NATIONAL BANK
OF THE VIRGIN ISLANDS LIMITED

Audited Financial Statements

For The Year Ended December 31, 2012

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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*
Ms. Maguerite Hodge	*Member*
Mr. Audley Maduro	Member
Mr. Michael Vanterpool	Member
Ms. Stephanie George	*Ex-Officio Member*

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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, 2012 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.

Auditor's 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, 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Limited

June 6, 2013
Tortola, British Virgin Islands

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Statement of Financial Position
As at December 31, 2012
Expressed in United States Dollars

	Notes	2012	2011
ASSETS			
Non-current assets			
Property and equipment	3	3,222,363	1,375,187
General banking license deposit	4	500,000	500,000
Loans and advances to customers (net of allowances for credit losses)	5,6,7,13,21	103,881,250	84,578,024
Held-to-maturity investments, net of impairment	8	1,585,548	1,873,829
Total non-current assets		109,189,161	88,327,040
Current assets			
Current portion of loans and advances to customers	5,6,13,21	5,910,222	5,048,474
Interest receivable-net of allowance		669,973	633,165
Prepayments	10	234,541	524,760
Segregated assets of staff gratuity plan	14	428,560	377,247
Time deposits	9,13	4,178,226	11,223,307
Cash and cash equivalents		9,591,855	8,065,894
Total current assets		21,013,377	25,872,847
TOTAL ASSETS		**$ 130,202,538**	**$ 114,199,887**
SHAREHOLDER'S EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	11	-	-
Additional paid-in capital	11	9,738,100	9,738,100
Retained earnings		12,008,568	10,742,795
Total share capital and reserves		21,746,668	20,480,895
Non-current liabilities			
Long-term debt	12,13	58,444	105,244
Total non-current liabilities		58,444	105,244
Current liabilities			
Current portion of long-term debt	12,13	46,740	46,680
Amounts owed to savings depositors	13	34,680,277	33,707,044
Amounts owed to certificate of deposit holders	13,21	72,281,930	58,734,999
Accrued interest payable to certificate of deposit holders		410,544	205,665
Trade and other payables	15,20	549,375	542,113
Segregated liabilities of staff gratuity plan	14	428,560	377,247
Total current liabilities		108,397,426	93,613,748
Total liabilities		108,455,870	93,718,992
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		**$ 130,202,538**	**$ 114,199,887**

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, 2012
Expressed in United States Dollars

	Notes	2012	2011
Interest and similar income	16	7,022,762	6,567,253
Interest and similar expense	17	(1,469,355)	(1,384,552)
Net interest income		5,553,407	5,182,701
(Provision) reversal for loans and advances	7	(268,311)	23,537
Net interest income after provision for losses on loans and advances		5,285,096	5,206,238
Other operating income			
Fees and commissions	18	945,089	562,938
Total operating income		6,230,185	5,769,176
EXPENSES			
Depreciation	3	(230,291)	(164,909)
General administrative expenses	10,19,20	(4,734,121)	(4,037,426)
		(4,964,412)	(4,202,335)
NET PROFIT FOR THE YEAR		**$ 1,265,773**	**$ 1,566,841**

APPROVED BY THE BOARD

Clarence Faulkner, *Chairman* — Director

June 06, 2013 — Date approved

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, 2012
Expressed in United States Dollars

2012	Share Capital	Additional Paid-in Capital	Retained Earnings	Total
Balance at beginning of year	-	9,738,100	10,742,795	20,480,895
Net profit for the year	-	-	1,265,773	1,265,773
BALANCE AT THE END OF THE YEAR	**$ -**	**$ 9,738,100**	**$ 12,008,568**	**$ 21,746,668**

2011	Share Capital	Additional Paid-in Capital	Retained Earnings	Total
Balance at beginning of year	-	9,738,100	9,175,954	18,914,054
Net profit for the year	-	-	1,566,841	1,566,841
BALANCE AT THE END OF THE YEAR	**$ -**	**$ 9,738,100**	**$ 10,742,795**	**$ 20,480,895**

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, 2012
Expressed in United States Dollars

