NATIONAL BANK
OF THE VIRGIN ISLANDS LIMITED

Audited Financial Statements

For The Year Ended December 31, 2013

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NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

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Board of Directors

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

Registered Office

Blenheim Trust (BVI) Limited
125 Main Street
P.O. Box 144
Road Town, Tortola
British Virgin Islands

Tel: (284) 494 3783
Fax: (284) 494 2220
www.bdo.vg

PO Box 34
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, 2013 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, 2013 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Limited

June 24, 2014
Tortola, British Virgin Islands

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Statement of Financial Position
As at December 31, 2013
Expressed in United States Dollars

	Notes	2013	2012
ASSETS			
Cash and cash equivalents		13,935,997	9,591,855
Due from bank	3	4,300,561	4,178,226
Loans and advances to customers	4	130,367,922	110,228,327
Other customer receivables	6	320,508	207,859
Other receivable	7	250,000	-
Financial investments held-to-maturity	8	1,389,081	1,688,581
Prepayments		174,642	156,767
Property and equipment	9	3,166,949	3,222,363
Segregated assets of staff gratuity plan	19	337,202	428,560
General banking licence deposit	10	500,000	500,000
TOTAL ASSETS		**$ 154,742,862**	**$ 130,202,538**
SHAREHOLDER'S EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	11	-	-
Additional paid-in capital	11	13,738,100	9,738,100
Retained earnings		12,488,954	12,008,568
Total share capital and reserves		26,227,054	21,746,668
Liabilities			
Amounts owed to savings depositors	12	35,413,147	34,680,277
Amounts owed to certificate of deposit holders	13	92,303,331	72,692,474
Long-term debt	14	-	105,184
Trade and other payables	15	462,128	549,375
Segregated liabilities of staff gratuity plan	19	337,202	428,560
Total liabilities		128,515,808	108,455,870
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		**$ 154,742,862**	**$ 130,202,538**

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, 2013
Expressed in United States Dollars

	Notes	2013	2012
Interest and similar income	16	7,510,727	7,022,762
Interest expense	17	(1,782,431)	(1,469,355)
Net interest income		5,728,296	5,553,407
Fees and commissions	18	534,935	663,272
Net realised loss on held-to-maturity investments	8	(196,623)	-
Other operating income		31,911	281,817
Total operating income		6,098,519	6,498,496
Credit loss expenses	5	(413,259)	(268,311)
Net operating income		**5,685,260**	**6,230,185**
EXPENSES			
Depreciation	9	(550,650)	(230,291)
Other operating expenses	19	(4,654,224)	(4,734,121)
Total operating expenses		(5,204,874)	(4,964,412)
NET PROFIT FOR THE YEAR		**$ 480,386**	**$ 1,265,773**

APPROVED BY THE BOARD

Director

Clarence Faulkner, *Chairman*

June 24, 2014 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, 2013
Expressed in United States Dollars

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**

2012	Share Capital	Additional Paid-in Capital	Retained Earnings	Total
Balance at beginning of the 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**

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, 2013
Expressed in United States Dollars

	2013	2012
OPERATING ACTIVITIES		
Interest and commission income received	7,450,908	7,662,732
Interest paid	(1,652,237)	(1,264,476)
General and administrative expenses paid	(4,759,346)	(4,436,640)
	1,039,325	1,961,616
Changes in operating assets and liabilities:		
Net increase in loans advanced to customers	(20,038,838)	(20,164,974)
Net increase in other receivable	(250,000)	-
Net increase in savings deposits	732,870	973,233
Net increase in certificates of deposit	19,480,663	13,546,931
Cash flows from (used in) operating activities	964,020	(3,683,194)
INVESTING ACTIVITIES		
Net movement on amounts due from bank	(122,335)	7,045,081
Net movement on held-to-maturity investments	102,877	288,281
Purchase of fixed assets	(495,236)	(2,090,301)
Sales proceeds from disposal of fixed assets	-	12,834
Cash flows (used in) from investing activities	(514,694)	5,255,895
FINANCING ACTIVITIES		
Capital contributions	4,000,000	-
Repayment of long-term debt	(105,184)	(46,740)
Cash flows from (used in) financing activities	3,894,816	(46,740)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,344,142	1,525,961
CASH AND CASH EQUIVALENTS		
At beginning of year	9,591,855	8,065,894
At end of year	**$ 13,935,997**	**$ 9,591,855**
CASH AND CASH EQUIVALENTS:		
Cash in hand and current account balances with other banks	6,713,263	5,483,781
Fixed deposits with brokers	209,068	108,074
Certificates of deposit with other banks	7,013,666	4,000,000
	$13,935,997	**$9,591,855**

