

Bank of Saint Lucia Limited

Financial Statements

For the year ended 31 December 2017
(Expressed in Eastern Caribbean Dollars)

Bank of Saint Lucia Limited

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF BANK OF SAINT LUCIA LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank of Saint Lucia Limited (the Bank), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit Committee for the Financial Statements

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

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

The Audit Committee is responsible for overseeing the Bank's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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


- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the bank audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

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

Ernst & Young Ltd.



CHARTERED ACCOUNTANTS
Castries
St. Lucia
22 March 2018

Bank of Saint Lucia Limited

Statement of Financial Position

As at 31 December 2017

(expressed in Eastern Caribbean dollars)

	2017 \$	2016 \$
Assets		
Cash and balances with Central Bank (Note 5)	347,950,065	242,615,038
Deposits with other banks (Note 6)	96,111,567	95,603,876
Deposits with non-bank financial institutions (Note 7)	5,412,488	8,729,733
Treasury bills (Note 8)	23,131,699	23,006,088
Financial assets held for trading (Note 9)	19,641,853	18,599,712
Investment securities (Note 12)	525,518,983	458,558,435
Financial instruments-pledged assets (Note 13)	10,710,269	21,366,983
Due from related parties (Note 14)	82,418,108	84,137,685
Loans and receivables - loans and advances to customers (Note 10)	874,051,040	898,627,332
Property and equipment (Note 15)	46,978,181	78,772,529
Other assets (Note 16)	55,208,882	65,504,927
Investment in associates (Note 18)	4,800,000	4,800,000
Investment properties (Note 19)	37,454,500	6,547,711
Retirement benefit asset (Note 20)	13,614,949	10,626,569
Income tax recoverable	5,458,514	4,482,139
Deferred tax asset (Note 21)	819,894	-
Total assets	2,149,280,992	2,021,978,757
Liabilities		
Deposits from banks (Note 22)	43,297,719	54,511,798
Due to customers (Note 23)	1,805,267,133	1,748,686,109
Repurchase agreements (Note 13)	13,702,747	13,838,910
Borrowings (Note 24)	79,181,457	93,629,412
Dividends payable	290,500	566,415
Preference shares (Note 25)	4,150,000	4,150,000
Other liabilities (Note 26)	29,201,111	30,157,005
Total liabilities	1,975,090,667	1,945,539,649
Equity		
Share capital (Note 27)	265,102,745	198,718,745
Reserves (Note 28)	162,787,969	149,583,770
Revaluation surplus	13,855,322	13,855,322
Unrealised gains/(loss) on investments	1,437,172	(1,006,930)
Accumulated deficit	(268,992,883)	(284,711,799)
Total equity	174,190,325	76,439,108
Total liabilities and equity	2,149,280,992	2,021,978,757

The accompanying notes form part of these financial statements.

Approved by the Board of Directors on 22nd March 2018.

Director

Director

Bank of Saint Lucia Limited

Statement of Changes in Equity

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

	Share capital (Note 27) \$	Reserves (Note 28) \$	Revaluation Surplus \$	Unrealised Gain/ (Loss) on Available for sale investments \$	Accumulated Deficit \$	Total \$
Balance at 1 January 2016	198,718,745	146,854,341	13,855,322	(2,899,994)	(171,599,133)	184,929,281
Total comprehensive loss for the year	-	-	-	1,893,064	(110,383,237)	(108,490,173)
Transfers from reserves	-	2,729,429	-	-	(2,729,429)	-
Balance at 31 December 2016	198,718,745	149,583,770	13,855,322	(1,006,930)	(284,711,799)	76,439,108
Balance at 1 January 2017	198,718,745	149,583,770	13,855,322	(1,006,930)	(284,711,799)	76,439,108
Total comprehensive income for the year	-	-	-	2,444,102	28,923,115	31,367,217
Additional share issue	66,384,000	-	-	-	-	66,384,000
Transfers to reserves	-	13,204,199	-	-	(13,204,199)	-
Balance at 31 December 2017	265,102,745	162,787,969	13,855,322	1,437,172	(268,992,883)	174,190,325

The accompanying notes form part of these financial statements.

Bank of Saint Lucia Limited

Statement of Comprehensive Income

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

	2017 \$	2016 \$
Interest income (Note 30)	80,247,459	76,683,324
Interest expense (Note 30)	(32,144,962)	(35,490,104)
Net interest income	48,102,497	41,193,220
Fee and commission income (Note 31)	31,372,943	30,990,964
Dividend income (Note 32)	475,445	1,663,616
Net foreign exchange trading income (Note 33)	11,469,224	9,997,188
Other income (Note 34)	10,808,999	8,389,940
Other gains/(losses) (Note 35)	2,978,306	(1,008,588)
Impairment losses on loans and advances (Note 11)	(15,696,102)	(128,782,213)
Impairment losses on investments (Note 12)	(318,339)	-
Operating expenses (Note 36)	(62,519,254)	(67,404,564)
Profit/(loss) before income tax and preference shares	26,673,719	(104,960,437)
Dividends on preference shares (Note 25)	(290,500)	(290,500)
Profit/(loss) before income tax	26,383,219	(105,250,937)
Income tax recovery/(expense) (Note 38)	2,019,357	(5,726,455)
Net profit/(loss) for the year	28,402,576	(110,977,392)

Bank of Saint Lucia Limited

Statement of Comprehensive Income ...continued

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

	2017 \$	2016 \$
Net profit/(loss) for the year	28,402,576	(110,977,392)
Other comprehensive income/(loss)		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Unrealised gain on available for sale investments	2,845,243	2,686,352
Realised gain transferred to statement of income	(401,141)	(793,288)
	<u>2,444,102</u>	<u>1,893,064</u>
Other comprehensive income not to be reclassified to profit or loss in subsequent period:		
Re-measurement gains on defined benefit pension scheme	743,628	848,793
Income tax effect	(223,089)	(254,638)
	<u>520,539</u>	<u>594,155</u>
Total other comprehensive income	<u>2,964,641</u>	<u>2,487,219</u>
Total comprehensive income/(loss) for the year	<u>31,367,217</u>	<u>(108,490,173)</u>

The accompanying notes form part of these financial statements.

Bank of Saint Lucia Limited

Statement of Cash Flows

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

	2017 \$	2016 \$
Cash flows from operating activities		
Profit/(loss) before income tax	26,673,719	(104,960,437)
Adjustments to reconcile net profit before tax to net cash flows:		
Interest income from investments, treasury bills and deposits with banks	(19,073,592)	(16,086,734)
Impairment losses on loans and advances	15,696,102	128,782,213
Impairment losses on investments	318,339	-
Fair value gain on investment property	(812,745)	1,530,000
Depreciation	4,508,279	5,171,116
Retirement benefit contributions	(3,053,950)	(2,410,838)
Retirement benefit expense	809,198	530,202
Unrealised gain on investments held for trading	24,556	17,329
Gain on disposal of investments	(2,154,993)	(504,083)
Amortised premium on investments	(519,385)	(367,841)
(Gain)/loss on disposal of property and equipment	(51,632)	48,154
Cash flows before changes in operating assets and liabilities	22,363,896	11,749,081
Increase in mandatory deposits with Central Bank	(16,824,076)	(1,562,395)
Decrease in loans and advances to customers	8,880,190	41,772,457
Decrease/(increase) in pledged assets	10,508,932	(2,909,315)
Increase in financial assets held for trading	(1,064,289)	(3,493,841)
Decrease/(increase) in other assets	10,296,040	(21,878,902)
Decrease in treasury bills	1,109,132	2,121,118
Increase in due to customers	56,581,024	13,044,919
(Decrease)/increase in deposits from banks	(11,214,079)	1,767,182
Decrease in repurchase agreements	(136,163)	(6,097,113)
Decrease in advances from related parties	1,719,577	-
(Decrease)/increase in other liabilities	(941,066)	12,877,921
Net cash generated from operations	81,279,118	47,391,112
Income tax paid	-	(2,652,338)
Interest received	17,960,358	14,230,142
Net cash generated from operating activities	99,239,476	58,968,916
Cash flows from investing activities		
Purchase of investment securities	(230,328,617)	(216,768,401)
Net proceeds from disposal and redemption of investment securities	169,126,515	147,811,230

Bank of Saint Lucia Limited

Statement of Cash Flows ...continued

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

	2017	2016
	\$	\$
Purchase of investment properties	(65,257)	-
Purchase of property and equipment	(2,741,386)	(2,067,356)
Proceeds from disposal of property and equipment	50,300	61,571
	<hr/>	<hr/>
Net cash used in investing activities	(63,958,445)	(70,962,956)
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Cash flows from financing activities		
Proceeds from share issue	66,384,000	-
Dividends paid	(581,240)	-
Repayments of borrowings	(14,447,955)	(24,546,987)
Proceeds from borrowings	-	51,100,137
	<hr/>	<hr/>
Cash generated from financing activities	51,354,805	26,553,150
	<hr/>	<hr/>
Net increase in cash and cash equivalents	86,635,836	14,559,110
Cash and cash equivalents at beginning of year	263,888,760	249,329,650
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Cash and cash equivalents at end of year (Note 39)	350,524,596	263,888,760
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The accompanying notes form part of these financial statements.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

1 General information

Bank of Saint Lucia Limited (the Bank) was incorporated in Saint Lucia on 30 June 2001. The Bank provides retail, corporate banking and investment banking services. The Bank is domiciled in St. Lucia and is a wholly owned subsidiary of East Caribbean Financial Holding Company Limited (the “Parent Company”), a limited liability company incorporated and domiciled in Saint Lucia.

In October 2016 the East Caribbean Financial Holding Company limited (ECFH) was amalgamated with Bank of Saint Lucia Limited and ECFH Global Investment Solutions in accordance with the provisions of the Companies Act CAP 13.01, Revised Laws of Saint Lucia and continued as Bank of Saint Lucia Limited. Another company with the same name East Caribbean Financial Holding Company Limited was then reincorporated under the same act to hold the shares of Bank of Saint Lucia Limited, Bank of Saint Lucia International Limited and Bank of St. Vincent & the Grenadines. The amalgamation was between entities under common control and was accounted for as a pooling of interest.

The Bank is subject to the Companies Act, 1996 and the provisions of the Banking Act of Saint Lucia, 2015.

The Bank’s principal place of business and registered office is located at No.1 Bridge Street, Castries, Saint Lucia.