	2012	2011
OPERATING ACTIVITIES		
Interest and commission income received	7,662,732	6,949,791
Interest paid	(1,264,476)	(1,317,063)
General and administrative expenses paid	(4,436,640)	(4,469,520)
	1,961,616	1,163,208
Changes in operating assets and liabilities:		
Net increase in loans advanced to customers	(20,164,974)	(12,249,680)
Net increase in deposits received from savings depositors	973,233	1,913,573
Net increase in certificates of deposit	13,546,931	1,270,301
Cash flows used in operating activities	(3,683,194)	(7,902,598)
INVESTING ACTIVITIES		
Net movement on time deposits	7,045,081	(4,762,879)
Net movement on held-to-maturity investments	288,281	279,428
Purchase of fixed assets	(2,090,301)	(810,550)
Sales proceeds from disposal of fixed assets	12,834	-
Cash flows from (used in) investing activities	5,255,895	(5,294,001)
FINANCING ACTIVITIES		
Repayment of long-term debt	(46,740)	(46,740)
Cash flows used in financing activities	(46,740)	(46,740)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,525,961	(13,243,339)
CASH AND CASH EQUIVALENTS		
At beginning of year	8,065,894	21,309,233
At end of year	**$ 9,591,855**	**$ 8,065,894**
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash in hand and current account balances with banks	5,483,781	2,961,423
Fixed deposits with brokers	108,074	437,961
Time deposits with banks	4,000,000	4,666,510
	$ 9,591,855	**$ 8,065,894**

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

1. ORGANIZATION AND ACTIVITIES

The National Bank of the Virgin Islands Limited (the "Bank"), (formerly known as the Development Bank of the Virgin Islands Limited) was incorporated in the British Virgin Islands under the Companies Act, Cap. 285 and automatically re-registered under the BVI Business Companies Act, 2004 on January 1, 2009.

The Bank operates under a general banking license 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 and operates out of its sole branch in the Norbert Wheatley Building, Wickham's Cay I, Road Town, Tortola, British Virgin Islands.

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

The accounting policies adopted are consistent with those of the previous financial year.

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 of the Bank's future financial statements:

- **Improvements to IFRS.** Issued in May and June 2011, the improvements contain numerous amendments to IFRS, which are considered non-urgent but necessary. The improvements result in accounting changes for presentation, recognition or measurement purposes; or they are terminology or editorial changes only. These improvements have no significant impact in the Bank's accounting practice (mostly effective for annual period beginning on or after January 1, 2013).

2. ACCOUNTING POLICIES (Continued)

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

- **IFRS 7 (amendment),** *Financial Instruments: Disclosures*. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period (effective for annual period beginning on or after July 1, 2011). Additional amendments in IFRS 7 will also require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities, on the entity's financial position (effective for annual periods beginning on or after January 1, 2015).

- **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 amortized 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, 2015).

- **IFRS 12,** *Disclosures of interests in other entities.* Includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles (effective for accounting period beginning on or after January 1, 2013).

- **IFRS 13,** *Fair Value Measurement.* IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after January 1, 2013.

2. ACCOUNTING POLICIES (Continued)

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

Other standards, amendments and interpretations effective or in issue but not yet effective were issued but are not listed here. Management considered these as not relevant to the Bank and their application would have no impact on the Bank's accounting policies.

The Bank is yet to assess the above mentioned standards, amendments and interpretation full impact on its financial statements and intends to adopt when they become effective.

2.4 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.

Impairment losses on loans and advances

The Bank reviews its non-performing loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount based on the collateral and current financial standing of the customer when determining the level of allowance required.

2.5 Foreign currency translation

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

2. ACCOUNTING POLICIES (Continued)

2.6 Financial instruments – initial recognition and subsequent measurement

Date of recognition

Purchases or sales of financial assets are recognized on the trade date.

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.

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.

Loans and advances to customers

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These represent loans and advances created by the Bank providing money to customers, and are recognised from the date they are originated by the Bank. Loans and advances are measured initially at fair value. Cost is the fair value of the consideration given. They are included in current assets, except for those with maturities or terms greater than 12 months after the statement of financial position date. These are classified as non-current assets.