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

1. ORGANIZATION AND ACTIVITIES

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

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 and 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, 2013 were authorized for issue in accordance with a resolution of the directors on June 24, 2014.

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

- **IFRS 7 (Amendment), Financial Instruments: Disclosures**. Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS) amends the disclosure requirements in IFRS 7 Financial Instruments: Disclosures require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32 (effective for annual periods beginning on or after January 1, 2013).
- **IFRS 13, Fair Value Measurement.** This new standard replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs (effective for annual periods beginning on or after January 1, 2013).

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, 2013, have had a material effect on the financial statements.

2. ACCOUNTING POLICIES (Continued)

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

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

- **IFRS 9, Financial Instruments.** 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, 2015).
- **Amendments to IAS 36** *Recoverable Amount Disclosures for Non-Financial Assets* modify the disclosure requirements in IAS 36 *Impairment of Assets* regarding the measurement of the recoverable amount of impaired assets and require additional disclosures about the measurement of impaired assets (or group of impaired assets) with a recoverable amount based on fair value less costs of disposal. Effective for annual periods beginning on or after January 1, 2014.
- **Amendments to IAS 32** *Offsetting Financial Assets and Financial Liabilities* clarify the requirements relating to the offset of financial assets and financial liabilities. Effective for annual periods beginning on or after January 1, 2014.

None of the other new standards, interpretations and amendments, which are effective for periods beginning after January 1, 2013 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.

2. ACCOUNTING POLICIES (Continued)

2.5 Significant accounting judgments and estimates (continued)

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.

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:

2. ACCOUNTING POLICIES (Continued)

2.7 Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

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 expense'.

The Bank's loans and receivables comprise of due from bank, loan 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.

2.8 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.

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. ACCOUNTING POLICIES (Continued)

2.9 Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and the loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in 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, which are classified as non-performing when payment of principal or interest is contractually 90 days (2012: 90 days) or more past due or the loan matures with a balance.

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

- payment of principal or interest is contractually 60 – 89 days (2012: 60 – 89 days) past due; or
- in the opinion of management there is reasonable doubt as to the ultimate collectability of principal or interest; or
- a related loan is classified as non-performing.

When a loan is classified as non-performing, all accrued and unpaid interest is reversed and charged against interest income in the period in which the loan is classified as non-performing. 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-performing loans may revert to performing status when all payments become fully current and remain fully current for 90 consecutive days.

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

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.

2. ACCOUNTING POLICIES (Continued)

2.9 Impairment of financial assets (continued)

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.

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. ACCOUNTING POLICIES (Continued)

2.14 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 19.

2.15 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.

2.16 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.

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.

Expressed in United States Dollars

3. DUE FROM BANK

	2013	2012
Certificates of deposit	4,295,938	4,178,226
Add: interest receivable	4,623	-
	$ 4,300,561	$ 4,178,226

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 $85,000 as at December 31, 2013.

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:

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

2012

	Commercial	Mortgages	Personal	Total
Performing loans	28,203,004	63,847,330	13,199,404	105,249,738
Non-performing loans	4,277,606	2,035,006	431,853	6,744,465
Gross loans	32,480,610	65,882,336	13,631,257	111,994,203
Less: allowance for credit losses	(351,289)	(197,569)	(27,585)	(576,443)
	$ 32,129,321	$ 65,684,767	$ 13,603,672	$ 111,417,760
Add: interest receivable				436,855
Less: interest provision on restructuring				(1,626,288)
				$ 110,228,327

Expressed in United States Dollars

4. LOANS AND ADVANCES TO CUSTOMERS (Continued)

In general, interest rates on loans and advances range between 5.5% and 14% per annum. Of the loans in the portfolio, 388 (2012: 321) totaling $106,140,094 (2012: $81,292,093) had an interest rate of less than 8%. The weighted average interest rate on these loans was 6% (2012: 6%).