2 Summary of significant accounting policies

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

Statement of compliance

Bank of Saint Lucia Limited’s financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as at 31 December 2017 (the reporting date).

Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets held at fair value through profit or loss classified in the statement of financial position as financial assets held for trading and land and buildings classified as property and equipment and investment properties.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Basis of preparation...continued

(a) Changes in accounting policies and disclosures:

The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments were applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Bank. The nature and the impact of each new standard or amendment are described below:

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. This amendment is effective for annual periods beginning on or after January 1, 2017 and did not have a significant impact on the Bank.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profits may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. This amendment is effective for annual periods beginning on or after January 1, 2017 and did not have a significant impact on the Bank.

IFRS 12 – Disclosure of Interests in Other Entities - Amendments resulting from Annual Improvements 2014-2016 Cycle (Clarifying Scope)

The amendments clarify that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, joint venture or an associate that is classified as held for sale. This amendment is effective for annual periods beginning on or after January 1, 2017 and did not have a significant impact on the Bank.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

2. Summary of significant accounting policies...continued

Basis of preparation...continued

(b) Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that will replace IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted. In 2015 the Group set up a multidisciplinary implementation team ('the Team') with members from its various subsidiaries, Risk, Finance, Information Technology and Operations to prepare for the IFRS 9 implementation ('the Project'). The Project is sponsored by the Chief Financial Officer, who regularly reports to the Group's Supervisory Board. The Project's expected credit loss model is expected to run parallel with the present IAS 39 model by the first quarter of 2018 and thereafter fully implemented before the end of the second quarter.

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: Fair Value through profit or loss (FVPL), Fair Value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

The Bank does not expect an adverse impact from the application of the impairment requirements of IFRS 9.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Basis of preparation...continued

(b) Standards issued but not yet effective...continued

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

IFRS 2 Classification and Measurement of Share-based Payment Transactions Amendments to IFRS 2 (effective January 1, 2018) .

These amendments are in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Basis of preparation...continued

(b) Standards issued but not yet effective...continued

IAS 40 Investment Property: Transfers of Investment Properties – Amendments to IAS 40 (effective January 1, 2018)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions, for the use of the property does not provide evidence of a change in use.

(c) Fair value measurement

The Bank measures financial instruments such as investment securities and non-financial instruments such as investment properties, at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised in the following notes:

Disclosures for valuation methods, significant estimates and assumptions	Notes 2 and 3
Quantitative disclosures of fair value measurement hierarchy	Note 3
Financial instruments (including those carried at amortised cost)	Note 12,9
Land and buildings	Note 15
Investment properties	Note 19

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

A fair value of a non-financial asset takes into account a market participants ability to generate economic benefits by using the assets in its highest and best use or by selling to another participant that would use the asset in its highest and best use.

The bank determines the policies and procedures for both recurring and non-recurring fair value measurement.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(c) Fair value measurement...continued

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including: cash and non-restricted balances with the Central Bank, treasury bills, deposits with other banks, deposits with non-bank financial institutions and other short-term securities.

Investment in associates

Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associate is accounted for at cost.

Financial assets

The Bank allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories; financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

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

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the statement of income. Gains and losses arising from changes in fair value are included directly in the statement of income. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income'. The instruments are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

(c) Fair value measurement...continued

Financial assets...continued

(b) Loans and receivables

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

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the statement of financial position as loans and advances to customers or as investment securities. Interest on loans and advances to customers and investment securities are included in the statement of income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of income.

(c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity, other than: (a) those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank designates as available for sale; and (c) those that meet the definition of loans and receivables. These are initially recognised at fair value including direct and incremental transaction costs are measured subsequently at amortised cost, using the effective interest method less impairment. Interest on held-to-maturity investments is included in the statement of income. The losses arising from impairment are recognised in the statement of income as impairment losses on investments.

If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. The difference between the carrying value and fair value is recognised in equity.

(d) 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, held to-maturity investments or financial assets at fair value through profit or loss.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Financial assets...continued

(d) Available-for-sale financial assets...continued

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. Management makes judgements at each reporting date to determine whether available-for-sale investments are impaired. These investments are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the statement of income. Interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the statement of income. Dividends on available-for-sale equity instruments are recognised in the statement of income when the Bank's right to receive payment is established. Where fair value cannot be determined cost is used to value investments.

Recognition/Derecognition

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 repledge them.

Financial assets are derecognised when the rights to the cash flows from the asset has expired or when it has transferred substantially all the risks and rewards of ownership.

Impairment of financial assets

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

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

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

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Impairment of financial assets...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; in exceptional cases, longer periods are warranted.

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

Loans and advances that have been assessed individually and found not to be impaired and all individually performing loans and advances are assessed collectively in groups of assets with similar risk characteristics to determine whether provisions should be made due to incurred loss events which are not yet evident. The collective assessment takes account of data from the loan portfolio such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios, concentrations of risks and economic data country risk and the performance of different groups.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan or held-to-maturity investment has variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

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

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Impairment of financial assets...continued

Assets classified as available-for-sale

The Bank makes judgments at each reporting date of determine whether available-for-sale investments are impaired. These investments are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income.

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

Renegotiated loans

During the normal course of business financial assets carried at amortised cost may be restructured with the mutual agreement of the “Bank” and the counterparty. When this occurs for reasons other than those which could be considered indicators of impairment, the Bank assesses whether the restructured or renegotiated financial asset is significantly different from the original one by comparing the present value of the restructured cash flows discounted at the original instruments interest rate. If the restructured terms are significantly different the bank derecognises the original financial asset and recognises a new one at fair value with any difference recognized in the statement of income.

Offsetting 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 recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Sale and repurchase agreements

Securities sold subject to linked repurchase agreements (repos) are retained in the financial statements as investments securities and the counterparty liability is included in repurchase agreement on the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of the repurchase agreement using the effective interest method.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Property and equipment

Land and building comprise mainly branches and offices occupied by the Bank. Land and buildings are shown at their fair value less subsequent depreciation for buildings.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged against other comprehensive income, all other decreases are charged to the statement of income.

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

Buildings	2%
Leasehold improvements	10%
Office furniture and equipment	10%-15%
Computer equipment	33 1/3%
Motor vehicles	20%

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. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of income.

Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the statement of income on a straight-line basis over the period of the lease.

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

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, are classified as investment properties. Investment property comprises freehold land and buildings which are leased out under operating leases. Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost was incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair value of investment properties are included in the Company's statement of comprehensive income in the year in which they arise.

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Investment property is carried at fair value, representing open market value determined annually by external professionally qualified valuers. Fair value is adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Investment property is reviewed annually by independent external evaluators.

Investment property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.

Impairment of other non-financial assets

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

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Income tax

(a) Current tax

Income tax payable/(receivable) is calculated on the basis of the applicable tax law in St. Lucia and is recognised as an expense/(income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income.

Where the Bank has tax losses that can be relieved against a tax liability for a previous year, it recognises those losses as an asset, because the tax relief is recoverable by refund of tax previously paid. This asset is offset against an existing current tax balance. Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the statement of financial position.

(b) Deferred tax

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

The principal temporary differences arise from depreciation of property and equipment and tax losses. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting, nor taxable profit or loss.

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

Financial liabilities

The Bank's holding in financial liabilities is at amortised cost. Financial liabilities are derecognised when extinguished.

Financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue for which the fair value option is not applied.

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Provisions

Provisions are recognised when the bank has a present of legal or constructive obligation as a result of a past event, it is more likely that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee benefits

Pension obligations

Certain of the Bank's employees are covered by the defined benefit plan of the Bank. The contributions to the plan are allocated to the group companies based on employee membership in the plan. Contributions paid on behalf of employees of the Bank are charged to the statement of income in the period in which the contributions are paid.

The Bank operates a defined benefit plan. The scheme is funded through payments to trustee-administered funds, determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The pension obligation valuations are undertaken annually. The asset recognised in the statement of financial position of the Bank in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets, are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur.

Re-measurements are not reclassified to the consolidated statement of income in subsequent periods.

Past service costs are recognised in the Bank's statement of income on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Bank recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

The Bank recognises the following changes in the net defined benefit obligation under 'operating expenses' in the consolidated statement of income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Employee benefits...continued

Termination benefits

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

Guarantees and letters of credit

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

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

Fiduciary activities

The Bank commonly acts as trustee and in other fiduciary capacities that result in the holding and placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

Share capital

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

Reserves

The Bank allocates reserves in accordance with the Banking Act of Saint Lucia of 2015.

Dividend on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends for the year that are declared after the reporting date are dealt with in the subsequent events note.

Redeemable preference shares

Preference shares which are mandatorily redeemable on a specific date are classified as liabilities. The dividend on these preference shares are recognised in the statement of income.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all financial instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. 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 recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of a business, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time apportioned basis.

Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for financial planning and custody services that are continuously provided over an extended period of time.

Dividend income

Dividend income from available-for-sale equities is recognised when the right to receive payment is established.

Rental income

Rental income from operating leases is recognised on a straight-line basis over the lease term.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Foreign currency translation

Functional and presentation currency

Items in the financial statements are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The financial statements are presented in Eastern Caribbean dollars, which is the Bank’s functional and presentation currency.

Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rates as at the reporting date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income. Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in the other comprehensive income.

Financial instruments

Financial instruments carried on the statement of financial position include cash and bank balances, investment securities, loans and advances to customers, deposits with other banks, deposits from banks, due to customers and borrowed funds. The particular recognition methods adopted are disclosed in the individual policy statement associated with each item.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management

Strategy in using financial instruments

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

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

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

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

Credit risk

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

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

Loans and advances to customers

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

Debt securities and treasury bills

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

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Cash and balances with Banks

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

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.

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 to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary by the Board of Directors.

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

Some other specific control and mitigation measures are outlined below.

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 fund advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

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

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

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

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

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Credit risk...continued

Credit-related commitments

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the 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 provisioning policies

The internal rating systems focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment.

