



**NATIONAL BANK
OF THE VIRGIN ISLANDS LIMITED**

Audited Financial Statements

For The Year Ended December 31, 2014



**NATIONAL BANK
OF THE VIRGIN ISLANDS LIMITED**

Audited Financial Statements

For The Year Ended December 31, 2014



NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

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NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Bank Directory

Board of Directors

Mr. Clarence Faulkner	Chairman
Mrs. Sandra Scatliffe	Member
Mr. Rodney Herbert	Member
Mr. Audley Maduro	Member
Mrs. Benedicta Samuels	Member
Ms. Joy Francis	Ex-Officio Member
Ms. Stephanie George	Ex-Officio Member

Registered Office

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British Virgin Islands



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Sea Meadow House
TobaccoWharf
Road Town
Tortola VG1110
British Virgin Islands

Independent Auditor's Report

To The Directors of
National Bank of the Virgin Islands Limited
Tortola, British Virgin Islands

We have audited the accompanying financial statements of the National Bank of the Virgin Islands Limited, which comprise of the statement of financial position as at December 31, 2014 and the statements of comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the National Bank of the Virgin Islands Limited as of December 31, 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Limited

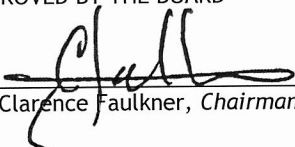
June 22, 2015
Tortola, British Virgin Islands

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Statement of Financial Position
As at December 31, 2014
Expressed in United States Dollars

	Notes	2014	2013
ASSETS			
Cash and cash equivalents		30,359,766	13,935,997
Due from bank	3	4,312,457	4,300,561
Loans and advances to customers	4	138,452,406	130,367,922
Other customer receivables	6	271,446	320,508
Other receivable	7	125,000	250,000
Financial investments held-to-maturity	8	1,136,788	1,389,081
Prepayments		180,035	174,642
Property and equipment	9	2,708,793	3,166,949
Segregated assets of staff gratuity plan	18	-	337,202
General banking licence deposit	10	500,000	500,000
TOTAL ASSETS		\$178,046,691	\$154,742,862
SHAREHOLDER'S EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	11	-	-
Additional paid-in capital	11	13,738,100	13,738,100
Retained earnings		13,262,284	12,488,954
Total share capital and reserves		27,000,384	26,227,054
Liabilities			
Amounts owed to savings depositors	12	39,930,672	35,413,147
Amounts owed to certificate of deposit holders	13	110,806,639	92,303,331
Trade and other payables	14	308,996	462,128
Segregated liabilities of staff gratuity plan	18	-	337,202
Total liabilities		151,046,307	128,515,808
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		\$178,046,691	\$154,742,862

APPROVED BY THE BOARD

 Director
Clarence Faulkner, *Chairman*

June 11, 2015 Date approved

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

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Statement of Comprehensive Income For The Year Ended December 31, 2014 *Expressed in United States Dollars*

	Notes	2014	2013
Interest and similar income	15	7,866,480	7,510,727
Interest expense	16	(1,578,022)	(1,782,431)
Net interest income		6,288,458	5,728,296
Fees and commissions	17	625,362	534,935
Net realised loss on held-to-maturity investments	8	-	(196,623)
Other operating income		11,710	31,911
Total operating income		6,925,530	6,098,519
Credit loss expenses	5	(476,130)	(413,259)
Net operating income		6,449,400	5,685,260
EXPENSES			
Depreciation	9	(576,315)	(550,650)
Other operating expenses	18	(5,099,755)	(4,654,224)
Total operating expenses		(5,676,070)	(5,204,874)
NET PROFIT FOR THE YEAR		\$773,330	\$480,386

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

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Statement of Changes in Equity For The Year Ended December 31, 2014 *Expressed in United States Dollars*

2014				
	Share Capital	Additional Paid-in Capital	Retained Earnings	Total
Balance at beginning of the year	-	13,738,100	12,488,954	26,227,054
Net profit for the year	-	-	773,330	773,330
BALANCE AT THE END OF THE YEAR	\$ -	\$13,738,100	\$13,262,284	\$27,000,384