After initial measurement, loans and advances to customers 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 '*Provision for loans and advances*'.

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.

2. ACCOUNTING POLICIES (Continued)

2.7 Derecognition of financial assets and financial liabilities

Financial assets

A financial asset is derecognized when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expired or are surrendered. Loans and advances are derecognized on the day principal amounts are received by the Bank.

Financial liabilities

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

2.8 Impairment of financial assets

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

Loans and advances to customers

Allowance for impairment of loans and advances is established when there is objective evidence that the Bank will not be able to collect all amounts due according to the original terms of the loans and advances. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loan or receivable is impaired. The amount of the allowance is the difference between the asset's carrying value and an estimated foreclosure value based upon the appraised value of the collateral in accordance with IAS 39 AG 84. The amount of the allowance is recognised in the statement of comprehensive income and is based on estimates made by management. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

The Bank's loans and advances include a sub-type classification identified as non-performing (or non-current) loans. Loans and advances are classified as non-current when:

- in the opinion of management there is reasonable doubt as to the ultimate collectability of principal or interest; or
- payment of principal or interest is contractually past 90 days (2011: 90 days) unless, in the opinion of management, there is no significant doubt as to the collectability of interest and principal; or
- in the opinion of management it is considered prudent or desirable to cease accruing interest, irrespective of the status of interest or principal payments.

2. ACCOUNTING POLICIES (Continued)

2.8 Impairment of financial assets (continued)

Loans and advances to customers (continued)

When a loan is classified as non-current, all accrued and unpaid interest is reversed and charged against interest income in the period in which the loan is classified as non-current. When a repayment is received against a non-current loan, the repayment is recorded as a reduction, first, against any outstanding interest receivable on the loan, and second, against the outstanding loan principal balance. Non-current loans may revert to performing status when all payments become fully current and management has determined that there is no reasonable doubt as to the ultimate collectability of principal or interest.

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 '*Impairment losses on financial investments*'.

2.9 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.

2.10 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-current. 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 rate that exactly discounts 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.

2. ACCOUNTING POLICIES (Continued)

2.10 Recognition of revenue (continued)

Fee and commission income

The Bank earns commission income on bank accounts of third parties for which they act as agents. Fee income includes financing/refinancing fees. Fees or commissions that are linked to provision of a service are recognized after fulfilling the corresponding criteria.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, cash deposited with banks and short-term highly liquid investments with maturities of three months or less from the date of acquisition.

2.12 Staff gratuity plan

The Bank contributes to a staff gratuity plan at the rate of 8% of gross salary of eligible employees. Employees contribute at the rate of 4% of gross salary. Bank contributions are charged against income on a cash basis. Further information is set out in note 14.

2.13 Taxation

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

2.14 Property and equipment

Property and equipment are 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.

Costs incurred on leasehold improvements, furniture and fixtures, equipment and other costs relating to the new location of the Bank were recognized as work in progress to the extent that such expenditures were expected to generate future economic benefits. Depreciation commenced on these costs when the new location was brought into use.

2.15 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.

2. ACCOUNTING POLICIES (Continued)

2.15 Impairment of non-financial assets (continued)

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.

Expressed in United States Dollars

3. PROPERTY AND EQUIPMENT

	Motor Vehicles	Furniture & Fixtures	Computer equipment	Leasehold improvements	Work in progress	Total
Cost						
January 1, 2012	137,177	374,564	603,888	629,496	707,048	2,452,173
Additions	-	170,680	207,233	1,712,388	-	2,090,301
Disposals	(35,000)	-	-	-	-	(35,000)
Transfers	-	329,542	119,844	257,662	(707,048)	-
December 31, 2012	102,177	874,786	930,965	2,599,546	-	4,507,474
Accumulated depreciation						
January 1, 2012	117,852	296,530	331,952	330,652	-	1,076,986
Charge	6,491	38,033	98,962	86,805	-	230,291
Disposals	(22,166)	-	-	-	-	(22,166)
December 31, 2012	102,177	334,563	430,914	417,457	-	1,285,111
Net book value						
December 31, 2012	$ -	$ 540,223	$ 500,051	$ 2,182,089	-	$ 3,222,363
December 31, 2011	$ 19,325	$ 78,034	$ 271,936	$ 298,844	$ 707,048	$ 1,375,187

Transfers consist of costs incurred to December 31, 2011 relating to the leasehold improvements and purchase of furniture, fixtures and equipment for the new bank location. The project was completed during the year ended December 31, 2012.