Management determines whether objective evidence of impairment exists based on the following criteria set out by the Bank:

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

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

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Credit risk...continued

Maximum exposure to credit risk

Maximum credit risk exposures relating to the financial assets in the statement of financial position:

	Maximum exposure	
	2017	2016
	\$	\$
Balances with Central Bank	315,533,843	214,788,486
Deposits with other banks	96,111,567	95,603,876
Deposits with non-bank financial institutions	5,412,488	8,729,733
Treasury Bills	23,131,699	23,006,088
Loans and advances to customers:		
Overdrafts	29,291,085	40,952,769
Term loans	208,447,377	212,546,519
Large corporate loans	280,564,996	291,131,009
Mortgages	355,747,582	353,997,035
Financial Assets held for trading	19,641,853	18,599,712
Investment securities	512,537,679	443,679,166
Due from related parties	82,418,108	84,137,685
Financial instruments -pledged assets	10,710,269	21,366,983
Other assets	52,452,945	63,097,613
	1,992,001,491	1,871,636,674

	Maximum exposure	
	2017	2016
	\$	\$
Credit risk exposures relating to financial assets off- the statement of financial position:		
Loan commitments	69,837,704	72,455,496
Guarantees and letters of credit	23,764,807	27,141,676
	93,602,511	99,597,172
	2,085,604,002	1,971,233,846

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Credit risk...continued

Maximum exposure to credit risk...continued

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2017 and 31 December 2016, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 43% (2016 – 48%) of the total maximum exposure is derived from loans and advances to customers and 25% (2016 – 23%) represents investments in debt securities.

Loans and advances

Loans and advances to customers are summarised as follows:

	2017 \$	2016 \$
Neither past due nor impaired	523,198,846	539,217,292
Past due but not impaired	104,238,220	96,363,115
Impaired	342,229,229	363,209,695
Gross	969,666,295	998,790,102
Less allowance for impairment losses on loans and advances to customers	(95,615,255)	(100,162,770)
Net	874,051,040	898,627,332

The total impairment provision for loans and advances to customers is \$95,615,255 (2016 – \$100,162,770) of which \$71,524,294 (2016 – \$67,461,756) represents the individually impaired loans and the remaining amount of \$24,090,961 (2016 – \$32,701,014) represents the collective provision. Further information on the allowance for impairment losses on loans and advances to customers is provided in Notes 10 and 11.

Loans and advances to customers neither past due nor impaired

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

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Credit risk...continued

Loans and advances...continued

	Overdrafts \$	Term Loans \$	Mortgages \$	Large Corporate Loans \$	Total \$
31-Dec-17	24,622,610	125,549,174	264,707,964	108,319,098	523,198,846
31-Dec-16	30,154,828	129,043,866	262,997,508	117,021,090	539,217,292

Loans and advances to customers past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Term Loans \$	Mortgage Loans \$	Large Corporate Loans \$	Total \$
At 31 December 2017				
Past due up to 30 days	19,556,899	33,099,995	18,897,494	71,554,388
Past due 30 - 60 days	4,777,630	5,641,585	10,576,919	20,996,134
Past due 60 - 90 days	4,422,558	2,802,642	4,462,498	11,687,698
At 31 December 2017	28,757,087	41,544,222	33,936,911	104,238,220
At 31 December 2016				
Past due up to 30 days	18,909,778	35,954,682	17,654,488	72,518,948
Past due 30 - 60 days	4,834,539	7,087,674	3,069,971	14,992,184
Past due 60 - 90 days	3,826,174	4,721,750	304,059	8,851,983
At 31 December 2016	27,570,491	47,764,106	21,028,518	96,363,115

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Credit risk ...continued

Loans and advances to customers individually impaired

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

	Overdrafts \$	Term Loans \$	Mortgage Loans \$	Large Corporate Loans \$	Total \$
31 December 2017	9,655,219	70,933,310	61,151,044	200,489,656	342,229,229
31 December 2016	12,285,137	72,950,430	56,479,703	221,494,425	363,209,695

Debt securities and treasury bills

The table below presents an analysis of debt securities and treasury bills by rating agency designation at 31 December 2017 and 2016, based on Standard & Poor's and Moody's ratings:

	Financial Assets Held For Trading \$	Investment Securities \$	Pledged Assets \$	Treasury Bills \$	Total \$
At 31 December 2017					
AA- to A+	–	125,659,378	–	–	125,659,378
Lower than A+	–	248,654,889	–	–	248,654,889
Unrated	19,641,853	138,223,412	10,710,269	23,131,699	191,707,233
Total	19,641,853	512,537,679	10,710,269	23,131,699	566,021,500
At 31 December 2016					
AA- to A+	–	100,307,319	–	–	100,307,319
Lower than A+	586,049	235,789,348	–	23,006,088	259,381,485
Unrated	18,013,663	107,582,499	21,366,983	–	146,963,145
Total	18,599,712	443,679,166	21,366,983	23,006,088	506,651,949

Deposits with other banks and non-bank financial institutions are held with reputable financial institutions as such credit risk is deemed to be minimal.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Concentrations of risks of financial assets with credit exposure

(a) Geographical sectors

The Bank operates primarily in Saint Lucia.

(b) Industry sectors

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

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Industry concentrations of risks of financial assets with credit exposure ...continued

	Financial Institutions \$	Manu- facturing \$	Tourism \$	Government \$	Professional and Other Services \$	Personal \$	* Other Industries \$	Total \$
At 31 December 2017								
Financial assets								
Balances with central bank	315,533,843	—	—	—	—	—	—	315,533,843
Deposits with other banks	96,111,567	—	—	—	—	—	—	96,111,567
Deposits with non-bank financial Institutions	5,412,488	—	—	—	—	—	—	5,412,488
Treasury Bills	—	—	—	23,131,699	—	—	—	23,131,699
Loans and advances to customers net:								
Overdrafts	81,064	381,382	4,389,537	80,184	2,258,851	6,838,761	15,261,306	29,291,085
Term loans	186,912	2,029,297	2,718,134	53,631	18,018,394	161,163,422	24,277,587	208,447,377
Large corporate loans	2,231,467	3,206,390	61,493,865	41,144,908	56,807,706	9,847,249	105,833,411	280,564,996
Mortgage loans	—	—	—	—	—	355,747,582	—	355,747,582
Financial assets held for trading- debt securities	—	—	—	19,641,853	—	—	—	19,641,853
Investment securities	198,482,590	—	—	116,328,863	—	—	197,726,226	512,537,679
Due from related parties	82,418,108	—	—	—	—	—	—	82,418,108
Financial instruments - pledged assets	—	—	—	10,710,269	—	—	—	10,710,269
Other assets	—	—	—	—	—	—	52,452,945	52,452,945
At 31 December 2017	700,458,039	5,617,069	68,601,536	211,091,407	77,084,951	533,597,014	395,551,475	1,992,001,491
Guarantees and letters of credit	—	193,300	15,000	31,000	169,000	18,812,507	4,544,000	23,764,807
Loan commitments and other credit related obligations	1,049,389	4,596,132	2,396,541	30,000,894	936,330	420,935	30,437,483	69,837,704

* Other industries include construction and land development.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Industry concentrations of risks of financial assets with credit exposure...continued

	Financial Institutions \$	Manu- facturing \$	Tourism \$	Government \$	Professional and Other Services \$	Personal \$	* Other Industries \$	Total \$
At 31 December 2016								
Financial assets								
Balances with central bank	214,788,486	—	—	—	—	—	—	214,788,486
Deposits with other banks	95,603,876	—	—	—	—	—	—	95,603,876
Deposits with non-bank financial Institutions	8,729,733	—	—	—	—	—	—	8,729,733
Treasury Bills	—	—	—	23,006,088	—	—	—	23,006,088
Loans and advances to customers net:								
Overdrafts	6,504,602	1,337,686	5,750,804	5,739	4,255,172	698,622	22,400,144	40,952,769
Term loans	215,910	1,995,231	9,140,851	2,744	22,980,184	152,042,346	26,169,253	212,546,519
Large corporate loans	45,106,435	5,716,206	60,916,964	13,083,784	62,098,380	15,112,636	89,096,604	291,131,009
Mortgage loans	—	55,253	—	—	1,817,943	351,793,412	330,427	353,997,035
Financial assets held for trading- debt securities	—	—	—	18,013,663	—	—	586,049	18,599,712
Investment securities	154,942,003	—	—	104,533,117	—	—	184,204,046	443,679,166
Due from related parties	84,137,685	—	—	—	—	—	—	84,137,685
Financial instruments - pledged assets	—	—	—	21,366,983	—	—	—	21,366,983
Other assets	—	—	—	—	—	—	63,097,613	63,097,613
At 31 December 2016	610,028,730	9,104,376	75,808,619	180,012,118	91,151,679	519,647,016	385,884,136	1,871,636,674
Guarantees and letters of credit	—	193,300	15,000	31,000	169,000	22,195,776	4,537,600	27,141,676
Loan commitments and other credit related obligations	1,050,000	4,229,641	1,371,498	32,500,000	562,189	376,202	32,365,966	72,455,496

* Other industries include construction and land development.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank exposures to market risks arise from its non-trading portfolios. Senior management of the bank monitors and manages market risk through the Asset Liability Committee which advises on financial risks and assigns risk limits for the bank.

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

Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Bank's exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The exchange rate of the Eastern Caribbean dollar (EC\$) to the United States dollar (US\$) has been formally pegged at EC\$2.70 = US\$1.00 since 1974. The following table summarises the Bank's exposure to foreign currency exchange rate risk at 31 December.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Currency risk...continued

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
At 31 December 2017								
Financial assets								
Cash and balances with Central Bank	342,755,875	4,089,735	150,601	472,131	268,734	212,989	-	347,950,065
Deposits with other banks	56,870,671	20,549,378	1,759,986	14,561,888	753,946	210,643	1,405,055	96,111,567
Deposits with non-bank financial institution	-	5,388,885	-	-	23,603	-	-	5,412,488
Treasury bills	23,131,699	-	-	-	-	-	-	23,131,699
Financial assets held for trading	19,641,853	-	-	-	-	-	-	19,641,853
Loans and receivables:								
loans and advances to customers	836,408,008	37,643,032	-	-	-	-	-	874,051,040
Investment securities:								
held-to-maturity	4,915,974	115,132,542	-	-	-	-	-	120,048,516
Available-for-sale	87,914,231	317,556,236	-	-	-	-	-	405,470,467
Financial instruments - pledged assets	10,710,269	-	-	-	-	-	-	10,710,269
Due from related parties	82,418,108	-	-	-	-	-	-	82,418,108
Other assets	52,452,945	-	-	-	-	-	-	52,452,945
Total financial assets	1,517,219,633	500,359,808	1,910,587	15,034,019	1,046,283	423,632	1,405,055	2,037,399,017
Financial liabilities								
Deposits from banks	43,297,719	-	-	-	-	-	-	43,297,719
Due to customers	1,662,249,257	133,708,403	-	9,309,473	-	-	-	1,805,267,133
Repurchase agreements	10,484,621	3,218,126	-	-	-	-	-	13,702,747
Borrowings	51,231,507	27,949,950	-	-	-	-	-	79,181,457
Other liabilities	29,201,111	-	-	-	-	-	-	29,201,111
Total financial liabilities	1,796,464,215	164,876,479	-	9,309,473	-	-	-	1,970,650,167
Net assets/ (liabilities)	(279,244,582)	335,483,329	(1,910,587)	5,724,546	1,046,283	423,632	1,405,055	66,748,850
Loan commitments, guarantees and letters of credit	93,602,511	-	-	-	-	-	-	93,602,511

