Total $
As at March 31, 2013			
Current	-	1,190,333	1,190,333
Past due 31-60 days	-	3,491,205	3,491,205
90 days and over	49,682	28,415,450	28,465,132
Total	**49,682**	**33,096,988**	**33,146,670**
Fair value of collateral	**-**	**25,272,471**	**25,272,471**
As at March 31, 2012			
Current	-	2,653,854	2,653,854
90 days and over	18,522	41,769,894	41,788,416
Total	**18,522**	**44,423,748**	**44,442,270**
Fair value of collateral	**-**	**59,863,118**	**59,863,118**

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

	Overdraft $	Retail $	Total $
As at March 31, 2013			
Past due up to 30 days	182,890	776,387	959,277
Past due 31-60 days	328	-	328
90 days and over	-	103,469	103,469
Total	**183,218**	**879,856**	**1,063,074**
Fair value of collateral	**40,500**	**3,192,642**	**3,233,142**

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impairment and provision policies *(continued)*

Past due but not impaired loans *(continued)*

	Overdraft $	Retail $	Total $
As at March 31, 2012			
Current	453,638	-	453,638
Past due up to 30 days	743	3,993,443	3,994,186
Past due 31-60 days	-	2,363,684	2,363,684
Past due 61-89 days	-	95,704	95,704
90 days and over	-	6,602,979	6,602,979
Total	**454,381**	**13,055,810**	**13,510,191**
Fair value of collateral	**696,000**	**36,589,831**	**37,285,831**

Allowance for impairment
The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main component of this allowance is the specific loss component that relates to individually significant exposures.

Provision for impairment losses were made in accordance with IAS 39 which considers the estimated future cash flows from the loans, including collateral. However, appropriate loan loss provisions were also made taking into consideration ECCB's prudential guidelines. Based on ECCB guidelines, all loans of EC$270,000 or more, as well as loans that are in arrears for 60 days or more, are reviewed and an additional provision is made, if necessary. In addition, a 1.0% general provision is made to the remaining loan portfolio. An additional provision is recognized as a reserve within equity to account for the difference between the requirements of ECCB and IAS 39, if the ECCB provision is greater.

Write-off policy
The Bank writes off a loan balance (and any related allowances for impairment losses) when the Loan Committee determines that the loan is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on product specific past due status.

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impairment and provision policies *(continued)*

Write-off policy *(continued)*
An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below for amounts past due but not impaired and amounts individually impaired:

	2013 **$**	2012 $
Individually impaired		
Property	**23,584,608**	59,863,118
Other (shares/debenture)	**1,687,863**	-
	25,272,471	59,863,118
Past due but not impaired		
Property	**3,192,642**	37,137,931
Cash	**40,500**	148,500
	3,233,142	37,286,431
Total		
Property	**26,777,250**	97,001,049
Cash	**40,500**	148,500
Other (shares/debenture)	**1,687,863**	-
	28,505,613	97,149,549

Loans and advances renegotiated
Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans – in particular, customer finance loans. In the majority of cases, restructuring results in the asset continuing to be impaired:

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Loans and advances renegotiated *(continued)*

	2013 $	2012 $
Renegotiated loans and advances to customers		
-Continuing to be impaired after restructuring	**10,310,687**	26,219,169
Loans to individuals		
- Non impaired after restructuring - would otherwise not have been impaired	**697,111**	807,441
	11,007,798	27,026,610

Concentration of credit risk

The Bank monitors concentrations of credit risk by sector. An analysis of economic sector credit risk concentrations of outstanding loans excluding interest receivable, unearned interest and allowance for impairment losses are presented in the table below:

	2013 $	2013 %	2012 $	2012 %
Property construction	**17,205,443**	**36%**	27,506,188	40%
Construction/land development	**4,447,496**	**9%**	18,743,083	27%
Transportation	**13,768,551**	**29%**	13,768,551	19%
Professional services	**735,740**	**2%**	1,260,960	2%
Other	**11,217,860**	**24%**	8,331,198	12%
As at March 31	**47,375,092**	**100%**	69,609,980	100%
Credit commitments				
Other	**259,987**	**100%**	264,038	100%
As at March 31	**259,987**	**100%**	264,038	100%