2013				
	Share Capital	Additional Paid-in Capital	Retained Earnings	Total
Balance at beginning of the year	-	9,738,100	12,008,568	21,746,668
Capital contributions	-	4,000,000	-	4,000,000
Net profit for the year	-	-	480,386	480,386
BALANCE AT THE END OF THE YEAR	\$ -	\$13,738,100	\$12,488,954	\$26,227,054

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

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Statement of Cash Flows For The Year Ended December 31, 2014 *Expressed in United States Dollars*

	2014	2013
OPERATING ACTIVITIES		
Interest and commission income received	8,175,581	7,450,908
Interest paid	(1,571,814)	(1,652,237)
General and administrative expenses paid	(5,090,107)	(4,759,346)
<hr/>		
Changes in operating assets and liabilities:	1,513,660	1,039,325
Net increase in loans advanced to customers	(8,183,581)	(20,038,838)
Net decrease (increase) in other receivable	125,000	(250,000)
Net increase in savings deposits	4,517,525	732,870
Net increase in certificates of deposit	18,497,100	19,480,663
<hr/>		
<i>Cash flows from operating activities</i>	16,469,704	964,020
INVESTING ACTIVITIES		
Net movement on amounts due from bank	(11,896)	(122,335)
Net movement on held-to-maturity investments	252,293	102,877
Purchase of fixed assets	(493,710)	(495,236)
Sales proceeds from disposal of fixed assets	207,378	-
<hr/>		
<i>Cash flows used in investing activities</i>	(45,935)	(514,694)
FINANCING ACTIVITIES		
Capital contributions	-	4,000,000
Repayment of long-term debt	-	(105,184)
<hr/>		
<i>Cash flows from financing activities</i>	-	3,894,816
<hr/>		
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,423,769	4,344,142
CASH AND CASH EQUIVALENTS		
At beginning of year	13,935,997	9,591,855
<hr/>		
At end of year	\$30,359,766	\$13,935,997
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CASH AND CASH EQUIVALENTS:		
Cash in hand and current account balances with other banks	16,196,494	6,713,263
Fixed deposits with brokers	109,898	209,068
Certificates of deposit with other banks	14,053,374	7,013,666
<hr/>		
	\$30,359,766	\$13,935,997
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The accompanying notes form an integral part of these financial statements.

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Notes to the Financial Statements For The Year Ended December 31, 2014 *Expressed in United States Dollars*

1. ORGANIZATION AND ACTIVITIES

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

The Bank operates under a general banking licence in accordance with the Banks and Trust Companies Act, 1990 (as amended). The principal activity of the Bank is to provide commercial banking services in the British Virgin Islands. The Bank is wholly owned by the Government of the Virgin Islands (the “Government”). The Bank’s registered office is located at Blenheim Trust (BVI) Limited, 125 Main Street, P.O. Box 144, Road Town, Tortola, British Virgin Islands. The Bank operates out of its sole branch in the Norbert Wheatley Building, Wickham’s Cay I, Road Town, Tortola, British Virgin Islands.

The financial statements for the year ended December 31, 2014 were authorized for issue in accordance with a resolution of the directors on June 11, 2015.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

- **Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32.** These amendments clarify the meaning of ‘currently has a legally enforceable right to set-off’ and the criteria for non simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Bank, since the Bank has no offsetting arrangements.
- **IFRIC 21 Levies.** IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Bank as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.
- **Annual Improvements 2011-2013 cycle.** In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity’s first IFRS financial statements. This amendment to IFRS 1 has no impact on the Bank, since the Bank is an existing IFRS preparer.

The application of the above mentioned amendments and standards had no significant effect on the current period or any prior period. None of the other new standards, interpretations and amendments effective for the first time from January 1, 2014, have had a material effect on the financial statements.

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Notes to the Financial Statements For The Year Ended December 31, 2014 *Expressed in United States Dollars*

2. ACCOUNTING POLICIES (Continued)

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

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

- **IFRS 9, Financial Instruments.** This new standard completes the first part of a three-part project to replace IAS 39, Financial Instruments: Recognition and Measurement. The classification of financial instruments will be based on how an entity manages its financial instruments and the contractual cash flows. IFRS 9 will also permit a single impairment method. The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. As a result, this new standard will increase comparability, enhance the ability of the users to understand the accounting of financial instruments and reduce the complexity (effective for annual periods beginning on or after January 1, 2018).
- **IFRS 15 Revenue from Contracts with customers.** IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.
- **IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets**
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.
- **IAS 24 Related Party Disclosures**
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.
- **Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Notes to the Financial Statements For The Year Ended December 31, 2014 *Expressed in United States Dollars*

2. ACCOUNTING POLICIES (Continued)

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

None of the other new standards, interpretations and amendments, which are effective for periods beginning after January 1, 2015 and which have not been adopted early, are expected to have a material effect on the Bank's future financial statements.