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Currency risk...continued

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
At 31 December 2016								
Financial assets								
Cash and balances with Central Bank	236,631,117	4,783,814	145,414	646,308	206,632	201,753	—	242,615,038
Deposits with other banks	75,821,882	17,092,432	1,524,782	—	529,414	287,824	347,542	95,603,876
Deposits with non-bank financial institution	—	8,708,170	—	—	21,563	—	—	8,729,733
Treasury bills	23,006,088	—	—	—	—	—	—	23,006,088
Financial assets held for trading	18,013,663	586,049	—	—	—	—	—	18,599,712
Loans and receivables:								
loans and advances to customers	859,396,227	39,231,105	—	—	—	—	—	898,627,332
Investment securities:								
held-to-maturity	7,740,154	86,183,889	—	—	—	—	—	93,924,043
Available-for-sale	66,097,080	298,537,312	—	—	—	—	—	364,634,392
Financial instruments - pledged assets	21,366,983	—	—	—	—	—	—	21,366,983
Due from related parties	84,137,685	—	—	—	—	—	—	84,137,685
Other assets	63,097,613	—	—	—	—	—	—	63,097,613
Total financial assets	1,455,308,492	455,122,771	1,670,196	646,308	757,609	489,577	347,542	1,914,342,495
Financial liabilities								
Deposits from banks	51,283,204	3,228,594	—	—	—	—	—	54,511,798
Due to customers	1,584,776,521	161,478,540	—	2,431,048	—	—	—	1,748,686,109
Repurchase agreements	10,659,562	3,179,348	—	—	—	—	—	13,838,910
Borrowings	56,998,800	36,630,612	—	—	—	—	—	93,629,412
Other liabilities	30,157,005	—	—	—	—	—	—	30,157,005
Total financial liabilities	1,733,875,092	204,517,094	—	2,431,048	—	—	—	1,940,823,234
Net assets/ (liabilities)	(278,566,600)	250,605,677	1,670,196	(1,784,740)	757,609	489,577	347,542	(26,480,739)
Loan commitments, guarantees and letters of credit	99,597,172	—	—	—	—	—	—	99,597,172

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

Interest rate risk

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

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Interest rate risk ...continued

Concentrations of financial assets and financial liabilities

	Up to 1 month \$	1 – 3 months \$	3 – 12 months \$	1 – 5 years \$	Over 5 years \$	Non-interest Bearing \$	Total \$
At 31 December 2017							
Financial assets							
Cash and balances with Central Bank	-	-	-	-	-	347,950,065	347,950,065
Deposits with other banks	709,843	-	11,804,788	-	-	83,596,936	96,111,567
Deposits with non-bank financial Institution	-	-	-	-	-	5,412,488	5,412,488
Treasury Bills	11,676,659	10,403,150	1,051,890	-	-	-	23,131,699
Financial assets held for trading	-	-	1,204,279	10,962,843	7,474,731	-	19,641,853
Loans and receivables:							
-Loans and advances to customers	36,767,886	11,931,123	14,428,078	169,447,161	641,476,792	-	874,051,040
Investment securities:							
-Held-to-maturity	2,234,778	1,763,118	7,325,888	50,402,178	58,322,554	-	120,048,516
-Available-for-sale	10,416,304	12,063,406	73,388,755	183,408,947	113,211,751	-	392,489,163
Financial instruments - pledged assets	-	-	659,071	1,985,304	8,065,894	-	10,710,269
Due from related parties	-	-	-	-	-	82,418,108	82,418,108
Other assets	-	-	-	-	-	52,452,945	52,452,945
Total financial assets	61,805,470	36,160,797	109,862,749	416,206,433	828,551,722	571,830,542	2,024,417,713
Financial liabilities							
Deposits from banks	9,161,970	3,123,109	31,012,640	-	-	-	43,297,719
Due to customers	891,764,944	95,400,773	301,582,552	26,299,970	22,328,460	467,890,434	1,805,267,133
Repurchase agreements	-	-	13,702,747	-	-	-	13,702,747
Borrowings	2,196,938	1,231,507	5,695,045	22,382,501	47,675,466	-	79,181,457
Other liabilities	-	-	-	-	-	29,201,111	29,201,111
Total financial liabilities	903,123,852	99,755,389	351,992,984	48,682,471	70,003,926	497,091,545	1,970,650,167
Net interest repricing gap	(841,318,382)	(63,594,592)	(242,130,235)	367,523,962	758,547,796	74,738,997	53,767,546

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Interest rate risk...continued

Concentrations of financial assets and financial liabilities

	Up to 1 month \$	1 – 3 months \$	3 – 12 months \$	1 – 5 years \$	Over 5 years \$	Non-interest Bearing \$	Total \$
At 31 December 2016							
Financial assets							
Cash and balances with Central Bank	–	–	–	–	–	242,615,038	242,615,038
Deposits with other banks	3,910,391	11,582,065	–	–	–	80,111,420	95,603,876
Deposits with non-bank financial Institution	8,729,733	–	–	–	–	–	8,729,733
Treasury Bills	11,009,263	10,136,107	1,860,718	–	–	–	23,006,088
Financial assets held for trading	–	–	–	10,950,785	7,648,927	–	18,599,712
Loans and receivables:							
-Loans and advances to customers	53,225,766	8,890,889	34,867,846	158,730,973	642,911,858	–	898,627,332
Investment securities:							
-Held-to-maturity	5,636,827	3,167,265	4,519,358	44,904,564	35,696,029	–	93,924,043
-Available-for-sale	6,027,419	16,295,571	68,805,269	168,140,689	90,486,175	–	349,755,123
Financial instruments - pledged assets	–	–	–	6,980,953	14,386,030	–	21,366,983
Due from related parties	–	–	–	–	–	84,137,685	84,137,685
Other assets	–	–	–	–	–	63,097,613	63,097,613
Total financial assets	88,539,399	50,071,897	110,053,191	389,707,964	791,129,019	469,961,756	1,899,463,226
Financial liabilities							
Deposits from banks	–	3,075,749	44,761,333	–	–	6,674,716	54,511,798
Due to customers	886,809,170	99,158,178	363,107,492	36,928,641	25,590,422	337,092,206	1,748,686,109
Repurchase agreements	–	–	13,838,910	–	–	–	13,838,910
Borrowings	4,822,145	899,195	16,568,648	38,756,335	32,583,089	–	93,629,412
Other liabilities	–	–	–	–	–	30,157,005	30,157,005
Total financial liabilities	891,631,315	103,133,122	438,276,383	75,684,976	58,173,511	373,923,927	1,940,823,234
Net interest repricing gap	(803,091,916)	(53,061,225)	(328,223,192)	314,022,988	732,955,508	96,037,829	(41,360,008)

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Sensitivity analysis

Cash flow interest rate risk arises from loans and advances to customers and borrowings at variable rates. At 31 December 2017, if variable interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit/(loss) for the year would have been \$840,509 (2016 – \$880,415) lower/higher, mainly as a result of higher/lower interest income on variable rate loans.

Liquidity risk

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

The Bank is exposed to daily cash calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board of Directors sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Liquidity risk management process

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

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

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Funding approach

Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term.

Non derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Liquidity risk management...continued

	Up to 1 month \$	1-3 Months \$	3-12 Months \$	1-5 Years \$	Over 5 years \$	Total \$
As at 31 December 2017						
Financial liabilities						
Deposits from banks	9,162,179	3,134,799	31,259,882	—	—	43,556,860
Due to customers	1,362,073,838	95,766,111	304,437,493	26,328,853	22,328,460	1,810,934,755
Repurchase Agreements	—	—	13,809,619	—	—	13,809,619
Borrowings	1,945,765	1,827,397	8,246,193	49,609,922	43,396,813	105,026,090
Other liabilities	9,076,901	16,744,021	3,837,200	—	—	29,658,122
Total financial liabilities	1,382,258,683	117,472,328	361,590,387	75,938,775	65,725,273	2,002,985,446

	Up to 1 month \$	1-3 Months \$	3-12 Months \$	1-5 Years \$	Over 5 years \$	Total \$
As at 31 December 2016						
Financial liabilities						
Deposits from banks	6,676,787	3,092,197	45,228,027	—	—	54,997,011
Due to customers	1,233,100,450	99,550,718	366,873,390	37,515,921	25,590,422	1,762,630,901
Repurchase Agreements	—	—	13,987,935	—	—	13,987,935
Borrowings	4,268,097	2,899,162	18,850,589	75,424,271	50,529,921	151,972,040
Other liabilities	7,734,251	22,250,832	—	171,922	—	30,157,005
Total financial liabilities	1,251,779,585	127,792,909	444,939,941	113,112,114	76,120,343	2,013,744,892

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Liquidity risk management...continued

Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and investment securities to support payment obligations.

The Bank's assets held for managing liquidity risk comprise cash and balances with central banks, certificate of deposits, government bonds that are readily acceptable in repurchase agreements, treasury and other eligible bills, loans and advances to financial institutions, loans and advances to customers and other items in the course of collection.

The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

The table below includes the expected undiscounted cash flows arising from the assets and liabilities used to manage liquidity.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 29), are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 29) are also included below based on the earliest contractual maturity date.

	1 Year \$	Total \$
At 31 December 2017		
Loan commitments	69,837,704	69,837,704
Guarantees and letters of credit	23,764,807	23,764,807
Total	93,602,511	93,602,511
At 31 December 2016		
Loan commitments	72,455,496	72,455,496
Guarantees and letters of credit	27,141,676	27,141,676
Total	99,597,172	99,597,172

Fair values of financial assets and financial liabilities

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists. The following methods and assumptions were used to estimate the fair value of financial instruments.