Expressed in United States Dollars

4. GENERAL BANKING LICENSE DEPOSIT

In accordance with the Banks and Trust Companies (Non-Negotiable Certificates of Indebtedness) Order, 2002, a deposit of $500,000 (2011: $500,000) has been lodged with the British Virgin Islands Financial Services Commission (BVIFSC). 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 BVIFSC. The average rate of interest as of December 31, 2012 was 0.098% (2011: 0.29%).

5. 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 secured largely on commercial real estate, business assets and residential property.

The Bank analyses its loan portfolio by category as follows:

	2012	2011
Business and personal	34,141,285	22,078,476
Mortgages	68,147,075	56,995,971
Staff	601,730	259,509
Student	733,360	814,256
Non-performing (note 6)	6,744,465	10,002,191
	110,367,915	90,150,403
Allowance for credit losses (note 7)	(576,443)	(523,905)
	109,791,472	89,626,498
Less: amounts due within one year	(5,910,222)	(5,048,474)
Non-current amounts due	$103,881,250	$ 84,578,024

As at December 31, 2012, the loans and advances to customers includes $1,626,288 (2011: $1,829,825) 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.

Expressed in United States Dollars

6. NON- PERFORMING LOANS

Included in loans and advances to customers in note 5 are non-performing loans which are analysed as follows:

	2012	2011
Business and personal	5,090,810	7,519,244
Mortgages	1,607,519	2,353,865
Student loan	46,136	129,082
	6,744,465	10,002,191
Allowance for credit losses	(576,443)	(523,905)
	$6,168,022	$ 9,478,286

7. ALLOWANCE FOR CREDIT LOSSES

	2012	2011
Opening balance	523,905	585,916
Provision	432,278	22,033
Releases	(163,968)	(45,569)
Write-offs	(215,772)	(38,475)
Ending balance	$ 576,443	$ 523,905

Collateral repossessed

During the year, the Bank exercised its power of sale over real estate collateral with a market value of $885,000.

8. HELD-TO-MATURITY INVESTMENTS

8.1 Amortized cost information

	2012	2011
Asset-backed securities	1,986,899	2,275,180
Other securities	29,918	29,918
	2,016,817	2,305,098
Less: Allowance for impairment	(431,269)	(431,269)
	$1,585,548	$ 1,873,829

Expressed in United States Dollars

8. HELD-TO-MATURITY INVESTMENTS (Continued)

8.2 Fair value information

2012	Cost	Market value	Unrealized losses
Government and asset-backed securities	1,986,899	1,534,771	(452,128)
Other securities	29,918	29,918	-
	$ 2,016,817	$ 1,564,689	$ (452,128)

2011	Cost	Market value	Unrealized losses
Government and asset-backed securities	2,275,180	1,615,808	(659,372)
Other securities	29,918	29,918	-
	$ 2,305,098	$ 1,645,726	$ (659,372)

Interest rates on U.S. government securities and asset-backed securities range from 5.5% to 6.5% per annum. The average maturity dates on these securities range from 2.5 to 11.2 years.

9. TIME DEPOSITS

	2012	2011
Time deposits	4,178,226	11,223,307
	$ 4,178,226	$ 11,223,307

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.

10. DEFERRED MARKETING COST

The Bank incurred marketing costs relating to the brand transition planning and marketing campaign amounting to $527,013 of which $263,506 was charged through income during the year ended December 31, 2011 and the remaining balance of $263,507 was charged through income during the year ended December 31, 2012.