2.4 Comparative figures

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

2.5 Significant accounting judgments and estimates

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

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

Going concern

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

Impairment losses on loans and advances

The Bank reviews its non-performing loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the collateral value and current financial standing of the customer when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

2.6 Foreign currency translation

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

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Notes to the Financial Statements For The Year Ended December 31, 2014 *Expressed in United States Dollars*

2. ACCOUNTING POLICIES (Continued)

2.7 Financial instruments - initial recognition and subsequent measurement

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date the Bank becomes a party to the contracted provisions of the instrument.

Initial recognition of financial instruments

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

Financial assets

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

Loans and receivables

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

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

The Bank's loans and receivables comprise of due from bank, loans and advances to customers, other customer receivables and other receivable.

Held-to-maturity financial investments

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

Borrowed funds

These are financial instruments where the substance of the contractual arrangement results in the Bank having an obligation to deliver cash or another financial asset to the counterparty, in order to satisfy their obligation. The Bank recognizes its financial liabilities on the date it becomes a party to the contractual provisions of these instruments. Financial liabilities are not recognized unless one of the parties has performed.

Financial liabilities are measured initially at fair value (transaction price) plus transaction costs that are directly attributable to the issue of the financial liability. After initial measurement, borrowings are subsequently measured at amortised cost using the effective interest rate method.

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Notes to the Financial Statements For The Year Ended December 31, 2014 *Expressed in United States Dollars*

2. ACCOUNTING POLICIES (Continued)

2.9 Impairment of financial assets (continued)

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

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

Held-to-maturity investments

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

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

2.10 Offsetting financial instruments

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

2.11 Administrative services

The Bank provides administrative services that result in the holding of assets on behalf of Government agencies. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Bank.

2.12 Recognition of revenue

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

Interest and similar income

Interest income on loans and advances to customers are recorded in the statement of comprehensive income as it accrues until such time as the loan is classified as non-performing. At that time, any uncollected interest is reversed against interest income. Interest is calculated using the simple interest method on daily balances of the principal amount outstanding.

For all financial instruments measured at amortized cost, interest income or expense is recorded at the effective interest rate, which is the exact rate for discounting estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Notes to the Financial Statements For The Year Ended December 31, 2014 *Expressed in United States Dollars*

2. ACCOUNTING POLICIES (Continued)

2.12 Recognition of revenue (continued)

Fee and commission income

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

2.13 Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, deposits held at call, cash held with broker and short-term highly liquid investments with maturities of three months or less from the date of acquisition.

2.14 Pension

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

2.15 Taxation

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

2.16 Property and equipment

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

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

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

2.17 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized in the statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount is estimated as the greater of an asset's net selling price and value in use.

If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the statement of comprehensive income.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Notes to the Financial Statements For The Year Ended December 31, 2014 Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.18 Collateral Valuation

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

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

2.19 Operating Lease Agreement

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

3. DUE FROM BANK

	2014	2013
Certificates of deposit	4,305,057	4,295,938
Add: interest receivable	7,400	4,623
	<u>\$4,312,457</u>	<u>\$4,300,561</u>

Relates to placements whose maturity is less than one year from date of the statement of financial position but more than three months from placement date.

The Bank has pledged \$100,000 of amounts due from Bank as security for corporate credit cards with an aggregate credit limit of \$87,500 (2013: \$85,000) as at December 31, 2014.