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Maximum net exposure to credit risk before collateral held or other credit enhancements are as follows:

	2013 $	2012 $
Credit risk exposure relating to on-balance sheet assets:		
Cash	**82,086,249**	81,372,126
Loans and advances – net	**29,857,128**	52,010,378
Investment securities		
Loans and receivables	**8,566,144**	8,217,895
Available-for-sale debt security	**208,544**	587,916
Other financial assets – net	**883,614**	623,557
	121,601,679	142,811,872
Credit exposures relating to off-balance sheet items:		
Loan commitments and other credit related facilities	**259,987**	264,038
	121,861,666	143,075,910

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as at March 31, 2013 and 2012. For this table the Bank has allocated exposures to regions based on country of domicile of the counterparties.

March 31, 2013	Anguilla $	Caribbean $	USA $	Europe $	Total $
Credit risk exposure relating to on-balance sheet assets:					
Cash	82,080,728	5,521	-	-	**82,086,249**
Loans and advances - net	-	16,224,917	13,109,061	523,150	**29,857,128**
Investment securities					
Loans and receivables	8,566,144	-	-	-	**8,566,144**
Available-for-sale debt security	-	208,544	-	-	**208,544**
Other financial assets - net	883,614	-	-	-	**883,614**
	91,530,486	**16,438,982**	**13,109,061**	**523,150**	**121,601,679**
Credit exposures relating to off-balance sheet items:					
Credit commitments	**259,987**	-	-	-	**259,987**
	91,790,473	**16,438,982**	**13,109,061**	**523,150**	**121,861,666**

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Geographical sectors *(continued)*

March 31, 2012	Anguilla $	Caribbean $	USA $	Europe $	Total $
Credit risk exposure relating to on-balance sheet assets:					
Cash	81,274,023	22,100	76,003	-	81,372,126
Loans and advances - net	668	31,968,994	19,491,435	549,281	52,010,378
Investment securities					
Loans and receivables	8,217,895	-	-	-	8,217,895
Available-for-sale debt security	-	587,916	-	-	587,916
Other financial assets - net	623,557	-	-	-	623,557
	90,116,143	32,579,010	19,567,438	549,281	142,811,872
Credit exposures relating to off-balance sheet items:					
Credit commitments	264,038	-	-	-	264,038
	90,380,181	32,579,010	19,567,438	549,281	143,075,910

Settlement risk
The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a Bank to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Bank.

(c) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations 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. Such outflows would deplete available cash resources for client lending 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 fulfill lending commitments. The risk that the Bank 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, systemic shocks and natural disasters.

5. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Management of liquidity risk
The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Board of Directors assesses information regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. It then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, deposits with banks and other interbank facilities, to ensure that sufficient liquidity is maintained by the Bank.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board of Directors. A summary report, including any exceptions and remedial action taken, is submitted regularly to the Board of Directors.

Assets held for managing liquidity risk
The Bank holds a diversified portfolio of cash, loans and investment securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise of the following:

- Cash and balances due from other banks; and
- Loans and advances.

Exposure to liquidity risk
The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash in bank and investment-grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month.

It is the policy of the Bank to monitor the following liquidity measures and keep them with the limits cited.

- Loans to capital ratio;
- Loans to available deposits;
- Net funds purchased to capital; and
- Net liquid assets to net liabilities

The above liquidity measures are reviewed internally on a historical basis and compared externally when possible with other banks.

5. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Details of the ratio of net liquid assets to deposits at the reporting date and during the reporting period were as follows:

	2013	2012
As at March 31	**0.61**	0.59
Average for the period	**0.62**	0.59
Maximum for the period	**0.72**	0.66
Minimum for the period	**0.58**	0.55

The Bank has access to a diverse funding base. Funds are raised during a broad range of instruments including deposits, other liabilities and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The table below presents the cash flows payable by the Bank under 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.