Expressed in United States Dollars

11. SHARE CAPITAL

	2012	2011
Authorized:		
15,000,000 (2011: 15,000,000) no par value shares	-	-
Issued and fully paid:		
9,738,100 (2011: 9,738,100) no par value shares	-	-

The Bank issued 9,738,100 no par value shares for a consideration of $9,738,100.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. LONG-TERM DEBT

	2012	2011
Caribbean Development Bank, secured by a guarantee from the Government of the Virgin Islands:		
The loan is repayable in 80 quarterly installments of $11,685 plus interest until December 2014. The loan attracts interest at an average rate of 2.00 % (2011: 2.00%) per annum.	105,184	151,924
	105,184	151,924
Less: current amounts due	(46,740)	(46,680)
Non-current amounts due	$ 58,444	$ 105,244

13. MATURITIES OF ASSETS AND LIABILITIES

Loans and advances

The following table analyses the Bank's loan portfolio (including deferred capitalised interest) by contractual repricing or maturity dates, whichever is earlier. This analysis excludes loans classified as non-performing which have a carrying value of $6,744,465 (2011: $10,002,191).

2012	Within 1 year	1 to 5 years	Over 5 years	Total
Loans and advances to customers	$1,131,495	$9,246,635	$94,871,608	$105,249,738

2011	Within 1 year	1 to 5 years	Over 5 years	Total
Loans and advances to customers	$ 734,730	$ 8,905,967	$ 72,337,340	$ 81,978,037

Expressed in United States Dollars

13. MATURITIES OF ASSETS AND LIABILITIES (Continued)

In general, interest rates on loans and advances range between 8% and 14% per annum. Of the loans in the portfolio, 321 (2011: 178) totaling $81,292,093 (2011: $52,683,001) had an interest rate of less than 8%. The weighted average interest rate on these loans was 6% (2011: 7%).

Time deposits

2012	Within 1 year	1 to 5 years	Over 5 years	Total
Time deposits	4,178,226	-	-	4,178,226
	$ 4,178,226	$ -	$ -	$ 4,178,226

2011	Within 1 year	1 to 5 years	Over 5 years	Total
Time deposits	11,223,307	-	-	11,223,307
	$ 11,223,307	$ -	$ -	$ 11,223,307

Deposits payable

The following table provides an analysis of deposits payable by demand date, contractual repricing or maturity dates, whichever is earlier:

2012	On Demand	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Amounts owed to savings depositors	34,680,277	-	-	-	-	34,680,277
Amounts owed to certificate of deposit holders	-	37,744,976	33,672,573	864,381	-	72,281,930
	$ 34,680,277	$ 37,444,976	$ 33,672,573	$ 864,381	$ -	$ 106,962,207
Average effective interest rate	1.25%	1.30%	1.46%	1.73%	-%	

Expressed in United States Dollars

13. MATURITIES OF ASSETS AND LIABILITIES (Continued)

Deposits payable (continued)

2011	**On Demand**	**Within 3 months**	**3 months to 1 year**	**1to 5 years**	**Over 5 years**	**Total**
Amounts owed to savings depositors	33,707,044	-	-	-	-	33,707,044
Amounts owed to certificate of deposit holders	-	33,237,147	25,497,852	-	-	58,734,999
	$ 33,707,044	$ 33,237,147	$ 25,497,852	$ -	$ -	$ 92,442,043
Average effective interest rate	1.25%	1.12%	1.62%	-%	-%	

Long-term debt

The following table provides an analysis of long term debt (see note 12) by contractual repricing or maturity dates, whichever is earlier:

2012	**Within 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Caribbean Development Bank	11,685	35,055	58,444	-	105,184
	$ 11,685	$ 35,055	$ 58,444	$ -	$ 105,184

2011	**Within 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Caribbean Development Bank	11,685	34,995	105,244	-	151,924
	$ 11,685	$ 34,995	$ 105,244	$ -	$ 151,924

14. STAFF GRATUITY PLAN

The Bank has not yet established a formal staff gratuity scheme, but is funding a defined contributory gratuity plan for its employees at the rate of 12% of gross salary for eligible employees; 4% contributed by the employee and 8% by the Bank. The Bank pays interest at 8% per annum to the plan. The gratuity plan assets are held in short term deposits in trust with the Bank.