4. LOANS AND ADVANCES TO CUSTOMERS

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

The Bank analyses its loan portfolio by category as follows:

2014	Commercial	Mortgages	Personal	Total
Performing loans	20,058,219	76,940,940	13,060,434	110,059,593
Non-performing loans	19,688,283	10,211,651	834,881	30,734,815
Gross loans	39,746,502	87,152,591	13,895,315	140,794,408
Less: allowance for credit losses	(471,338)	(756,998)	(97,616)	(1,325,952)
	<u>\$39,275,164</u>	<u>\$86,395,593</u>	<u>\$13,797,699</u>	<u>\$139,468,456</u>
Add: interest receivable				438,515
Less: interest provision on restructuring				(1,454,565)
				<u>\$138,452,406</u>

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Notes to the Financial Statements For The Year Ended December 31, 2014 Expressed in United States Dollars

4. LOANS AND ADVANCES TO CUSTOMERS (Continued)

2013	Commercial	Mortgages	Personal	Total
Performing loans	22,964,431	72,327,795	13,023,207	108,315,433
Non-performing loans	18,013,298	5,307,826	675,242	23,996,366
Gross loans	40,977,729	77,635,621	13,698,449	132,311,799
Less: allowance for credit losses	(516,907)	(320,347)	(79,026)	(916,280)
	\$40,460,822	\$77,315,274	\$13,619,423	\$131,395,519
Add: interest receivable				537,612
Less: interest provision on restructuring				(1,565,209)
				\$130,367,922

In general, interest rates on loans and advances range between 5.5% and 14% per annum. Of the loans in the portfolio, 434 (2013: 388) totaling \$116,822,736 (2013: \$106,140,094) had an interest rate of less than 8%. The weighted average interest rate on these loans was 6% (2013: 6%).

As at December 31, 2014, the loans and advances to customers includes \$1,454,565 (2013: \$1,565,209) of interest which was outstanding at the date of restructuring. This interest is included as part of the restructured loans and advances as principal or converted into new loans. A corresponding provision has been recorded, which offsets the interest capitalized. As payments on these restructured loans are received, this provision is reduced in proportion to balance received, in the same manner as the interest recognized to income.

Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

5. ALLOWANCE FOR CREDIT LOSSES

	2014	2013
Opening balance	916,280	576,443
Provision for loan losses	476,130	654,797
Releases	(60,055)	(242,215)
Write-offs	(6,403)	(72,745)
Ending balance	\$1,325,952	\$916,280

Collateral repossessed

During the year, the Bank exercised its power of sale over real estate collateral with a market value of \$40,000 (2013: \$409,750).

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6. OTHER CUSTOMER RECEIVABLES

	2014	2013
Late charges	124,989	209,170
Insurance	63,245	64,139
Other	83,212	47,199
	\$271,446	\$320,508

7. OTHER RECEIVABLE

This amount relates to a short term advance to the Scholarship Trust Fund ("the Fund"). The Bank acts as the administrator of the Fund. The outstanding balance at year end is unsecured, interest free and has no fixed repayment terms. For the year ended December 31, 2014, the Bank has not recorded any impairment relating to this other receivable.

8. HELD-TO-MATURITY INVESTMENTS

	2014	2013
Asset-backed securities	1,133,627	1,385,920
Add: Interest receivable	3,161	3,161
	\$1,136,788	\$1,389,081

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

	2014	2013
Beginning balance	1,385,920	1,585,548
Net losses recognized in the statement of comprehensive income	-	(106,623)
Purchases	-	1,385,920
Sales and repayments	(252,293)	(1,478,925)
	\$1,133,627	\$1,385,920

During the year ended December 31, 2013 the Bank's investment portfolio was substantially sold as a result of a significant recovery in the impaired portfolio of investments. The funds were reinvested into a lower-risk portfolio of asset-backed securities. The transaction resulted in a loss of \$106,623 on the principal balance of investments sold. In addition, interest receivable on held-to-maturity investments amounting to \$90,000 were written-off. The net realized loss on held-to-maturity investments totaling \$196,623 was included within 'Net realized loss on held-to-maturity investments' within the statement of comprehensive income. No investments were sold during the year ended December 31, 2014.

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8. HELD-TO-MATURITY INVESTMENTS (Continued)

Interest rates on the asset-backed securities range from 4.0% to 6.5% per annum. The weighted average life of these securities range from 0.45 to 4.86 years.