March 31, 2013	Within 1 month $	1-3 months $	3 months to 1 year $	1-5 years $	Over 5 years $	Total $
Deposits from customers	75,442,357	4,126,554	41,050,195	14,097,463	-	134,716,569
Other financial liabilities	1,029,825	-	-	-	-	1,029,825
Total liabilities	76,472,182	4,126,554	41,050,195	14,097,463	-	135,746,394
Assets held-for-managing liquidity risk	82,498,493	-	2,089,161	1,376,075	25,979,650	111,943,379
Liquidity surplus/(deficit)	**6,026,311**	**(4,126,554)**	**(38,961,034)**	**(12,721,388)**	**25,979,650**	**(23,803,015)**
March 31, 2012						
Deposits from customers	79,782,230	5,332,044	20,246,423	34,599,024	-	139,959,721
Other financial liabilities	739,327	-	-	-	-	739,327
Total liabilities	80,521,557	5,332,044	20,246,423	34,599,024	-	140,699,048
Assets held-for-managing liquidity risk	83,117,678	-	91,279	1,043,330	49,130,217	133,382,504
Liquidity surplus/(deficit)	**2,596,121**	**(5,332,044)**	**(20,155,144)**	**(33,555,694)**	**49,130,217**	**(7,316,544)**

5. Financial risk management *(continued)*

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk
The Bank separates its exposure to market risk between trading and non-trading portfolios. The market risks arising from trading and non-trading portfolios are monitored by the Investment Committee and management. Regular reports are submitted to the Board of Directors and department heads. Trading portfolios include those positions arising from market making transactions where the Bank acts as principal with clients or with the market. Non trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's available-for-sale investment securities.

Overall authority for market risk is vested in the Board of Directors. The Board of Directors is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

Equity price risk
Equity price risk is the possibility that equity prices will fluctuate, affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices. The Bank has no investments in equity securities, thus, it is not exposed to equity price risk. The Bank is also not exposed to commodity price risk.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk is affected where there is a mismatch between interest earning assets and interest bearing liabilities, which are subject to interest rate adjustments within a specified period.

At March 31, 2013, if interest rates on available-for-sale investments had been 1% higher with all other variables held constant, post-tax profit for the year would have been $3,857 (2012: $6,176) higher, mainly as a result of higher interest income. At March 31, 2013 , if interest rates on cash and cash equivalents and certificates of deposits had been 1% higher with all other variables held constant, post-tax profit for the year would have been $914,194 (2012: $849,951) higher, mainly as a result of higher interest income. At March 31, 2013, if interest rates on loans to customers had been 1% higher with all other variables held constant, post-tax profit for the year would have been $796,552 (2012: $550,101) higher, mainly as a result of higher interest income. At March 31, 2013, if interest rates on deposits to customers had been 1% higher with all other variables held constant, post-tax profit for the year would have been $1,373,381 (2012: $1,340,824) lower, mainly as a result of higher interest expense.

5. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate risk *(continued)*
In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at reporting date and the periods in which they are re-priced:

March 31, 2013	Effective interest rate %	12 months or less $	1-5 years $	More than 5 years $	Non-interest bearing $	**Total $**
Financial assets						
Cash	**4.28%**	82,086,249	-	-	-	**82,086,249**
Loans and advances - net	**9.46%**	2,501,404	1,376,075	25,979,649	-	**29,857,128**
Investment securities						
- Loans and receivables	**9.00%**	8,566,144	-	-	-	**8,566,144**
- Available-for-sale debt security	**9.00%**	-	208,544	-	-	**208,544**
Other financial assets - net	**Nil**	-	-	-	883,614	**883,614**
		93,153,797	**1,584,619**	**25,979,649**	**883,614**	**121,601,679**
Financial liabilities						
Deposits from customers	**3.11%**	(120,619,105)	(14,097,464)	-	-	**(134,716,569)**
Other financial liabilities	**Nil**	-	-	-	(1,029,825)	**(1,029,825)**
		(120,619,105)	**(14,097,464)**	**-**	**(1,029,825)**	**(135,746,394)**
Re-pricing gap		**(27,465,308)**	**(12,512,845)**	**25,979,649**	**(146,211)**	**(14,144,715)**
March 31, 2012						
Financial assets						
Cash	4.25%	81,372,126	-	-	-	81,372,126
Loans and advances - net	11.03%	1,836,831	1,043,330	49,130,217	-	52,010,378
Investment securities						
- Loans and receivables	9.00%	8,217,895	-	-	-	8,217,895
- Available-for-sale debt security	11.62%	-	587,916	-	-	587,916
Other financial assets - net	Nil	-	-	-	623,557	623,557
		91,426,852	1,631,246	49,130,217	623,557	142,811,872
Financial liabilities						
Deposits from customers	3.29%	(105,360,696)	(34,599,025)	-	-	(139,959,721)
Other financial liabilities	Nil	-	-	-	(739,327)	(739,327)
		(105,360,696)	(34,599,025)	-	(739,327)	(140,699,048)
Re-pricing gap		(13,933,844)	(32,967,779)	49,130,217	(115,770)	2,112,824