Expressed in United States Dollars

15. TRADE AND OTHER PAYABLES

	2012	2011
Trade payables	212,791	214,121
Accrued pension liability	191,974	182,866
Other payables	144,610	145,126
	$ 549,375	$ 542,113

16. INTEREST AND SIMILAR INCOME

	2012	2011
Loans and advances to customers	6,531,702	5,883,181
Cash and short-term funds	62,022	234,054
Held-to-maturity investments	129,897	148,581
Interest income on non-performing loans	298,469	300,005
Other	672	1,432
	$ 7,022,762	$ 6,567,253

17. INTEREST AND SIMILAR EXPENSE

	2012	2011
Borrowed funds	1,769	4,140
Savings depositors	367,617	382,742
Certificate of deposit holders	1,068,750	968,519
Interest on staff gratuity plan	31,219	29,151
	$ 1,469,355	$ 1,384,552

18. FEES AND COMMISSIONS

	2012	2011
Commission earned on agency accounts	64,957	46,397
Commitment fees	275,903	284,985
Other fees received	604,229	231,556
	$ 945,089	$ 562,938

Expressed in United States Dollars

19. GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
Computer expenses	252,187	114,145
Directors' allowances	153,968	116,171
Electricity and water	123,109	117,387
Insurance	63,737	53,505
Other expenses	358,915	194,124
Printing, stationery and advertising	579,834	444,679
Professional fees	244,110	315,307
Rent	373,167	293,629
Salaries and wages	2,028,394	1,902,037
Pension cost	40,383	39,407
Social security and payroll tax	151,753	139,001
Staff insurance	87,774	91,429
Staff allowances	29,070	25,780
Staff gratuity contributions (see note 14)	113,741	83,273
Staff training expenses	50,609	8,150
Telephone and postage	78,131	67,089
Traveling, entertainment and subsistence	5,239	32,313
	$ 4,734,121	$ 4,037,426

20. SALARIES AND WAGES

During the year ended December 31, 2012, salaries and wages of $2,028,394 (2011: $1,902,037) as shown in note 19 above were paid to an average of 38 employees (2011: 38).

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 scheme, an annuity, provident fund or other form of retirement scheme which may be contributory. As at December 31, 2012, the Bank provided a provision for retirement benefit for its permanent employees amounting to $191,974 (2011: $182,866). This is in addition to funds set aside as part of the staff gratuity plan (see note 14). The Bank has not yet setup a formal pension scheme for its permanent employees; however plans are being made to formalize this scheme.

21. RELATED PARTY TRANSACTIONS

(a) During the year ended December 31, 2012, the Bank approved loans issued to current and former directors of the Bank and related persons to them totaling $27,068 (2011: $67,902), which are included as part of loans and advances. The interest rates on these loans were recorded at 4% (2011: 7.5% to 8.0%)

(b) As at December 31, 2012, the Government held certificates of deposit totaling $9,118,834 (2011: $3,072,698). These certificates of deposit earn interest at rates of 1.50% to 2.0% (2011: 1.5%) per annum. Also, government statutory bodies held certificates of deposit amounting to $27,839,133 (2011: $21,448,250) at interest rates ranging from 1.3% to 2.2% (2011:1.61% average interest rate).

(c) As at December 31, 2012, directors allowances totaled $153,968 (2011: $116,171))

Expressed in United States Dollars

22. COMMITMENTS

Undrawn loan commitments

At December 31, 2012, the Bank had commitments under existing customer loan agreements totalling $16,494,335 (2011: $6,780,165).

Lease commitments

As at December 31, 2012, the future minimum rental payments for the Bank under operating lease agreements for the Bank's current and future premises and its Business Continuity Premises (BCP) are as follows:

Within one year	361,474
Between one and five years	361,474
More than five years	279,874
	$1,002,822

23. FINANCIAL RISK MANAGEMENT

23.1 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 and market risk. It is also subject to operating risks.

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 principles.

Assets and Liabilities Committee

The Assets and Liabilities Committee ("ALCO") has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

23. FINANCIAL RISK MANAGEMENT (Continued)

23.1 Introduction (continued)

Audit Committee

The Audit Committee is responsible for evaluating whether management is setting the appropriate 'control culture' by communicating the importance of internal control and management of risk. The Audit Committee should monitor that the control and processes which ensure that the financial statements derive from the underlying financial systems, comply with relevant standards and requirements, and are subject to appropriate management review. In summary, the Audit Committee is responsible for the evaluation of the overall effectiveness of the internal control and risk management frameworks. Currently, the Bank's Audit Committee mainly reviews the work of its Internal Auditor to determine any deficiencies in internal control operations.