8.1 Fair value information

2014	Book value	Market value
Government and asset-backed securities	\$1,133,627	\$1,123,262
2013	Book value	Market value
Government and asset-backed securities	\$1,385,920	\$1,386,927

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9. PROPERTY AND EQUIPMENT

	Motor Vehicles	Furniture & Fixtures	Computer Equipment	Leasehold Improvements	Work in Progress	Total
Cost						
January 1, 2014	140,672	903,111	1,155,556	2,771,899	31,472	5,002,710
Additions	-	6,654	122,905	173,193	190,958	493,710
Disposals	(77,777)	-	-	(250,000)	-	(327,777)
Write-offs	-	-	(58,044)	(110,129)	-	(168,173)
December 31, 2014	\$ 62,895	\$909,765	\$1,220,417	\$2,584,963	\$222,430	\$5,000,470
Accumulated Depreciation						
January 1, 2014	107,310	407,503	610,775	710,173	-	1,835,761
Charge	7,699	74,592	196,735	297,289	-	576,315
Disposals	(77,777)	-	-	(42,622)	-	(120,399)
December 31, 2014	\$37,232	\$482,095	\$807,510	\$964,840	-	\$2,291,677
Net Book Value						
December 31, 2014	\$25,663	\$427,670	\$412,907	\$1,620,123	\$222,430	\$2,708,793
December 31, 2013	\$33,362	\$495,608	\$544,781	\$2,061,726	\$31,472	\$3,166,949

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10. GENERAL BANKING LICENCE DEPOSIT

In accordance with the Banks and Trust Companies Act, 1990 (as amended), a deposit of \$500,000 (2013: \$500,000) has been lodged with the British Virgin Islands Financial Services Commission (BVI FSC). The deposit is in the form of a non-negotiable certificate of indebtedness. Interest is earned semi-annually at a rate fixed periodically by the BVI FSC. The average rate of interest as of December 31, 2014 was 0.092% (2013: 0.093%).

11. SHARE CAPITAL

	2014	2013
Authorized:		
15,000,000 (2013: 15,000,000) no par value shares	-	-
Issued and fully paid:		
9,738,100 (2013: 9,738,100) no par value shares	-	-

During the year ended December 31, 2013, the shareholder made a capital contribution of \$4,000,000. At December 31, 2014, the Bank has issued 9,738,100 no par value shares for a consideration of \$13,738,100. The Bank is wholly owned by the Government. The liability of the sole shareholder is limited by shares.

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

12. AMOUNTS OWED TO SAVINGS DEPOSITORS

	2014	2013
Individuals	35,288,361	32,703,594
Businesses	4,642,311	2,709,553
	\$39,930,672	\$35,413,147

The average effective rate of interest on customer deposits during the year was 0.61% (2013: 1.04%).

During the period ended December 31, 2014, the Bank transferred 101 (2013: Nil) dormant accounts totaling \$55,341 (2013: \$Nil) to a special fund established for that purpose in accordance with the Dormant Accounts Act, 2011. Included in the above total are 69 dormant accounts totaling \$23,984, which were segregated in 2013 and subsequently transferred in 2014.

13. AMOUNTS OWED TO CERTIFICATE OF DEPOSIT HOLDERS

	2014	2013
Individuals	34,655,414	33,118,369
Businesses	75,605,279	58,644,232
	110,260,693	91,762,601
Add: Interest payable	545,946	540,730
	\$110,806,639	\$92,303,331

The average effective rate of interest on certificates of deposit during the year was 1.24% (2013: 1.58%)

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14. TRADE AND OTHER PAYABLES	2014	2013
Insurance escrow	191,139	180,359
Accrued pension liability (Note 18)	-	171,196
Trade payables	117,857	110,573
	\$308,996	\$462,128
15. INTEREST AND SIMILAR INCOME	2014	2013
Loans and advances to customers	7,757,348	7,365,949
Held-to-maturity investments	56,683	107,554
Cash and placements	51,991	36,756
Other	458	468
	\$7,866,480	\$7,510,727
16. INTEREST EXPENSE	2014	2013
Certificate of deposit holders	1,364,057	1,397,863
Savings depositors	213,965	348,952
Interest on staff gratuity plan	-	35,576
Borrowed funds	-	40
	\$1,578,022	\$1,782,431
17. FEES AND COMMISSIONS	2014	2013
Commitment fees	201,657	198,107
Late fee	48,823	184,790
Other fees received	309,920	123,089
Commission earned on administrative services	64,962	28,949
	\$625,362	\$534,935

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18. OTHER OPERATING EXPENSES