5. Financial risk management *(continued)*

(d) Market risk *(continued)*

Foreign currency risk
Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Bank incurs foreign currency risk on transactions that are denominated in a currency other than the functional currency, the EC Dollar. The currencies giving rise to this risk are primarily Canadian Dollars, Pounds Sterling and Euro. The EC Dollar is fixed to the US Dollar at the rate of 2.70.

The following table summarizes the Bank's exposure to foreign currency exchange risk at March 31, 2013. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

March 31, 2013	US $	US %	EC $	EC %	Other $	Other %	Total $
Financial assets							
Cash	76,033,768	93%	-	-	6,052,481	7%	**82,086,249**
Loans and advances - net	29,857,128	100%	-	-	-	-	**29,857,128**
Investment securities							
- Loans and receivables	8,566,144	100%	-	-	-	-	**8,566,144**
- Available-for-sale debt security	208,544	100%	-	-	-	-	**208,544**
Other financial assets – net	883,614	100%	-	-	-	-	**883,614**
	115,549,198		-	-	6,052,481		**121,601,679**
Financial liabilities							
Deposits from customers	(129,623,024)	96%	-	-	(5,093,545)	4%	**(134,716,569)**
Other financial liabilities	(1,029,825)	100%	-	-	-	-	**(1,029,825)**
	(130,652,849)		-	-	(5,093,545)		**(135,746,394)**
Net balance sheet position	(15,103,651)		-	-	958,936		**(14,144,715)**
Off-balance sheet items	259,987	100%	-	-	-		**259,987**
March 31, 2012							
Financial assets							
Cash	77,611,013	95%	-	-	3,761,113	5%	81,372,126
Loans and advances - net	52,010,378	100%	-	-	-	-	52,010,378
Investment securities							
- Loans and receivables	8,217,895	100%	-	-	-	-	8,217,895
- Available-for-sale debt security	587,916	100%	-	-	-	-	587,916
Other financial assets – net	623,557	100%	-	-	-	-	623,557
	139,050,759				3,761,113		142,811,872
Financial liabilities							
Deposits from customers	(136,899,769)	98%	-	-	(3,059,952)	2%	(139,959,721)
Other financial liabilities	(739,327)	100%	-	-	-	-	(739,327)
	(137,639,096)		-	-	(3,059,952)		(140,699,048)
Net balance sheet position	1,411,663		-	-	701,161		2,112,824
Off-balance sheet items	264,038	100%	-	-	-	-	264,038

5. Financial risk management *(continued)*

(e) Operational risk

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

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board of Directors. This responsibility is supported by the development of overall Bank's standards for the management of operational risk in the following areas:

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

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

(f) Capital management

Regulatory capital
The Bank's lead regulator, Anguilla Financial Services Commission, monitors capital requirements for the Bank.

The Bank's policy is to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sund capital position.

5. Financial risk management *(continued)*

(f) Capital management (*continued)*

Regulatory capital (*continued)*
The Bank has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the period.

The Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital which includes ordinary share capital, share premium, retained earnings, statutory reserves.

- Tier 2 capital includes unrealized gain on investments classified as available-for-sale securities or other hybrid capital instruments and other reserves.