As at December 31, 2013, the loans and advances to customers includes $1,565,209 (2012: $1,626,288) 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

	2013	2012
Opening balance	576,443	523,905
Provision	654,797	432,278
Releases	(242,215)	(163,968)
Write-offs	(72,745)	(215,772)
Ending balance	$ 916,280	$ 576,443

Collateral repossessed

During the year, the Bank exercised its power of sale over real estate collateral with a market value of $409,750 (2012: $885,000).

6. OTHER CUSTOMER RECEIVABLES

	2013	2012
Late charges	209,170	137,358
Insurance	64,139	68,454
Other	47,199	2,047
	$ 320,508	$ 207,859

7. OTHER RECEIVABLE

The 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, 2013, the Bank has not recorded any impairment relating to this other receivable.

Expressed in United States Dollars

8. HELD-TO-MATURITY INVESTMENTS

	2013	2012
Asset backed securities	1,385,920	1,986,899
Other securities	-	29,918
Gross investments	1,385,920	2,016,817
Less: Allowance for impairment	-	(431,269)
	1,385,920	1,585,548
Add: Interest receivable	3,161	103,033
	$ 1,389,081	$ 1,688,581

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

	2013	2012
Beginning balance	1,585,548	1,873,829
Net losses recognized in the statement of comprehensive income	(106,623)	-
Purchases	1,385,920	-
Sales and repayments	(1,478,925)	(288,281)
	$ 1,385,920	$ 1,585,548

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. Management continues to have the intent and ability to hold the investments to maturity, and as such the investments continue to be classified as held-to-maturity. A loss totaling $106,623 (2012: $Nil) on the principal balance of investments was recognised and included within 'Net realized losses on held to maturity investments'. Interest receivable on held-to-maturity investments amounting to $90,000 was written off and included within 'Net realized loss on held-to-maturity investments' within the statement of comprehensive income. The total net realized loss on held-to-maturity investments totaled $196,623 (2012: $Nil) for the year ended December 31, 2013.

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 0.22 to 5.86 years.

8.1 Fair value information

2013	Book value	Market value
Government and asset-backed securities	$ 1,385,920	$ 1,386,927

2012	Book value	Market value
Government and asset-backed securities	$ 1,585,548	$ 1,564,689

Expressed in United States Dollars

9. PROPERTY AND EQUIPMENT

	Motor Vehicles	Furniture & Fixtures	Computer Equipment	Leasehold Improvements	Work in Progress	Total
Cost						
January 1, 2013	102,177	874,786	930,965	2,599,546	-	4,507,474
Additions	38,495	28,325	224,591	172,353	31,472	495,236
December 31, 2013	$ 140,672	$ 903,111	$ 1,155,556	$ 2,771,899	$ 31,472	$ 5,002,710
Accumulated Depreciation						
January 1, 2013	102,177	334,563	430,914	417,457	-	1,285,111
Charge	5,133	72,940	179,861	292,716	-	550,650
December 31, 2013	$ 107,310	$ 407,503	$ 610,775	$ 710,173	-	$ 1,835,761
Net Book Value						
December 31, 2013	$ 33,362	$ 495,608	$ 544,781	$ 2,061,726	$ 31,472	$ 3,166,949
December 31, 2012	$ -	$ 540,223	$ 500,051	$ 2,182,089	$ -	$ 3,222,363

Expressed in United States Dollars

10. GENERAL BANKING LICENCE DEPOSIT

In accordance with the Banks and Trust Companies Act, 1990 (as amended), a deposit of $500,000 (2012: $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, 2013 was 0.93% (2012: 0.98%).