The fair values of cash resources, other assets and liabilities, cheques and other items in transit and due to other banks are assumed to approximate their carrying values due to their short term nature. The fair value of off-balance sheet commitments is also assumed to approximate the amounts disclosed in Note 29 due to their short term nature.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Fair values of financial assets and financial liabilities...continued

Due to customers

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

Investment securities

Investment securities include interest bearing debt and equity securities held to maturity and available for sale. The fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

Pledged assets

The estimated fair value of pledged assets are derived from market prices or broker/dealer quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair values 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.

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

	<u>Carrying value</u>		<u>Fair value</u>	
	2017	2016	2017	2016
	\$	\$	\$	\$
Financial assets				
Loans and advances to customers:				
-Term loans	208,447,377	212,546,519	214,664,163	229,160,932
-Large corporate loans	280,564,996	291,131,009	406,844,223	332,077,135
-Overdrafts	29,291,085	40,952,769	29,291,085	40,981,664
-Mortgages	355,747,582	353,997,035	366,178,993	369,001,722
Investment securities:				
-Held to maturity	120,048,516	93,924,043	113,547,739	98,286,047
Financial liabilities				
Borrowings	79,181,457	93,629,412	73,747,815	101,459,850

Management assessed that cash and short term deposits, treasury bills, trade receivables, trade payables, repurchase agreements and other current liabilities approximate their carrying amounts largely due to the short term maturities of these instruments.

The Bank's interest-bearing borrowings and loans are determined by using DCF method using the discount rate that reflects the average rates at the end of the year.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Fair values of financial assets and financial liabilities ...continued

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 Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

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

Assets measured at fair value

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
31 December 2017				
Investment properties	-	37,454,500	-	37,454,500
Land and buildings	-	-	39,503,809	39,503,809
Financial assets held for trading				
– Debt securities	-	19,641,853	-	19,641,853
Financial assets available for sale				
– debt securities	-	359,980,698	32,508,465	392,489,163
– equity securities	3,042,115	8,940,869	-	11,982,984
Financial instruments-pledged	-	10,710,269	-	10,710,269
Total financial assets	3,042,115	435,682,424	73,058,039	511,782,578

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Fair values of financial assets and liabilities...continued

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Investment properties	-	6,547,711	-	6,547,711
Land and buildings	-	-	71,350,078	71,350,078
Financial assets held for trading				
– Debt securities	-	18,599,712	-	18,599,712
Financial assets available for sale				
– debt securities	2,636,009	338,105,072	9,014,042	349,755,123
– equity securities	5,803,125	5,229,407	-	11,032,532
Financial instruments-pledged	-	21,366,983	-	21,366,983
Total financial assets	8,439,134	389,848,885	80,364,120	478,652,139

Assets for which fair values are disclosed

	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2017			
Loans and receivable	-	1,016,978,464	1,016,978,464
Held to maturity investments	113,547,739	-	113,547,739
Total financial assets	113,547,739	1,016,978,464	1,130,526,203
31 December 2016			
Loans and receivable	-	971,221,453	971,221,453
Held to maturity investments	99,286,047	-	99,286,047
Total financial assets	99,286,047	971,221,453	1,070,507,500

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Fair values of financial assets and financial liabilities ...continued

Liabilities for which fair values are disclosed:

	Level 3 \$'000	Total \$'000
31 December 2017		
Borrowings	<u>73,747,815</u>	<u>73,747,815</u>
31 December 2016		
Borrowings	<u>101,459,850</u>	<u>101,459,850</u>

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Fair values of financial assets and financial liabilities ...continued

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active 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. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily DAX, FTSE 100 and Dow Jones debt securities classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter fixed income securities) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no transfers between level 1 and level 2 financial assets during the reporting period or any transfers to level 3.

The following table presents the change in level 3 instruments for the year ended 31 December 2017:

	Debt Securities 2017 \$'000	Equity Securities 2017 \$'000	Available-for-Sale	
			Total 2017 \$'000	Debt Securities 2016 \$'000
31 December 2017				
At beginning of year	9,014,042	-	9,014,042	704,252
Purchases	23,494,423	1,045,765	24,540,188	8,309,790
At end of year	32,508,465	1,045,765	33,554,230	9,014,042

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Fiduciary activities

The Bank provides investment management and advisory services to third parties, which involve the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Bank accepting targets for benchmark levels of returns for the assets under the Bank's care. At the reporting date, the Bank had financial assets under administration amounting to \$94,689,511 (2016 – \$67,159,749).

Capital management

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

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

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

The ECCB requires each bank or banking group to hold the minimum level of the regulatory capital to the risk-weighted asset (the 'Basel capital adequacy ratio') at or above the internationally agreed minimum of 8%.

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

- Tier 1 capital: share capital (net of any book values of the treasury shares), minority interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale and revaluation of fixed assets (limited to 50% of Tier 1 capital).

Investment in associates are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

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

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Capital management...continued

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2017 and 2016. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject.

	2017 \$	2016 \$
Tier 1 capital		
Share capital	265,102,745	198,718,745
Reserves	162,787,969	149,583,770
Accumulated deficit	(268,992,883)	(284,711,799)
Total qualifying Tier 1 capital	158,897,831	63,590,716
Tier 2 capital		
Revaluation reserve – available-for-sale investments	1,437,172	(1,006,930)
Revaluation reserve- property plant and equipment	13,855,322	13,855,322
Collective impairment allowance (limited to 1.25% of risk weighted assets)	18,052,000	17,002,000
Redeemable preference shares	4,150,000	4,150,000
Subordinated debt (limited to 50% of tier 1 capital)	50,000,000	31,795,358
Total qualifying Tier 2 capital	87,494,494	65,795,750
Total regulatory capital	246,392,325	129,386,466
Risk-weighted assets:		
On-balance sheet	1,347,877,000	1,257,134,600
Off-balance sheet	18,720,400	19,919,400
Total risk-weighted assets	1,366,597,400	1,277,054,000
Basel capital adequacy ratio	18.03%	10.13%

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates, and judgements in applying accounting policies

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

Going Concern

The Group's management is satisfied that it has the resources to continue in business for the foreseeable future. The Group's management is not aware of any material uncertainties that may cast significant doubt upon its ability to continue as a going concern.

Impairment losses on loans and advances to customers

The Bank reviews its loan portfolio to assess impairment at least annually. In determining whether an impairment loss should be recorded in the statement of income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated at \$3,539,944/\$2,716,548 (2016 – \$3,643,800/\$3,375,534) higher/lower.

Impairment of assets carried at fair value

The Bank determines that available-for-sale and held for trading equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

The Bank individually assesses available-for-sale debt securities for objective evidence of impairment. If an impaired instrument has been renegotiated, interest continues to be accrued on the reduced carrying amount of the asset and is recorded as part of "interest income". If the fair value of the instrument increases in a subsequent year, the impairment loss is reversed through the statement of income.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less cost of disposal is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental cost of disposing of the asset. The value in use calculation is based on a DCF model. The recoverable amount is sensitive to the discount rate used for DCF model as well as the future cash inflows.

Held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value not amortised cost. If the entire held-to-maturity investments were tainted, the fair value would increase by \$6,500,777 (2016 – decrease by \$4,362,004) with a corresponding entry in the fair value reserve in equity.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates, and judgements in applying accounting policies...continued

Fair value of financial instruments

Financial instruments where recorded current market transactions or observable market data are not available at fair value using valuation techniques. Fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the group's best estimates of the most appropriate model assumptions.

Deferred taxes

In calculating the deferred tax asset, management uses judgment to determine the possibility that future taxable profits will be available to facilitate utilization of temporary tax differences which may arise.

Corporate income taxes

Significant estimates are required in determining the provision for income taxes. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions. The deferred tax assets recognised at 31 December 2017 have been based on future profitability assumptions over a five year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

The Bank has obtained legal advice that the reassessment is based on a fundamental misinterpretation of the relevant provisions of the Income Tax Act.

Adjustments arising, if any, will be reflected in the period in which agreement is reached.

Revaluation of land and buildings and investment property

The Company measures its land and buildings and investment property at revalued amounts with changes in fair value being recognized in other comprehensive income and the statement of comprehensive income respectively. The Company engages independent valuation specialists to determine fair value of its land and buildings. The valuer uses judgment in the application of valuation techniques such as replacement cost, capitalization of potential rentals and the market price of comparable properties, as applicable in each case.

Retirement benefits

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The most sensitive assumptions used in determining the net cost (income) for pensions include the discount rate and future salary increases. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of Government that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Were the discount rate used to increase/(decrease) by 1% from management's estimates, the defined benefit obligation for pension benefits would be an estimated \$5,923,123 lower or \$8,738,294 higher (2016 - \$6,127,347 lower or \$8,841,357 higher).

Were the estimated salary increases used to increase/ (decrease) by 1% from management's estimates, the defined benefit obligation for pension benefits would be an estimated \$3,375,968 lower or \$4,137,031 higher (2016 - \$3,459,470 lower or \$4,196,962 higher).

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

5 Cash and balances with Central Bank

	2017 \$	2016 \$
Cash in hand	32,416,222	27,826,552
Balances with Central Bank other than mandatory reserve deposits	194,504,510	110,583,229
Included in cash and cash equivalents (Note 39)	226,920,732	138,409,781
Mandatory reserve deposits with Central Bank	121,029,333	104,205,257
	347,950,065	242,615,038

Pursuant to the Banking Act of Saint Lucia of 2015, the Bank is required to maintain in cash and deposits with the Central Bank reserve balances in relation to the deposit liabilities of the Institution.

Mandatory reserve deposits are not available for use in the Bank's day-to-day operations. The balances with the Central Bank are non-interest bearing.

6 Deposits with other banks

	2017 \$	2016 \$
Items in the course of collection with other banks	8,152,443	9,393,935
Placements with other banks	75,444,493	70,717,485
Interest bearing deposits	12,514,631	15,492,456
Included in cash and cash equivalents (Note 39)	96,111,567	95,603,876

The weighted average effective interest rate in respect of interest bearing deposits at 31 December 2017 was 1.25% (2016 – 0.31%).

7 Deposits with non-bank financial institutions

	2017 \$	2016 \$
Deposits (Note 39)	5,412,488	8,729,733

The weighted average effective interest rate in respect of interest bearing deposits at 31 December 2017 and 2016 was nil. Interest rate on deposits depends on the value of deposits held.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

8 Treasury bills

	2017 \$	2016 \$
Treasury bills – cash and cash equivalents (Note 39)	22,079,809	21,145,370
Treasury bills – more than 90 days to maturity	1,051,890	1,860,718
	<u>23,131,699</u>	<u>23,006,088</u>

The weighted average interest rate on treasury bills was 4.5% (2016-3.30%).