The Bank's regulatory capital position as at March 31 is as follows:

Tier I capital	**2013**	2012
Share capital	**8,700,000**	8,700,000
Accumulated deficit	**(11,597,847)**	(7,045,858)
Total qualifying tier I capital	**(2,897,847)**	1,654,142
Tier II capital		
Reserve for loan impairment	**-**	-
Reserve for interest on non-performing loans	**14,951**	191,399
Total qualifying tier II capital	**14,951**	191,399
Total regulatory capital	**(2,882,896)**	1,845,541
Risk weighted assets		
On balance sheet	**77,527,533**	89,802,800
Off balance sheet	**259,987**	264,038
Total risk weighted assets	**77,787,520**	90,066,838
Basel ratio	**-3.71%**	2.05%

6. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimate that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is addressed below.

Impairment losses on loans and advances to customers
The Bank reviews its loan portfolios to assess impairment on an annual basis. In determining whether an impairment loss should be recorded in the statement of comprehensive loss, the Bank makes judgments 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, or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-10 percent, the provision would be estimated $1,133,468 (2012: $3,361,619) lower or $1,332,610 higher (2012: $4,128,813), respectively.

7. Determination of fair values

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Short-term financial assets
Due to the short term nature of the assets, the fair values of cash in bank and other financial assets approximate the carrying amounts as of the reporting date.

(b) Loans and advances
Loans and advances are net of charges 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 interest rates, hence the carrying values are considered to approximate the fair values.

7. Determination of fair values *(continued)*

(c) Financial liabilities

The carrying values of the Bank's demand deposit, savings deposit liabilities and other liabilities approximate the fair values because of their short term nature. The estimated value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of other 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 are considered to approximate the fair values.

(d) Off-balance sheet items

The estimated fair values of the off-balance sheet financial instruments are based on market prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

8. Financial assets and liabilities

a. Account classification and fair values of financial instruments not measured at fair value

March 31, 2013	Loans and receivables $	Available-for-sale $	Other amortized cost $	Total carrying amount $	**Fair value $**
Financial assets					
Cash	82,086,249	-	-	82,086,249	82,086,249
Loans and advances – net	29,857,128	-	-	29,857,128	29,857,128
Investment securities					
- Loans and receivables	8,566,144	-	-	8,566,144	8,566,144
- Available-for-sale debt security	-	208,544	-	208,544	208,544
Other financial assets – net	883,614	-	-	883,614	883,614
	121,393,135	208,544	-	121,601,679	121,601,679
Financial liabilities					
Deposits from customers	-	-	(134,716,569)	(134,716,569)	(134,716,569)
Other financial liabilities	-	-	(1,029,825)	(1,029,825)	(1,029,825)
	-	-	(135,746,394)	(135,746,394)	(135,746,394)
March 31, 2012					
Financial assets					
Cash	81,372,126	-	-	81,372,126	81,372,126
Loans and advances – net	52,010,378	-	-	52,010,378	52,010,378
Investment securities					
- Loans and receivables	8,217,895	-	-	8,217,895	8,217,895
- Available-for-sale debt security	-	587,916	-	587,916	587,916
Other financial assets – net	623,557	-	-	623,557	623,557
	142,223,956	587,916	-	142,811,872	142,811,872
Financial liabilities					
Deposits from customers	-	-	(139,959,721)	(139,959,721)	(139,959,721)
Other financial liabilities	-	-	(739,327)	(739,327)	(739,327)
	-	-	(140,699,048)	(140,699,048)	(140,699,048)

8. Financial assets and liabilities *(continued)*

b. Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on Eastern Caribbean Securities Exchange (ECSE).

- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability.

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
March 31, 2013				
Available-for-sale financial asset				
-Investment securities – debt	208,544	-	-	**208,544**
Total	208,544	-	-	**208,544**
March 31, 2012				
Available-for-sale financial asset				
-Investment securities – debt	587,916	-	-	**587,916**
Total	587,916	-	-	**587,916**

9. Cash

	2013	2012
Cash	**82,086,249**	**81,372,126**

Included in cash is a balance of $81,916,400 (2012: $80,964,563) held with the parent company, National Bank of Anguilla Limited, which bears interest at 4.25% per annum (2012: 4.25% per annum).