Risk measurement and reporting systems

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

Information compiled from all the businesses (for example, non-performing loans report and monthly management accounts) is examined and processed in order to analyse, control and indentify early risks. These reports are presented and explained to the Board of Directors, the Audit Committee, the Credit Committee, and the ALCO. The monthly management accounts include, budget variances, liquidity requirements, loan assets movements, interest rate spread and capital adequacy calculations. The Credit Committee assesses the appropriateness of the allowance for credit losses regularly.

Risk mitigation

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Currently, the Bank's Management Information System is not being utilized for identifying the Bank's excess risk concentration for its loans and advances to customers as some of the loans have not been properly grouped. Management has embarked on an initiative to generate such data and reports going forward.

Expressed in United States Dollars

23. FINANCIAL RISK MANAGEMENT (Continued)

23.2 Credit risk

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

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

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown as gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2012	Gross maximum exposure 2011
Cash and cash equivalents	9,591,855	8,065,894
Time deposits	4,178,226	11,223,307
Loans and advances to customers	109,791,472	89,626,498
Held-to-maturity investments, net of impairment	1,585,548	1,873,829
Government license deposit	500,000	500,000
Interest receivable	669,973	633,165
Total credit risk exposure	$ 126,317,074	$ 111,922,693

As at December 31, 2012, the Bank's cash and cash equivalents and time deposits totalling $12,887,645 (2011: $18,012,310) or 10% (2011: 16%) of its total assets is currently deposited with Banco Popular with a current credit rating of 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 counterparty. 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 claims. In general, the Bank does not occupy repossessed properties for business use.

Expressed in United States Dollars

23. FINANCIAL RISK MANAGEMENT (Continued)

23.2 Credit risk (continued)

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 risk on loan applications using an internal risk rating based on capacity to repay loan, capital invested, collateral, conditions and credit risk. 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 $6,744,465 (2011: $10,002,191):

As of December 31, 2012

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Business, personal and mortgages	10,250,918	7,250,508	4,032,921	324,404	21,858,751
Staff	-	9,229	-	-	9,229
Student	92,043	45,626	20,838	-	158,507
	$10,342,961	$7,305,363	$4,053,759	$ 324,404	$22,026,487

As of December 31, 2011

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Business, personal and mortgages	8,601,944	9,087,979	1,082,109	-	18,772,032
Staff	94,232	-	-	-	94,232
Student	64,075	24,497	-	-	88,572
	$8,760,251	$9,112,476	$1,082,109	$ -	$18,954,836

Expressed in United States Dollars

23. FINANCIAL RISK MANAGEMENT (Continued)

23.2 Credit risk (continued)

During the year, the Bank renegotiated loans amounting to $ 2,606,383 (2011: $ 4,267,044).

The credit rating of the Bank's held-to-maturity investments are as follows, based on Moody's Rating Agency.

2012	CAA1	CAA3	Not Rated	Total
Government and asset-backed securities	5,843	1,518,826	30,961	1,555,630
Other securities	-	-	29,918	29,918
	$ 5,843	$ 1,518,826	$ 60,879	1,585,548

2011	CAA1	CAA3	Not Rated	Total
Goverment and asset-backed securities	14,803	1,776,687	-	1,791,490
Other securities	-	-	82,339	82,339
	$ 14,803	$ 1,776,687	$ 82,339	1,873,829

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or 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.

23.3 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 asset approach.

Expressed in United States Dollars

23. FINANCIAL RISK MANAGEMENT (Continued)

23.3 Liquidity risk and funding management (continued)

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 must be at least twenty percent (20%) of deposit liabilities net of deposits from the shareholder. As at December 31, 2012, the ratio of liquid assets over deposit liabilities (net of deposits from the shareholder) decreased to 14% from 22% in 2011.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities as at December 31, 2012 based on contractual undiscounted repayment obligations. Refer to note 13 '*Maturities of assets and liabilities*' for the expected maturities of these liabilities. 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.