11. SHARE CAPITAL

	2013	2012
Authorized:		
15,000,000 (2012: 15,000,000) no par value shares	-	-
Issued and fully paid:		
9,738,100 (2012: 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, 2013, 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

	2013	2012
Individuals	32,703,594	31,469,471
Businesses	2,709,553	3,210,806
	$ 35,413,147	$ 34,680,277

The average effective rate of interest on customer deposits during the year was 1.04% (2012: 1.25%).

During the period ended December 31, 2013, the Bank transferred Nil (2012: 240) dormant accounts totaling $Nil (2012: $146,148) to a special fund established for that purpose in accordance with the Dormant Accounts Act, 2011. Dormant accounts totaling $23,984 were segregated in 2013 and subsequently transferred in 2014.

13. AMOUNTS OWED TO CERTIFICATE OF DEPOSIT HOLDERS

	2013	2012
Individuals	33,118,369	32,739,603
Businesses	58,644,232	39,542,327
	91,762,601	72,281,930
Add: Interest payable	540,730	410,544
	$ 92,303,331	$ 72,692,474

The average effective rate of interest on certificates of deposit during the year was 1.58% (2012: 1.79%)

Expressed in United States Dollars

14. LONG-TERM DEBT

	2013	2012
Loan balance	-	105,184
Less: current amounts due	-	(46,740)
Non-current amounts due	-	$ 58,444

During the year ended December 31, 2013 the Bank repaid the debt due to the Caribbean Development Bank. The loan attracted interest at an average rate of 2.0% (2012: 2.0%) per annum.

15. TRADE AND OTHER PAYABLES

	2013	2012
Insurance escrow	180,359	144,610
Accrued pension liability (Note 19)	171,196	191,974
Trade payables	110,573	212,791
	$ 462,128	$ 549,375

16. INTEREST AND SIMILAR INCOME

	2013	2012
Loans and advances to customers	7,365,949	6,830,171
Held-to-maturity investments	107,554	129,897
Cash and placements	36,756	62,022
Other	468	672
	$ 7,510,727	$ 7,022,762

17. INTEREST EXPENSE

	2013	2012
Certificate of deposit holders	1,397,863	1,068,750
Savings depositors	348,952	367,617
Interest on staff gratuity plan	35,576	31,219
Borrowed funds	40	1,769
	$ 1,782,431	$ 1,469,355

18. FEES AND COMMISSIONS

	2013	2012
Commitment fees	198,107	275,903
Late fee	184,790	115,336
Other fees received	123,089	207,076
Commission earned on administrative services	28,949	64,957
	$ 534,935	$ 663,272

Expressed in United States Dollars

19. OTHER OPERATING EXPENSES

	2013	2012
Staff costs	2,731,586	2,453,329
Rent	369,540	373,167
Professional fees	240,372	244,110
Repairs and maintenance	212,053	344,294
Marketing and advertising	185,383	584,845
Social security and payroll taxes	184,772	151,753
Systems and communications	112,100	78,131
Electricity and water	111,617	123,109
Security services	101,472	95,012
Staff training	98,065	50,609
Business insurance	81,882	63,737
Stationary and postage	70,087	44,739
Licence fees and bank charges	68,100	60,594
Travel and entertainment	60,294	5,239
Other	26,901	61,453
	$ 4,654,224	$ 4,734,121

Analysis of staff costs:

	2013	2012
Wages and salaries	2,302,540	2,028,394
Directors' expenses	174,595	153,968
Staff gratuity contributions	139,388	113,741
Staff insurance	97,365	87,773
Pension cost	750	40,383
Other staff related costs	16,948	29,070
	$ 2,731,586	$ 2,453,329

During the year ended December 31, 2013, wages and salaries of $2,302,540 (2012: $2,028,394) were paid to an average of 43 employees (2012: 38).

Staff gratuity plan

The Bank has not yet established a formal staff gratuity plan, but was 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. As at December 31, 2013 the staff gratuity balance totaled $337,202 (2012: $428,560). For the year ended December 31, 2013 the Bank made contributions of $139,388 (2012: $113,741) to the staff gratuity plan.