9 Financial assets held for trading

	2017 \$	2016 \$
Debt securities	19,641,853	18,599,712

Financial assets held for trading were acquired for the purpose of selling in the near term and would otherwise have been classified as held-to-maturity investments. The weighted average interest rate on debt securities was 6.98 % (2016-7.1%).

10 Loans and advances to customers

	2017 \$	2016 \$
Large corporate loans	342,745,665	359,544,033
Mortgage loans	367,403,230	367,241,317
Term loans	225,239,571	229,564,787
Overdrafts	34,277,829	42,439,965
Gross	969,666,295	998,790,102
Less allowance for impairment losses on loans and advances (Note 11)	<u>(95,615,255)</u>	<u>(100,162,770)</u>
Net	874,051,040	898,627,332

The weighted average effective interest rate on productive loans stated at amortised cost at 31 December 2017 was 7.60% (2016 – 7.05%) and productive overdrafts stated at amortised cost was 14.66% (2016 – 15.14%).

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

11 Allowance for impairment losses on loans and advances

The movement on the provision by class was as follows:

	2017 \$	2016 \$
Large corporate loans		
At beginning of year	68,413,024	65,303,582
Provision for individual loan impairment	20,263,235	76,433,934
Provision for collective loan impairment	(8,564,325)	5,055,820
Written-off during the year as uncollectible	(17,931,265)	(78,380,312)
At end of year	62,180,669	68,413,024
Term loans		
At beginning of year	17,018,268	29,487,948
Provision for individual loan impairment	1,202,442	18,946,460
Provision for collective loan impairment	1,649	188,031
Written-off during the year as uncollectible	(1,430,165)	(31,604,171)
At end of year	16,792,194	17,018,268
Mortgage loans		
At beginning of year	13,244,282	15,026,436
Provision for individual loan impairment	(726,175)	14,875,691
Provision for collective loan impairment	(721,761)	2,146,400
Written-off during the year as uncollectible	(140,698)	(18,804,245)
At end of year	11,655,648	13,244,282
Overdrafts		
At beginning of year	1,487,196	15,952,480
Provision for individual loan impairment	3,566,653	13,159,922
Provision for collective loan impairment	674,384	(2,024,045)
Written-off during the year as uncollectible	(741,489)	(25,601,161)
At end of year	4,986,744	1,487,196
	95,615,255	100,162,770

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

12 Investment securities

	2017 \$	2016 \$
Securities held-to-maturity		
Debt securities at amortised cost		
- Unlisted	3,615,939	6,218,333
-Listed	120,938,754	92,017,864
Less allowance for impairment	(4,506,177)	(4,312,154)
Total securities held- to- maturity	120,048,516	93,924,043
Securities available-for-sale		
Debt securities at fair value		
- Unlisted	29,090,962	39,129,054
- Listed	363,923,956	311,027,507
	393,014,918	350,156,561
Less allowance for impairment	(525,755)	(401,438)
	392,489,163	349,755,123
Equity securities:		
-Unlisted	998,320	3,846,737
-Listed	11,982,984	11,032,532
Total securities available- for- sale	405,470,467	364,634,392
Total investment securities	525,518,983	458,558,435

All debt securities have fixed interest rates.

The weighted average effective interest rate on securities held-to-maturity stated at amortised cost at 31 December 2017 was 3.32% (2016- 3.42%).

The weighted average effective interest rate on available-for-sale securities at 31 December 2017 was 3.5% (2016 – 3.1%).

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

12 Investment securitiescontinued

Movements of the Bank's financial assets are summarised as follows:

	Held- to-maturity \$	Available- for-sale \$	Held for trading \$	Total \$
At 31 December 2016	93,924,043	364,634,392	18,599,712	477,158,147
Additions	48,572,744	181,755,873	1,785,658	232,114,275
Movement in interest accrued	312,046	646,260	4,053	962,359
Disposals (sale and redemption)	(23,085,679)	(143,885,844)	(723,014)	(167,694,537)
Unrealised gain from changes in fair value	-	2,444,102	(24,556)	2,419,546
Decrease in provision	(194,023)	(124,316)	-	(318,339)
Amortisation of premium/discount	519,385	-	-	519,385
At 31 December 2017	120,048,516	405,470,467	19,641,853	545,160,836
At 31 December 2015	61,787,293	323,711,759	15,625,329	401,124,381
Additions	39,466,060	177,957,876	6,481,618	223,905,554
Movement in interest accrued	290,296	391,395	176,649	858,340
Disposals (sale and redemption)	(7,987,447)	(139,319,702)	(3,701,213)	(151,008,362)
Unrealised loss from changes in fair value	-	1,893,064	17,329	1,910,393
Amortisation of premium/discount	367,841	-	-	367,841
At 31 December 2016	93,924,043	364,634,392	18,599,712	477,158,147

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

13 Financial instruments - pledged assets and repurchase agreements

The following assets are pledged against other funding instruments and as collateral on borrowings on behalf of the parent company, East Caribbean Financial Holding Company Limited.

	Pledged assets	
	2017	2016
	\$	\$
Pledged against repurchase agreements	10,710,269	10,822,478
Pledged against Automated Clearing House	-	10,544,505
	10,710,269	21,366,983

The value of repurchase agreements on the statement of financial position which are secured by pledged assets is \$13,702,747 (2016 - \$13,838,910). The variance between investment pledged against repurchase agreements and the value of repurchase agreements represents accrued interest.

14 Related parties balances and transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Bank is controlled by East Caribbean Financial Holding Company Limited which owns 100% of the ordinary shares and is related to the companies listed below by common ownership and control.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans and receivables. Included in amounts due from related parties is an amount of \$82,418,108 (2016-\$84,137,685) which is non-interest bearing and has no fixed terms of repayment.

	2017	2016
	\$	\$
Due from related parties		
East Caribbean Financial Holding Company Limited	82,418,108	84,137,685

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

14 Related parties balances and transactions...continued

The following accounts maintained by related parties are included under due to customers and loans and advances:

	2017 \$	2016 \$
Bank of Saint Lucia International Limited		
Fixed deposits	-	17,424,889
Bank account	-	1,941,151
		<hr/>
Bank of Saint Vincent and the Grenadines Limited		
Current account	817,564	853,006
Investments	6,834,815	6,717,263
		<hr/>
EC Global Insurance Company Limited		
Current account	1,105,226	2,209,117
Fixed deposit	332,491	96,967
Managed funds	9,847,996	6,637,059
		<hr/>
East Caribbean Amalgamated Bank		
Current account	176,062	199,912
Fixed Deposit	18,941,733	18,567,376
Loans	5,186	128,094
		<hr/>
Student Loan Guarantee Fund		
Current account	541,381	71,687
Fixed deposit	2,864,213	1,196,752
		<hr/>
Productive Equity Funds		
Current account	2,273,636	2,273,636
		<hr/>

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

14 Related parties balances and transactions...continued

The following transactions were carried out with related companies:

	2017 \$	2016 \$
Income		
Rent	-	584,319
Service and management charges	576,970	761,572
Dividend income	-	1,479,000
Expenses		
Interest expense	-	467,445

The Bank has an agency arrangement with EC Global Insurance Company Limited. The balances and transactions with respect to this arrangement are as follows:

	2017 \$	2016 \$
Assets	-	1,623,892
Liabilities	709,099	826,196
Commissions	1,884,915	2,101,899
Expenses	1,516,939	1,686,898

Other related parties

A number of banking transactions are entered into with other related parties in the normal course of business. These include loans and deposits. These transactions were carried out on commercial terms and at market rates. The volumes of related party transactions, outstanding balances at year end, and relating expenses and income for the year are as follows:

Other related parties balances with the Bank:

	2017		2016	
	Loans \$	Deposits \$	Loans \$	Deposits \$
Government of Saint Lucia	25,043,292	183,741,876	4,542	115,660,846
Statutory bodies	17,710,351	469,742,428	17,241,549	406,009,618
Directors and key management	14,362,383	5,550,840	9,382,287	4,484,456

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

14 Related parties balances and transactions...continued

No provisions have been recognised in respect of loans given to related parties.

The loans issued to directors and other key management personnel during the year are repayable monthly over an average of 6 years (2015 – 8 years) and have a weighted average effective interest rates of 5.1% (2016 – 6.5%)

Interest income and interest expense with other related parties:

	2017		2016	
	Income	Expenses	Income	Expenses
	\$	\$	\$	\$
Government of Saint Lucia	801	729,368	2,173	728,894
Statutory bodies	966,020	6,155,804	1,306,478	7,618,606
Directors and key management	661,029	99,208	561,478	102,132

Transactions with related parties were carried out on commercial terms and conditions.

Key management compensation

Key management includes the bank's complete management team. The compensation paid or payable to key management for employee services is shown below:

	2017	2016
	\$	\$
Key management compensation		
Salaries and other short-term benefits	6,143,000	7,142,144
Post employment benefit – Pension costs	494,674	509,449
	<u>6,637,674</u>	<u>7,651,593</u>

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

15 Property and equipment

	Land and Buildings \$	Leasehold Improvements \$	Office Furniture and Equipment \$	Computer Equipment and Software \$	Motor Vehicles \$	Total \$
Year ended 31 December 2016						
Opening net book amount	71,350,078	2,468,149	5,940,700	1,716,255	510,832	81,986,014
Additions	467,758	—	716,318	883,280	—	2,067,356
Disposals at cost	—	—	(652,888)	(4,640)	(465,915)	(1,123,443)
Accumulated depreciation on disposals	—	—	604,773	1,676	407,269	1,013,718
Depreciation charge (Note 36)	(1,587,434)	(691,786)	(1,670,192)	(1,020,127)	(201,577)	(5,171,116)
Closing net book amount	70,230,402	1,776,363	4,938,711	1,576,444	250,609	78,772,529
At 31 December 2016						
Cost	86,727,640	9,316,125	26,679,203	29,865,288	1,525,239	154,113,495
Accumulated depreciation	(16,497,238)	(7,539,762)	(21,740,492)	(28,288,844)	(1,274,630)	(75,340,966)
Net book amount	70,230,402	1,776,363	4,938,711	1,576,444	250,609	78,772,529
Year ended 31 December 2017						
Opening net book amount	70,230,402	1,776,363	4,938,711	1,576,444	250,609	78,772,529
Additions	428,117	71,764	608,558	1,632,947	-	2,741,386
Transfer to investment properties (note 19)	(30,028,787)	-	-	-	-	(30,028,787)
Disposals at cost	-	-	(8,363)	(3,435)	(246,111)	(257,909)
Accumulated depreciation on disposals	-	-	8,363	10,361	240,517	259,241
Depreciation charge (Note 36)	(1,125,923)	(601,940)	(1,475,858)	(1,187,648)	(116,910)	(4,508,279)
Closing net book amount	39,503,809	1,246,187	4,071,411	2,028,669	128,105	46,978,181
At 31 December 2017						
Cost	57,126,970	9,387,889	27,279,398	31,494,800	1,279,128	126,568,185
Accumulated depreciation	(17,623,161)	(8,141,702)	(23,207,987)	(29,466,131)	(1,151,023)	(79,590,004)
Net book amount	39,503,809	1,246,187	4,071,411	2,028,669	128,105	46,978,181

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

15 Property and equipment...continued

The major component of land and buildings were revalued in 2017 by an independent valuer based on open market value and a management internal specialist performed a review of the remaining buildings. The valuation indicates that the market value does not differ materially from the carrying amount of the respective assets in the books of the Bank.