Financial liabilities

2012	On Demand	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Due to customers	34,680,277	37,744,976	33,672,573	864,381	-	106,962,207
Borrowed funds	-	11,685	35,055	58,444	-	105,184
	$34,680,277	$37,756,661	$33,707,628	$922,825	$ -	$107,067,391

2011	On Demand	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Due to customers	33,707,044	33,237,147	25,497,852	-	-	92,442,043
Borrowed funds	-	11,685	34,995	105,244	-	151,924
	$33,707,044	$33,248,832	$25,532,847	$105,244	$ -	$92,593,967

Expressed in United States Dollars

23. FINANCIAL RISK MANAGEMENT (Continued)

23.3 Liquidity risk and funding management (continued)

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

2012	On Demand	Within 3 months	3 Months to 1 year	1 to 5 years	Over 5 years	Total
Commitments:						
Loans and advances	16,494,335	-	-	-	-	16,494,335
Rent	-	90,369	271,105	361,474	279,874	1,002,822
	$16,494,335	$90,369	$271,105	$361,474	$ 279,874	$17,497,157

2011	On Demand	Within 3 months	3 Months to 1 year	1 to 5 years	Over 5 years	Total
Commitments:						
Loans and advances	6,780,165	-	-	-	-	6,780,165
Capital expenditure	1,324,014					1,324,014
Rent	32,957	98,871	208,203	410,382	-	750,413
	$8,137,136	$98,871	$208,203	$410,382	$ -	$8,854,592

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

23. FINANCIAL RISK MANAGEMENT (Continued)

23.4 Market risk

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

Interest rate risk

The Bank is exposed to cash flow interest rate risk from floating rates on cash and cash equivalents, savings and certificates of deposit, while loans and advances to customers and held-to-maturity investments expose the Bank to fair value interest rate risk. The interest rates on loans and advances to customers and on balances owed to savings depositors are generally fixed. The interest rates on certificates of deposit are fixed over their periods to maturity, however due to the short-term nature of their maturities and based on the fact these certificates of deposit automatically roll over if they are not cancelled; this exposes the Bank to interest rate risk similar to being subject to variable interest rates. The Bank has a negative interest rate gap as it holds long term loans and advances to customers however the balances owed to savings depositors and certificate deposit holders are short-term. During periods of rising interest rates, interest rate movements generally will adversely affect the Bank.

The Bank manages its interest rate risk by actively monitoring fluctuations in rates on earnings from investments placed with reputable financial institutions. On a periodic basis, the Bank also obtains comparable rates from local and regional banks, which are evaluated by management prior to interest rate adjustments.

As at December 31, 2012, if market interest rate increased by 25 basis points (2011: 25 basis points), with all other variables held constant, the Bank's profit and total assets would have decreased by $232,980 (2011: decreased by $182,826). A decrease in the market interest rate of 25 basis points (2011: 25 basis points), with all other variables held constant, would have an equal but opposite effect on the profit or loss and total assets of the Bank. A 25 basis point (0.25%) shift in the market interest rate represents management's assumption for the reasonably possible change in interest rates.

Prepayment risk

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

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

23.5 Operational risk

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

Expressed in United States Dollars

24. CAPITAL ADEQUACY REQUIREMENTS

The Bank is currently subject to financial supervision by the BVI FSC. The regulatory capital guidelines are intended to give effect to the Basel Capital Accord, which is primarily focused on ensuring the capital resources of a bank are adequate to cover the credit risk associated with the on –and off- balance sheet exposures. For the Bank, Tier 1 (core) capital includes capital contributions and retained earnings, Tier 2 (eligible supplementary) capital consists of general provisions for loan losses of 0% of risk–weighted assets and total capital consists of all tiers.

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

The following presents the actual capital ratios and amounts for the Bank at December 31, 2012:

	2012	2011
Tier 1 Capital	21,746,668	20,480,895
Tier 2 Capital	-	-
Total Capital	21,746,668	20,480,895
Risk Weighted Capital Adequacy Ratio	23.59%	30.43%
Leverage	17.80%	18.36%