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. As at December 31, 2013, the Bank provided a provision for retirement benefit for its permanent employees amounting to $171,196 (2012: $191,974). For the year ended December 31, 2013, pension costs of $750 (2012: $40,383) were incurred. This is in addition to funds set aside as part of the staff gratuity plan. As at December 31, 2013, the Bank had not yet set up a formal pension plan for its permanent employees

Expressed in United States Dollars

19. OTHER OPERATING EXPENSES (Continued)

Pension (continued)

Refer to note 24 (Subsequent Events) for details of formal pension plan established by the Bank subsequent to year end.

20. RELATED PARTY TRANSACTIONS

(a) During the year ended December 31, 2013, the Bank approved loans issued to current and former directors of the Bank and related persons totaling $756,000 (2012: $27,068), which are included as part of loans and advances. The interest rates on these loans were recorded at 4% (2012: 4%).

(b) As at December 31, 2013, the Government held certificates of deposit totaling $13,201,269 (2012: $9,118,834). These certificates of deposit earn interest at rates ranging from 1.1% to 2.0% (2012: 1.50% to 2.0%) per annum. Also, government statutory bodies held certificates of deposit amounting to $42,053,411 (2012: $27,839,133) at interest rates ranging from 1.2% to 2.2% (2012:1.3% to 2.2%).

(c) As at December 31, 2013, directors' allowances totaled $158,000 (2012: $153,968). These amounts are included within directors' expenses.

21. COMMITMENTS

Undrawn loan commitments

As at December 31, 2013, the Bank had undrawn commitments under existing customer loan agreements totalling $4,293,585 (2012: $16,494,335).

Lease commitments

As at December 31, 2013, the future minimum rental payments for the Bank for the next five (5) years under operating lease agreements for the Bank's current and future premises and its Business Continuity Premises (BCP) are as follows:

2014	336,474
2015	301,474
2016	301,474
2017	301,474
2018	301,474
	$ 1,542,370

22. FINANCIAL RISK MANAGEMENT

22.1 Introduction

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

Risk Management Structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are 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.

22. FINANCIAL RISK MANAGEMENT (Continued)

22.1 Introduction (continued)

Risk Management Structure (continued)

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.

Audit and Compliance Committee

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

Credit Committee

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

Risk measurement and reporting systems

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

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

Excessive risk concentration

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

22.2 Credit risk

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

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.2 Credit risk (continued)

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

The maximum exposure to credit risk before any credit enhancement at December 31, 2013 is the carrying amount of the financial assets in the statement of financial position.

As at December 31, 2013, the Bank's cash and cash equivalents and certificates of deposit totalling $17,439,151 (2012: $12,887,645) or 11% (2012: 10%) of its total assets is currently deposited with Banco Popular de Puerto Rico (Banco Popular), which has a long-term credit rating of Ba2 per Moody's rating agency. Subsequent to year end, Banco Popular's credit rating was downgraded by Moody's to Ba3 and was assigned a negative outlook to its long term ratings.

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 $23,996,366 (2012: $6,744,465):

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

As at December 31, 2012

	Less than 30 days	30 to 59 days	60 to 89 days	90 days or more	Total
Commercial	1,435,338	1,709,522	1,204,747	-	4,349,607
Mortgages	6,935,236	4,809,220	2,462,843	324,404	14,531,703
Personal	1,972,387	786,621	386,169	-	3,145,177
	$ 10,342,961	$ 7,305,363	$ 4,053,759	$ 324,404	$ 22,026,487

During the year, the Bank renegotiated loans amounting to $965,331 (2012: $2,606,383).

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.2 Credit risk (continued)

As at December 31, 2013, the credit rating of the Bank's held-to-maturity investments (excluding interest receivable) are as follows, based on Moody's Rating Agency.

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

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

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue 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.

22.3 Liquidity risk and funding management

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

The Bank maintains liquid assets that can be drawn upon as needed, in the event of unforeseen interruption of cash 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, 2013, the ratio of liquid assets over deposit liabilities (net of deposits from the shareholder) increased to 16% from 14% in 2012.

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.3 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.