The historical cost of land and buildings is:

	2017	2016
	\$	\$
Cost	38,452	68,143
Accumulated depreciation based on historical cost	(20,345)	(19,219)
	<hr/>	<hr/>
Depreciated historical cost	18,107	48,924

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

16 Other assets

	2017 \$	2016 \$
Suspense accounts- credit cards	38,587,372	33,821,123
Other receivables	13,143,561	30,300,063
Rent receivables	2,069,808	850,870
	53,800,741	64,972,056
Less provision for impairment on other receivables	(1,347,796)	(1,874,443)
	52,452,945	63,097,613
Stationery and supplies	526,546	846,888
Prepaid expenses	2,229,391	1,560,426
	2,755,937	2,407,314
	55,208,882	65,504,927

As of 31 December 2017, trade receivables of \$306,596 (2016 - \$615,863) were past due but not impaired. These relate mainly to receivables from existing customers with some defaults in the past but all amounts due were fully recovered. The aging analysis of these trade receivables is as follows:

	2017 \$	2016 \$
Greater than 30 days but less than 60 days	296,801	142,755
Greater than 60 days but less than 90 days	307,316	166,099
Greater than 90 days	740,499	640,220
	1,344,616	949,074

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

17 Provision for impairment on other receivables

The movement on the provision for impairment on other receivables was as follows:

	2017 \$	2016 \$
At beginning of year	1,874,443	3,988,582
Provisions made during the year	493,494	827,564
Receipts	(154,295)	(2,632,620)
Write offs during the year	(865,846)	(309,083)
At end of year	1,347,796	1,874,443

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

18 Investment in associates

	2017 \$	2016 \$
At beginning of year	4,800,000	5,455,535
Transfer to investment securities	-	(655,535)
At end of year	<u>4,800,000</u>	<u>4,800,000</u>

The Company's interests in its associates comprise a **20%** holding in East Caribbean Amalgamated Bank Limited, an unlisted company incorporated in St. Kitts. During the year 2016, the company's interest in EC Global Insurance Company Limited was reduced from **20% to 11%**. As a result of the loss of substantial interest in the company, the investment was reclassified to investment securities.

19 Investment properties

	2017 \$	2016 \$
At beginning of year	6,547,711	8,077,711
Additions	65,257	-
Transfer from property & equipment (Note 15)	30,028,787	-
Fair value gain/(loss) (Note 35)	812,745	(1,530,000)
At end of year	<u>37,454,500</u>	<u>6,547,711</u>

The investment properties are composed of land and buildings. The investment properties are valued annually at fair value by an independent, professionally qualified valuer. The following amounts have been recognised in the statement of comprehensive income:

	2017 \$	2016 \$
Rental income	2,260,290	6,130,965
Direct operating expenses arising from investment properties that generated rental income	(736,013)	(1,947,129)
Direct operating expenses that did not generate rental income	-	(343,295)
Profit arising from investment properties carried at fair value	<u>1,524,277</u>	<u>3,840,541</u>

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

19 Investment properties...continued

Under the market comparable method (or market comparable approach), a property's fair value is estimated based on comparable transactions. Although property interests are not homogeneous, the International Valuation Standards Council considers the market approach most commonly applied. "In order to compare the subject of the valuation with the price of other real property interests that have been recently exchanged or that may be currently available in the market, it is usual to adopt a suitable unit of comparison. A unit of comparison is only useful when it is consistently selected and applied to the subject property and the comparable properties in each analysis."

The market comparable approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. In theory, the best comparable sale would be an exact duplicate of the subject property and would indicate, by the known selling price of the duplicate, the price for which the subject property could be sold. The unit of comparison applied by the Company is the price per square foot (sq. Ft.).

20 Retired benefit asset

The amounts recognised in the statement of financial position are determined as follows:

	2017 \$	2016 \$
Fair value of plan assets	62,216,858	56,423,536
Present value of funded obligation	(48,601,909)	(45,796,967)
Asset in the statement of financial position	13,614,949	10,626,569

Movement in the asset recognised in the statement of financial position:

The movement in the defined benefit obligation over the year is as follows:

	2017 \$	2016 \$
Beginning of year	45,796,967	44,311,753
Current service cost	1,381,940	914,754
Interest cost	3,549,370	3,405,744
Employee contribution	861,634	960,497
Actuarial gain	(1,556,785)	(2,241,618)
Benefits paid	(1,431,217)	(1,554,163)
End of year	48,601,909	45,796,967

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

20 Retired benefit asset...continued

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

	2017 \$	2016 \$
Beginning of year	56,423,536	52,208,893
Actual return on plan assets	3,504,441	2,583,991
Employer contributions	3,053,950	2,410,838
Employee contributions	861,634	960,497
Benefits paid	(1,431,217)	(1,554,163)
Administrative expenses	(195,486)	(186,520)
End of year	62,216,858	56,423,536

	2017 \$	2016 \$
Net asset at beginning of year	10,626,569	7,897,140
Net periodic cost (note 37)	(809,198)	(530,202)
Contributions paid	3,053,950	2,410,838
Effect on statement of other comprehensive income	743,628	848,793
Net asset at end of year	13,614,949	10,626,569

Benefit cost:

	2017 \$	2016 \$
Current service cost	1,381,940	914,754
Interest on net defined benefit asset	3,549,370	3,405,744
Expected return on plan assets	(4,317,598)	(3,976,816)
Administrative expenses	195,486	186,520
	809,198	530,202

The amounts recognised in the statement of comprehensive income are as follows:

	2017 \$	2016 \$
Gain from experience	(1,556,785)	(2,241,618)
Expected return on plan assets	4,317,598	3,976,816
Actual return on plan assets	(3,504,441)	(2,583,991)
	(743,628)	(848,793)

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

20 Retirement benefit asset...continued

The principal actuarial assumptions used were as follows:

	2017 %	2016 %
Discount rate	7.50	7.50
Future promotional salary increases	3.00-4.5	3.00-4.50
Future inflationary salary increases	2.00	2.00

Assumptions are set to approximate the expected average rates over the long term and may not be appropriate in any specific year.

Plan assets allocation is as follows:

	2017 %	2016 %
Debt securities	87	90
Equity securities	10	6
Other	3	4
	100	100

Mortality rate

Assumptions regarding future mortality experience are set based on advice, published statistics and experience in each territory.

The average life expectancy in years of a pensioner retiring at age 60 after the statement of financial position date is as follows:

	2017	2016
Male	24.69	24.60
Female	26.86	26.81

The assumption adopted for the expected return on assets considers the actual assets the Plan holds and the outlook for returns on various asset classes. This assumption is usually derived by looking at actual asset mix and making assumptions about returns relative to the “baseline” of our discount rate, which are taken to be the returns on corporate and government bonds

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

20 Retirement benefit asset...continued

The major categories of the fair value of the total plan assets are as follows:

	2017 \$	2016 \$
Investments quoted in active markets:		
Quoted equity investments:		
- Energy	27,227	26,751
- Consumer staples	2,155,050	1,958,827
- Other	3,882,193	1,402,987
Quoted Debt securities		
- Sovereign bonds	20,700,251	17,924,750
- Energy	1,616,634	2,283,348
- Industrial	679,270	276,209
- Consumer staples		
- Other	15,531,438	10,915,436
Cash and cash equivalents	1,815,993	3,921,414
Unquoted investments		
Unquoted Debt securities		
- Sovereign bonds	15,758,802	13,052,916
- Other	-	4,660,898
Unquoted equity securities		
- Other	50,000	-
Total	62,216,858	56,423,536

The following payments are expected contributions to the defined benefit plan in future years:

	2017 \$	2016 \$
Within the next 12 months	784,360	619,389
Between 1 and 5 years	3,958,822	3,265,604
Between 5 and 10 years	9,005,170	9,072,237
Total expected payments	13,748,352	12,957,230

The average duration of the defined benefit plan obligation at the end of the reporting period is 17 (2016 - 18)

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

21 Deferred tax asset

The movement on the deferred tax asset is as follows:

	2017 \$	2016 \$
At beginning of year	-	4,329,611
Deferred tax credit/(charge) during the year	1,042,983	(4,074,973)
Expense during the year in other comprehensive income	(223,089)	(254,638)
At end of year	819,894	-

The deferred tax asset account is detailed below:

	2017 \$	2016 \$
Unutilised tax losses	6,847,841	5,109,924
Accelerated capital allowances	(1,943,462)	(1,921,953)
Fair value pension gains	(4,084,485)	(3,187,971)
	819,894	-

Deferred income taxes are calculated on all temporary differences under the liability method using the effective tax rate of 30%.

22 Deposits from banks

	2017 \$	2016 \$
Deposits from other banks	43,297,719	54,511,798

The weighted average effective interest rate on deposits from other banks at 31 December 2017 was 1.59% (2016 – 2.28%).

23 Due to customers

	2017 \$	2016 \$
Term deposits	418,725,141	509,239,029
Saving deposits	630,747,843	632,147,227
Call deposits	284,598,124	270,207,647
Demand deposits	471,196,025	337,092,206
	1,805,267,133	1,748,686,109

The weighted average effective interest rate of customers' deposits at 31 December 2017 was 1.43% (2016 – 2.02%).