	2014	2013
Staff costs	2,938,094	2,731,586
Rent	404,147	369,540
Repairs and maintenance	262,184	212,053
Professional fees	248,701	240,372
Social security and payroll taxes	195,339	184,772
Write-off of fixed assets	168,173	-
Marketing and advertising	146,647	185,383
Systems and communications	127,764	112,100
Electricity and water	110,108	111,617
Licence fees and bank charges	107,822	68,100
Security services	100,088	101,472
Staff training	83,194	98,065
Travel and entertainment	78,827	60,294
Business insurance	75,819	81,882
Stationary and postage	36,717	70,087
Other	16,131	26,901
	\$5,099,755	\$4,654,224

Analysis of staff costs:

	2014	2013
Wages and salaries	2,452,352	2,302,540
Directors' expenses	158,723	174,595
Staff gratuity contributions	-	139,388
Staff insurance	99,666	97,365
Pension cost	180,544	750
Other staff related costs	46,809	16,948
	\$2,938,094	\$2,731,586

During the year ended December 31, 2014, wages and salaries of \$2,452,352 (2013: \$2,302,540) were paid to an average of 46 employees (2013: 43).

Pension

On October 4, 2010, a New Labour Code came into effect which stipulates that the employer should make a provision for retirement benefits to be paid to its permanent employees by means of a pension plan, an annuity, provident fund or other form of retirement plan which may be contributory.

Effective January 1, 2014, the Bank became a member of the Multi-Employer Pension Plan (MEPP) established by the BVI Chamber of Commerce and Hotel Association (BVICCHA). The Plan is a defined contribution plan, with contributions from pensionable earnings at a rate of 8% by the Bank and voluntary contributions of at least 4% by employees. The BVICCHA MEPP replaces the Bank's staff gratuity plan which was ceased on December 31, 2013. All assets in the staff gratuity plan, net of employee withdrawals, were transferred to the MEPP, effective January 1, 2014.

As at December 31, 2013, the Bank's provision for retirement benefit for its permanent employees totaled \$171,196. For the year ended December 31, 2014, pension costs of \$180,544 (2013: \$750) were incurred, including contributions by the Bank on behalf of employees.

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Notes to the Financial Statements For The Year Ended December 31, 2014 Expressed in United States Dollars

18. OTHER OPERATING EXPENSES (Continued)

Staff gratuity plan

As at December 31, 2013 the staff gratuity balance totaled \$337,202. For the year ended December 31, 2013 the Bank made contributions of \$139,388 to the staff gratuity plan.

19. RELATED PARTY TRANSACTIONS

- (a) During the year ended December 31, 2014, the Bank approved loans issued to current and former directors of the Bank and related persons totaling \$1,266,095 (2013: \$756,000), which are included as part of loans and advances. The interest rates on these loans were recorded at 4% - 8.5% (2013: 4%).
- (b) As at December 31, 2014, the Government held certificates of deposit totaling \$18,438,186 (2013: \$13,201,269). These certificates of deposit earn interest at rates ranging from 0.8% to 1.4% (2013: 1.1% to 2.0%) per annum. Also, government statutory bodies held certificates of deposit amounting to \$54,728,476 (2013: \$42,053,411) at interest rates ranging from 1.1% to 1.6% (2013: 1.2% to 2.2%).
- (c) As at December 31, 2014, directors' allowances totaled \$128,020 (2013: \$158,000). These amounts are included within directors' expenses.

20. COMMITMENTS

Undrawn loan commitments

As at December 31, 2014, the Bank had undrawn commitments under existing customer loan agreements totalling \$2,849,985 (2013: \$4,293,585).

Lease commitments

As at December 31, 2014, the future minimum rental payments for the Bank for the next five (5) years under operating lease agreements for the Bank's current premises and its Business Continuity Premises (BCP) are as follows:

2014	397,252
2015	397,252
2016	397,252
2017	397,252
2018	367,670
	<hr/>
	\$1,956,678

21. FINANCIAL RISK MANAGEMENT

21.1 Introduction

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

Risk Management Structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

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

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Notes to the Financial Statements For The Year Ended December 31, 2014 Expressed in United States Dollars

21. FINANCIAL RISK MANAGEMENT (Continued)

21.2 Credit risk (continued)

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

The maximum exposure to credit risk before any credit enhancement at December 31, 2014 is the carrying amount of the financial assets in the statement of financial position.