10. Loans and advances - net

	Notes	**2013**	2012
Non-productive		**17,591,988**	47,558,461
Commercial and industrial		**9,468,103**	5,714,014
Real estate and tourism		**8,899,095**	14,875,230
Personal		**135,910**	174,960
Judgment debt		**10,926,932**	814,412
Overdrafts		**353,064**	472,903
		47,375,092	69,609,980
Less: allowance for impairment losses	*11*	**(17,713,333)**	(17,836,132)
		29,661,759	51,773,848
Accrued interest receivable		**3,970,270**	8,622,008
Less: allowance for impairment losses	*11*	**(3,774,901)**	(8,385,478)
		195,369	236,530
		29,857,128	52,010,378

Details of the current and non-current portion of loans and advances follow:

	2013	2012
Current	**2,501,405**	2,944,997
Non-current	**27,355,723**	49,065,381
	29,857,128	52,010,378

Maturity analysis for loans and advances - net

	2013	2012
On demand	**412,244**	1,877,358
Within 1 year	**2,089,161**	1,067,639
Between 1 to 5 years	**1,376,075**	1,039,591
After 5 years	**25,979,648**	48,025,790
	29,857,128	52,010,378

As at March 31, 2013, approximately 59 percent (2012: 61%) of the total loan portfolio has been made to the Caribbean and approximately 40 percent (2012: 37%) has been made to North America.

Included in the interest receivable amount is interest earned on non-productive loans of $3,718,213 (2012: $8,550,955). This interest receivable was provided with allowance for impairment amounting to $3,774,901 (2012: $8,385,478).

11. Allowance for impairment losses

The movements of the allowance for impairment losses are as follows:

	2013	2012
Balance at beginning of year		
Loans to customers	**17,836,132**	12,185,139
Accrued interest receivable	**8,385,478**	5,295,073
	26,221,610	17,480,212
Loan impairment charges		
Loans to customers	**122,798**	6,298,584
Accrued interest receivable	**3,594,138**	3,119,530
	3,716,936	9,418,114
Written off during the year		
Loans to customers	**(245,597)**	(647,591)
Accrued interest receivable	**(8,204,715)**	(29,125)
	(8,450,312)	(676,716)
Balance at end of year		
Loans to customers	**17,713,333**	17,836,132
Accrued interest receivable	**3,774,901**	8,385,478
	21,488,234	26,221,610

12. Other assets and receivables - net

	Note	**2013**	2012
Suspense accounts		**120,705**	78,951
Other loan charges		**762,909**	544,606
		883,614	623,557
Less: allowance for impairment losses	*22*	**-**	-
Total other financial assets - net		**883,614**	623,557
Prepayments		**8,383**	129,585
		891,997	753,142

Details of the current and non-current portion of other assets and receivables follow:

	2013	2012
Current	**891,997**	753,142
Non-current	**-**	-
	891,997	753,142

13. Investment securities

	Notes	2013	2012
Loans and receivables	*13.1*	**8,566,144**	8,217,895
Available-for-sale debt security	*13.2*	**208,544**	587,916
		8,774,688	8,805,811

13.1 Loans and receivables

The following shows the breakdown of loans and receivables consisting:

	Interest rate	2013	2012
Term deposit			
Caribbean Commercial Bank	*4.25%*	**8,445,193**	8,100,000
Accrued interest receivable		**120,951**	117,895
		8,566,144	8,217,895

13.2 Available-for-sale debt security

	Interest rate	2013	2012
Government bond			
Government of Antigua and Barbuda Bond	*9.0%*	**192,851**	578,566
Accrued interest receivable		**15,693**	9,350
		208,544	587,916

Details of the current and non-current portion follow:

	2013	2012
Current	**15,693**	395,058
Non-current	**192,851**	192,858
	208,544	587,916

This represents an investment in Antigua and Barbuda Government Bond which will mature on July 26, 2013 and earns interest at nine percent (9.00%) per annum (2012: 9.00% per annum). This instrument was used as collateral for short-term borrowings by the parent company, National Bank of Anguilla Limited.