2013

	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	13,935,997	-	-	-	13,935,997
Due from bank	4,200,561	100,000	-	-	4,300,561
Gross loans and advances to customers	3,436,199	994,676	7,953,034	120,465,502	132,849,411
Other customer receivables	320,508	-	-	-	320,508
Other receivable	250,000	-	-	-	250,000
Financial investments held-to-maturity	54,316	59,578	1,106,909	168,278	1,389,081
Total assets	22,197,581	1,154,254	9,059,943	120,633,780	153,045,558
Liabilities					
Amounts owed to savings depositors	35,413,147	-	-	-	35,413,147
Amounts owed to certificate of deposit holders	39,965,324	52,317,448	20,559	-	92,303,331
Trade and other payables	-	462,128	-	-	462,128
Total liabilities	75,378,471	52,779,576	20,559	-	128,178,606
Net assets/(liabilities)	$ (53,180,890)	$ (51,625,322)	$ 9,039,384	$ 120,633,780	$ 24,866,952

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.3 Liquidity risk and funding management (continued)

2012	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	9,591,855	-	-	-	9,591,855
Due from bank	4,178,226	-	-	-	4,178,226
Loans and advances to customers	1,000,871	906,126	8,446,733	102,077,328	112,431,058
Other customer receivables	207,859	-	-	-	207,859
Financial investments held-to-maturity	-	1,688,581	-	-	1,688,581
Total assets	14,978,811	2,594,707	8,446,733	102,077,328	128,097,579
Liabilities					
Amounts owed to savings depositors	34,680,277	-	-	-	34,680,277
Amounts owed to certificate of deposit holders	37,992,534	33,838,937	861,003	-	72,692,474
Long term debt	11,685	35,055	58,444	-	105,184
Trade and other payables	-	549,375	-	-	549,375
Total liabilities	72,684,496	34,423,367	919,447	-	108,027,310
Net assets/liabilities	$ (57,705,685)	$ (31,828,660)	$ 7,527,286	$ 102,077,328	$ 20,070,269

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

2013	On Demand	Within 3 months	Over 3 months, but within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Commitments:						
Loans and advances	249,500	2,624,001	1,420,084	-	-	4,293,585
Rent		90,369	246,105	1,205,895	2,332,281	3,874,650
	$ 249,500	$ 2,714,370	$ 1,666,189	$ 1,205,895	$ 2,332,281	$ 8,168,235

2012	On Demand	Within 3 months	Over 3 months, but within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Commitments:						
Loans and advances	16,494,335	-	-	-	-	16,494,335
Rent	-	90,369	271,105	1,240,895	2,612,155	4,214,524
	$ 16,494,335	$ 90,369	$ 271,105	$ 1,240,895	$ 2,612,155	$ 20,708,859

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

22. FINANCIAL RISK MANAGEMENT (Continued)

22.4 Market risk

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

Interest rate risk

The Bank is exposed to cash flow interest rate risk from floating rates on 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 mortgage and personal loans and advances and 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 that 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. Variable interest rates are utilized for most commercial loans which are based on the US Prime Rate plus a fixed margin determined at the inception of the loan. The Bank has a negative interest rate gap as it holds long-term loans and advances to customers however the balances owed to savings depositors and certificate of deposit holders are short-term. During periods of rising interest rates, interest rate movements generally will adversely affect the Bank.

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

As at December 31, 2013, if market interest rate increased by 25 basis points (0.25%) (2012: 25 basis points), with all other variables held constant, the Bank's profit and total assets would have decreased by $273,700 (2012: $232,980). A decrease in the market interest rate of 25 basis points (2012: 25 basis points), with all other variables held constant, would have an equal but opposite effect on the profit or loss and total assets of the Bank. A 25 basis point shift in 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.

22.5 Operational risk

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

Expressed in United States Dollars

23. CAPITAL ADEQUACY REQUIREMENTS

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

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

The following presents the actual capital ratios and amounts for the Bank as at December 31, 2013:

	2013	**2012**
Tier 1 Capital	26,227,054	21,746,668
Total Capital	26,227,054	21,746,668
Risk Weighted Capital Adequacy Ratio	26.15%	23.59%
Leverage Ratio	18.41%	17.80%

24. SUBSEQUENT EVENTS

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.