As at December 31, 2014, the Bank's cash and cash equivalents and certificates of deposit totalling \$30,018,968 (2013: \$17,439,151) or 17% (2013: 11%) of its total assets is currently deposited with Banco Popular de Puerto Rico (Banco Popular), which has a long-term credit rating of Ba1 (2013: Ba2) per Moody's rating agency.

Collateral and other credit enhancements

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

Management monitors the market value of collateral on non-performing loans. Management also requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

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

Credit risk exposure for each internal risk rating

For held-to-maturity investments, the Bank determines the internal rating based on Moody's external rating of the respective securities.

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

The Bank's past due loans and advances to customers which are not considered impaired by management are noted below (excluding non-performing loans totaling \$30,734,815 (2013: \$23,996,366):

As at December 31, 2014

	Less than 30 days	30 to 59 days	60 to 89 days	90 days or more	Total
Commercial	3,730,456	4,772,723	437,884	-	8,941,063
Mortgages	8,238,582	5,741,696	1,413,434	-	15,393,712
Personal	1,776,590	669,229	292,652	-	2,738,471
	\$13,745,628	\$11,183,648	\$2,143,970	\$ -	\$27,073,246

As at December 31, 2013

	Less than 30 days	30 to 59 days	60 to 89 days	90 days or more	Total
Commercial	2,198,825	8,060,128	1,749,265	-	12,008,218
Mortgages	7,775,563	6,289,911	3,809,045	-	17,874,519
Personal	2,040,148	669,790	359,446	-	3,069,384
	\$12,014,536	\$15,019,829	\$5,917,756	\$ -	\$32,952,121

During the year, the Bank renegotiated loans totaling \$6,789,078 (2013: \$965,331).

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Notes to the Financial Statements For The Year Ended December 31, 2014 Expressed in United States Dollars

21. FINANCIAL RISK MANAGEMENT (Continued)

21.2 Credit risk (continued)

As at December 31, 2014, the credit rating of the Bank's held-to-maturity investments (excluding interest receivable) are as follows, based on Moody's Rating Agency.

2014	CAA1	CAA3	Not Rated	Total
Government and asset-backed securities	-	-	1,133,627	1,133,627
Other securities	-	-	-	-
	\$ -	\$ -	\$1,133,627	\$1,133,627

2013	CAA1	CAA3	Not Rated	Total
Government and asset-backed securities	-	-	1,385,920	1,385,920
Other securities	-	-	-	-
	\$ -	\$ -	\$1,385,920	\$1,385,920

Impairment assessment

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

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

21.3 Liquidity risk and funding management

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

The Bank maintains liquid assets that can be drawn upon as needed, in the event of unforeseen interruption of cash flow. Liquid assets consist of cash and short-term bank deposits. The Board of Directors has determined that liquid assets held as the Bank's cash reserve, must be at least twenty percent (20%) of deposit liabilities net of deposits from the shareholder. As at December 31, 2014, the ratio of liquid assets over deposit liabilities (net of deposits from the shareholder) increased to 26% from 16% in 2013.

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21. FINANCIAL RISK MANAGEMENT (Continued)

21.3 Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

2014	Within 3 months	Over 3 months, but within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	30,359,766	-	-	-	30,359,766
Due from bank	4,211,707	100,750	-	-	4,312,457
Gross loans and advances to customers	5,935,633	10,334,468	15,606,612	108,917,695	140,794,408
Other customer receivables	271,446	-	-	-	271,446
Other receivable	125,000	-	-	-	125,000
Financial investments held-to- maturity	3,161	104,287	1,029,340	-	1,136,788
Total assets	40,906,713	10,539,505	16,635,952	108,917,695	176,999,865
Liabilities					
Amounts owed to savings depositors	39,930,672	-	-	-	39,930,672
Amounts owed to certificate of deposit holders	50,290,453	60,516,186	-	-	110,806,639
Trade and other payables	308,996	-	-	-	308,996
Total liabilities	90,530,121	60,516,186	-	-	151,046,307
Net assets/(liabilities)	\$(49,623,408)	\$(49,976,681)	\$16,635,952	\$108,917,695	\$25,953,558