13. Investment securities *(continued)*

13.2 Available-for-sale debt security (continued)

The movements in investment security are as follows:

	2013	2012
Balance beginning of year	**587,916**	979,976
Principal repayments	**(385,715)**	(385,718)
Movement in interest receivable	**6,343**	(6,342)
Balance at end of year	**208,544**	587,916

14. Property, plant and equipment - net

Movements in this account are as follows:

	Furniture and equipment $	**Automation $**	**Machinery equipment $**	**Total $**
Cost				
At March 31, 2011	222,628	231,789	39,209	493,626
Addition	-	-	-	-
At March 31, 2012	**222,628**	**231,789**	**39,209**	**493,626**
Addition	-	-	-	-
At March 31, 2013	**222,628**	**231,789**	**39,209**	**493,626**
Accumulated depreciation				
At March 31, 2011	109,733	231,789	22,767	364,289
Depreciation	43,142	-	6,161	49,303
At March 31, 2012	**152,875**	**231,789**	**28,928**	**413,592**
Depreciation	43,099	-	5,652	48,751
At March 31, 2013	**195,974**	**237,789**	**34,580**	**462,343**
Net book value				
March 31, 2012	69,753	-	10,281	80,034
March 31, 2013	**26,654**	-	**4,629**	**31,283**

15. Intangible assets - net

Movements in this account follow:

	2013	2012
Cost		
Beginning balance	**236,115**	236,115
Acquisition during the year	**-**	-
Ending balance	**236,115**	236,115
Accumulated amortization		
Beginning balance	**208,467**	193,644
Amortization for the year	**14,823**	14,823
Ending balance	**223,290**	208,467
Carrying amount	**12,825**	27,648

16. Investment properties

	2013	2012
Beginning balance	**-**	-
Acquisition during the year	**15,282,000**	-
Fair value loss adjustment	**(3,705,156)**	-
Ending balance	**11,576,844**	-

The Bank owns property as a result of the enforcement of security over loans and advances. These properties have been valued using the expertise of external, professional and experienced valuation firms having good knowledge of present market conditions. The fair values are based on market values, being the estimated amount for which a property could be exchanged for on the date of the valuation between a willing and knowledgeable buyer and a willing and knowledgeable seller in an arm's length transaction after proper marketing.

Fair value losses are recognised in impairment of investments in the statement of comprehensive loss.

(Expressed in Eastern Caribbean Dollars (EC$))

17. Deposits from customers

	2013	2012
Time	**67,808,861**	75,830,807
Savings	**35,438,624**	35,575,538
Demand	**29,011,891**	26,720,691
	132,259,376	138,127,036
Interest payable	**2,457,193**	1,832,685
	134,716,569	139,959,721

Details of the current and non-current portion of deposits from customers follow:

	2013	2012
Current	**120,619,105**	105,360,697
Non-current	**14,097,464**	34,599,024
	134,716,569	139,959,721

18. Other liabilities

	2013	2012
Other payables	**513,917**	165,542
Accounts payable and accrued expenses	**515,908**	573,785
Other financial liabilities	**1,029,825**	739,327
Unearned fees closing cost	**367,516**	504,550
	1,397,341	1,243,877

Details of the current and non-current portion of other liabilities follow:

	2013	2012
Current	**1,029,825**	739,327
Non-current	**367,516**	504,550
	1,397,341	1,243,877

(Expressed in Eastern Caribbean Dollars (EC$))

19. Share capital

The authorized share capital is unlimited.

	No. of shares	**2013**	2012
Issued and fully paid shares	*32,222*	**8,700,000**	8,700,000

20. Other reserves

	2013	2012
Reserve for loan impairment	**-**	-
Reserve for interest on non-performing loans	**14,951**	191,399
	14,951	191,399

Reserve for loan impairment
This reserve is created to set aside the amount by which the loan loss provision calculated under the Prudential Guidelines of Eastern Caribbean Central Bank exceeds the loan loss provision calculated in accordance with IAS 39.