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

24 Borrowings

	Due	Rate %	2017 \$	Rate %	2016 \$
Caribbean Development Bank	2020	3.8	27,949,950	3.7	36,630,612
National Insurance Corporation	2026	7.25	51,231,507	6.9	53,144,934
Prodev bond	2017	-	<u>-</u>	7.5	<u>3,853,866</u>
Total			<u>79,181,457</u>		<u>93,629,412</u>

Security for loans includes a first hypothecary obligation over the building and property known as the Financial Center, which is located at #1 Bridge Street.

The Bank has not had any defaults of principal, interest or other breaches with respect to borrowings during the year.

The Bank had undrawn facilities at the end of the financial reporting period of \$24,913,398 (2016 – \$24,913,398) with the Caribbean Development Bank.

In August 2016, the Company issued a ten (10) year, EC\$50 million unsecured bond via private placement. The bond which qualifies as tier II capital, pays interest semi-annually at the rate of 7.25%. Principal repayments are to be amortized by way of 10 semi-annual payments over the last 5-year term of the instrument. The National Insurance Corporation was the sole purchaser of the bond.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

25 Cumulative preference shares

	No. of shares	2017 \$	No. of Shares	2016 \$'000
7% Cumulative Preference Shares				
Authorised:				
11,550,000 preference shares				
At beginning and end of year	830,000	4,150,000	830,000	4,150,000

The preference shares are non-voting and are to be converted to ordinary shares. The Company has imposed certain restrictions with respect to the number of preference shares that can be converted to ordinary shares in any one year.

The Board of Directors of the Company and the National Insurance Corporation have formally agreed that future conversions of preference shares should be done at \$5 per share.

Dividends declared on the preference shares during the year amounted to \$290,500 (2016 - \$290,500).

26 Other liabilities

	2017 \$	2016 \$
Managers' cheques outstanding	2,898,887	6,863,381
Trade and other payables	26,146,572	23,157,160
Agency loans	155,652	136,464
	29,201,111	30,157,005

The Agency loans are funds issued to the Bank by the Government of Saint Lucia for disbursement to the related projects. The Bank earns an agency fee on the amounts disbursed. The funds belong to the Government of Saint Lucia.

27 Share capital

	Number of shares	2017 \$	Number of shares	2016 \$
Authorised:				
Unlimited ordinary shares up to 3,000,000				
Issued and fully paid:				
At beginning of year	1,478,875	198,718,745	1,478,875	198,718,745
Share issued during the year	494,034	66,384,000	-	-
At end of year	1,972,909	265,102,745	1,478,875	198,718,745

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

28 Reserves

	2017 \$	2016 \$
(a) General reserve	48,952,219	48,952,219
(b) Statutory reserve	93,651,365	87,970,850
(c) Special reserve	2,034,132	2,034,132
(d) Retirement benefit reserve	13,614,949	10,626,569
(e) Contingency reserve	4,535,304	-
	162,787,969	149,583,770

Movements in reserves were as follows:

(a) General reserve

	2017 \$	2016 \$
At the beginning and end of the year	48,952,219	48,952,219

It is the policy of the Bank to maintain a general reserve for reinvestment in banking operations. There were no transfers to general reserves during 2017.

(b) Statutory reserve

	2017 \$	2016 \$
At the beginning of year	87,970,850	87,970,850
Transferred from retained earnings	5,680,515	-
At the end of the year	93,651,365	87,970,850

Pursuant to Section 45 (1) of the Banking Act of Saint Lucia 2015, the Bank shall, out of its net profits of each year transfer to that reserve a sum equal to not less than twenty percent of such profits whenever the amount of the fund is less than one hundred percent of the paid-up capital of the Bank.

(c) Special reserve

	2017 \$	2016 \$
At beginning of year	2,034,132	2,034,132
At end of year	2,034,132	2,034,132

The previous finance contract between the European Investment Bank ("EIB") and the former St. Lucia Development Bank, now assumed by Bank of Saint Lucia Limited, required the Bank to establish and maintain this special reserve.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

28 Reserves.....continued

(d) Retirement benefit reserve

	2017 \$	2016 \$
At beginning of year	10,626,569	7,897,140
Transferred from retained earnings	2,988,380	2,729,429
At end of year	13,614,949	10,626,569

The retirement benefit reserve is a non-distributable reserve. It is the Bank's policy to match the amount of fair value of retirement benefit plan assets with the retirement benefit reserve.

(e) Contingency reserve

	2017 \$	2016 \$
Transfer from retained earnings	4,535,304	-
At end of year	4,535,304	-

The contingency reserve fund is created as an appropriation from retained earnings to set aside a portion of profits against loan loss provisions. This reserve will be funded annually until the total loan loss provisions and the contingency reserve equates to non-performing loans.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

29 Contingent liabilities and commitments

Commitments

At 31 December the Bank had contractual amounts of off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	2017 \$	2016 \$
Loan commitments	69,837,704	72,455,496
Guarantees and letters of credit	23,764,807	27,141,676
	<u>93,602,511</u>	<u>99,597,172</u>

30 Net interest income

	2017 \$	2016 \$
Interest income		
Loans and advances	60,983,699	60,596,590
Treasury bills and investment securities	19,073,592	16,071,826
Deposits with banks	190,168	14,908
	<u>80,247,459</u>	<u>76,683,324</u>
Interest expense		
Time deposits	(12,774,544)	(16,505,460)
Savings deposits	(13,230,674)	(14,214,485)
Other borrowed funds	(4,932,757)	(3,159,395)
Demand deposits	(387,372)	(355,986)
Correspondent banks	(819,615)	(1,254,778)
	<u>(32,144,962)</u>	<u>(35,490,104)</u>
Net interest income	<u>48,102,497</u>	<u>41,193,220</u>

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

31 Fee and commission income

	2017 \$	2016 \$
Credit related fees and commissions	26,151,812	25,709,873
Brokerage related fees and commissions	4,887,978	5,041,959
Asset management and related fees	333,153	239,132
	31,372,943	30,990,964

32 Dividend income

	2017 \$	2016 \$
Available-for-sale financial assets	211,445	184,616
Subsidiaries	-	1,479,000
Associates	264,000	-
	475,445	1,663,616

33 Net foreign exchange trading income

	2017 \$	2016 \$
Foreign exchange		
- transaction gains, net	10,108,150	9,402,196
- translation gains, net	1,361,074	594,992
	11,469,224	9,997,188

34 Other income

	2017 \$	2016 \$
Service and management fees (Note 14)	576,970	761,572
Miscellaneous income	-	281,598
Rental income	2,260,290	2,371,276
Bad debt recovery income	7,971,739	4,305,060
Other income	-	670,434
	10,808,999	8,389,940

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

35 Other gains, net

	2017 \$	2016 \$
Fair value gains/(losses):		
- Gains on disposal of Available- for- sale investments	2,225,372	492,037
- (Loss)/gains on disposal of Held to Maturity investments	(70,379)	12,046
- Unrealised (loss)/gains on Held for trading investments	(24,556)	17,329
- Gain on Held for trading investment	35,124	-
- Fair value gains/(loss) on investment properties (Note 19)	812,745	(1,530,000)
	2,978,306	(1,008,588)

36 Operating expenses

	2017 \$	2016 \$
Employee benefit expense (Note 37)	25,609,346	29,216,870
Rent	1,455,543	1,366,765
Utilities	4,055,882	4,032,216
Security	1,509,244	1,835,575
Bank and other licences	217,375	133,484
Credit card expenses	7,182,869	6,059,912
Advertising and promotions	469,144	804,762
Repairs and maintenance	6,475,002	5,875,308
Legal and professional	707,091	930,029
Other expenses	10,329,479	11,978,527
Depreciation (Note 15)	4,508,279	5,171,116
	62,519,254	67,404,564

37 Employee benefit expense

	2017 \$	2016 \$
Wages and salaries	20,360,452	23,834,023
Other staff cost	4,439,696	5,469,556
Pensions	809,198	(86,709)
	25,609,346	29,216,870

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

38 Income tax expense

	2017 \$	2016 \$
Current tax	969,364	–
Under provision of prior year tax	–	1,651,480
Reversal of overpayment of tax	(1,945,739)	–
Deferred tax (credit)/charge during the year	(1,042,982)	4,074,975
	(2,019,357)	5,726,455
Income tax expense in other comprehensive income:		
Deferred tax arising from defined benefit	223,089	254,638
	(1,796,268)	5,981,093

Tax on the Bank's loss before taxation differs from the theoretical amount that would arise using the statutory tax rate of 30% as follows:

	2017 \$	2016 \$
Profit/loss before income tax	26,673,719	(104,960,437)
Tax calculated at the applicable tax rate of 30%	8,002,116	(31,488,131)
Tax effect of exempt income	(5,047,028)	(1,859,083)
Tax effect of expenses not deductible for tax purposes	(321,424)	2,022,794
Losses utilised	(969,364)	–
Overpayment of corporate tax	(1,945,739)	–
Deferred tax asset not recognised-losses	–	37,050,949
Deferred tax asset recognised-losses	(1,737,918)	–
Deferred tax asset not recognised-timing differences	–	(74)
	(2,019,357)	5,726,455

The Bank has unutilised tax losses of \$22,826,137 (2016 - \$17,033,082) for which the deferred tax asset has been recognised due to the certainty of its recoverability. Unutilized tax losses may be carried forward and deducted against 50% of future taxable income within five years following the year in which the losses were incurred. The total tax losses of \$248,287,260 (2016 - 259,742,832) are made up as follows; \$98,264,730, \$24,956,581, \$6,366,799, \$13,619,552 and \$105,079,598 expires in 2018, 2019, 2020, 2021 and 2022 respectively. The Bank has unutilised tax losses \$225,461,123 (2016 -\$242,709,750) for which no deferred tax asset has been recognized.

Bank of Saint Lucia Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(expressed in Eastern Caribbean dollars)

39 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	2017	2016
	\$	\$
Cash and balances with Central Bank (Note 5)	226,920,732	138,409,781
Deposits with other banks (Note 6)	96,111,567	95,603,876
Deposits with non-bank financial institutions (Note 7)	5,412,488	8,729,733
Treasury bills (Note 8)	22,079,809	21,145,370
	<u>350,524,596</u>	<u>263,888,760</u>

40 Comparatives

Where necessary, comparative figures have been adjusted to comply with changes in presentation in the current year.