	2013	2012
Balance at beginning of year	**-**	-
Decrease in reserve	**-**	-
	-	-

Reserve for interest on non-performing loans
This reserve is created to set aside interest accrued on non-performing loans in accordance with IAS 39. The Prudential Guidelines of Eastern Caribbean Central Bank, however, do not allow the accrual of such interest. The interest is therefore set aside in a reserve and is not available for distribution to the shareholder.

	2013	2012
Balance at beginning of year	**191,399**	313,248
Decrease in reserve	**(176,448)**	(121,849)
	14,951	191,399

21. General and administrative expenses

	Notes	**2013**	2012
Staff and related costs	*22*	**492,490**	511,217
Service maintenance		**391,576**	397,858
Professional fees		**204,770**	259,482
National Commercial Data Services expenses		**106,850**	96,191
Other		**70,335**	(83,638)
Public relations		**13,002**	39,461
Supplies		**10,965**	10,634
Occupancy costs	*24*	**17,739**	17,739
Communication		**4,865**	4,048
		1,312,592	1,252,992

22. Staff and related costs

	2013	2012
Salaries, wages and allowances	**470,554**	494,057
Social security	**16,575**	17,160
Other staff cost and benefits	**5,361**	-
	492,490	511,217

23. Loss per share

The calculation of basic loss per share as of March 31, 2013 and 2012 were based on the net loss for the year and the total number of shares issued and outstanding as at the reporting date calculated as follows:

	Note	**2013**	2012
Net loss		**(4,728,437)**	(5,238,352)
Total number of shares issued and fully paid	*19*	**32,222**	32,222
Loss per share		**(147)**	(163)

24. Related party transactions

a. Identification of related party

A party is related to the Bank if:

(i) Directly or indirectly the party:
- Controls, is controlled by, or is under common control with the Bank;
- Has an interest in the Board that gives it significant influence over the Bank; or
- Has joint control over the Bank;

(ii) The party is a member of the key management personnel of the Bank;
(iii) The party is a close member of the family of any individual referred to in (i) or (ii); and
(iv) The party is a post-employment benefit plan for the benefit of employees of the Bank or any company that is a related party of the Bank.

b. Related party transactions and balances

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

Related party transactions, outstanding balances at the year end and relating expenses and income for the year are as follows:

(i) Related party balances

	Note	**2013**	2012
National Bank of Anguilla Limited			
Cash	*9*	**81,916,400**	80,964,563
		81,916,400	80,964,563

(ii) Related party transactions

	Notes	**2013**	2012
National Bank of Anguilla Limited			
Interest income		**3,485,857**	3,292,834
Service maintenance paid		**270,000**	270,000
Occupancy costs	*21*	**17,739**	17,739

24. Related party transactions *(continued)*

b. Related party transactions and balances (continued)

(iii) Remuneration to directors and executive staff

	2013	2012
Directors' fees	**102,813**	103,800
Key management salaries and allowances	**172,138**	205,486

The parent company, National Bank of Anguilla Limited, pays for the pension expense of all employees on behalf of the Bank.

25. Commitments

Customers loans approved at March 31, 2013 but not disbursed amounted to $120,771 (2012: $120,770), while undrawn overdraft facilities were $139,216 (2012: $143,268). There were no credit card commitments, guarantees or letters of credit as at March 31, 2013 (2012: Nil).

26. Subsequent events

- A fraud involving approximately US$640,000 was perpetrated by a third party against the Bank in which funds were withdrawn from a customer's account based on an e-mail instruction which was negligently processed by the Bank. The Bank submitted a claim against the insurer to recover the loss. The Bank has not yet provided any contingent liability in its 2012 financial statements pending receipt of the insurer's final settlement.

- The Anguilla Financial Services Commission (AFSC) requires that banks doing business with individuals who are not citizens or residents of Anguilla must have a Tier 1 capital of at least 10% of its risk-weighted assets. In order to satisfy this requirement, the Bank's parent company NBA, in May of 2013, increased its shareholding by injecting a further EC$2,650,000.