

ANNUAL REPORT 2012



Our future, Our bank

 **ecab**

EASTERN CARIBBEAN AMALGAMATED BANK

Stronger
Together



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*"We are each other's harvest;
We are each other's business;
We are each other's magnitude and bond."
-Gwendolyn Brooks*

OUR VISION

To be the leading provider of quality banking and financial services locally, regionally and beyond.

OUR MISSION

To understand and fully meet the needs of customers through product relevance, service excellence and the convenience of technologically-based delivery systems, while making valuable contributions to the development of Antigua and Barbuda and the wider Eastern Caribbean.

STRATEGIC INTENT

ECAB's strategic intent is Operational Efficiency. The bank's mantra is: Get It Right The First Time, Every Time.

CULTURAL PILLARS

The operations of the bank have been built on the pillars of Customer Intimacy and Service Excellence.

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NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Second Annual General Meeting of Eastern Caribbean Amalgamated Bank Ltd will be held on the 24th day of June, 2013 at 5:00 p.m. at 1000 Airport Boulevard, Coolidge, Antigua.

AGENDA

1. Call to Order
2. Prayers
3. Agenda
4. Chairman's Remarks
5. Consideration and Confirmation of Minutes of 1st Annual General Meeting
6. Director's Report
7. Auditors' Report and Financial Statement for the year ended September 30, 2012
8. Appointment of Auditors
9. Election of Directors and Confirmation of Remuneration
10. Any Other Business

BY ORDER OF THE BOARD OF DIRECTORS



GAIL S. PERO-GEORGES
Corporate Secretary



MORTGAGES

Investing in a home is one of life's most important endeavours. Our friendly and knowledgeable Credit Officers will guide you through this process and tailor a mortgage that meets your personal and financial needs.

We offer:

- Competitive Interest Rates
- Up to 100% financing
- Maximum term up to 30 years
- Speedy approvals
- Convenient payment options
- Pre-approved Credit Card
- Home Savings Account

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*"ECAB.....guided us through
step by step in making our dream a
reality..."*

Dignon & Yuoland Morris



COMMERCIAL BANKING

Our Commercial Banking portfolio offers a comprehensive package to meet your business banking needs. Our model is built on solid relationships and provides high levels of personalized service to our customers. Our staff provide an invaluable service through their distinctive blend of local business knowledge and financial expertise.

We offer:

- Business Deposit Accounts (USD and ECD)
- Cash Management Services
- Commercial Mortgages
- Business Loans
- Overdrafts
- Letters of Credit
- Visa Business Credit Card
- Merchant Services

*“Great customer service keeps
me at ECAB”
Mr. Sheruille Peters*



CREDIT CARDS

Our Visa Business Card offers businesses a powerful combination of financial options. It provides a credit line with flexible payment terms for companies to make purchases, while simplifying accounting by separating personal spending from business spending.

ECAB's Visa Business Card provides an unequalled payment method with a wide range of benefits including:

- US Dollar Currency Card
- Worldwide Acceptance
- Increased Control
- Increased Security
- Fast and convenient access to cash
- Travel Accident Insurance up to US\$250,000
- Auto Rental Insurance
- Access to Visa Business Network - in-depth solutions to help you manage, operate and build your business.

"ECAB has put me on sound footing to start my own business"

*Marcia Graham
Scentious Fragrances & Skin Care*

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CONVENIENT BANKING SERVICES

At ECAB, we understand time is money and that our customers have busy schedules. With our specially tailored self-service banking solutions, we have made banking easy.

We offer the capability to manage your accounts, make deposits and withdrawals, pay bills and transfer funds safely and efficiently at anytime, anywhere in the world.

Get instant access to your bank accounts through our:

- Five Convenient ATM locations
- Debit Card - Fast and convenient access online or via the worldwide Visa®/PLUS® ATM network
- Online Banking
- Mobile Banking
- Telephone Banking
- Night Deposits (four locations island-wide)

"Online banking is a lifesaver for us, as we are always on the go, out at the swimming pool or football pitch. Being able to check our accounts online on our mobile/laptop means banking can literally be done anywhere. The convenience is what matters to us most and the best thing - No bank lines"

*Zoë Swatton
Director Swalings Antigua Ltd*

CHAIRMAN'S REPORT



ECONOMIC OVERVIEW

The year ended September 30, 2012 continued to be a period of meeting the economic challenges and uncertainties. Expectations of improvement in the global economy were not realized and this is reflected in the marginal growth (USA) or decline in economic output (Europe) in major economies.

The economy in Antigua and Barbuda - which is driven primarily by tourism – could not escape the impact of the uncertainty abroad, as we experienced little or no growth in this area. Reports indicate that our overall growth for 2012 was around 1.2%, which is somewhat encouraging in light of the declines suffered in prior years. The results, nevertheless, have not been adequate to make any positive impact on commercial and consumer activity. Consequently, the critical success criteria for the local economy - employment and investment (local and foreign) – remain unachieved.

OUR PERFORMANCE

Notwithstanding the economic challenges faced and the impact on financial institutions, we are proud to report a net income of EC\$4.4 million for the year ended September 30, 2012, compared to the loss of EC\$1.3 million for 2011. This turnaround is reflective of a very strong performance in the current environment and only our second year of operation.

Along with the operational results, ECAB achieved a growth in assets of approximately EC\$70 million or almost 17%. Although there has been no significant increase in loans and advances, the Bank was able to grow through sound investments,

increasing and maintaining balances with other banks and its purchase of the property where our headquarters is situated. Liquidity has remained strong and ECAB is well placed to meet all our present and future commitments.

OUR STRATEGY

During our second year of operation and continuing into 2013, the Bank's strategy remains focused on, but not limited to, institutional strengthening, enhancement of operations, good corporate governance and growth within the market. To this end, initiatives include:-

- The timely revision and strengthening of operational policies and procedures;
- Enhancement of functional relationships among the shareholders, the Board of Directors and Management;
- The enhancement of employee relations and morale;
- The practical pursuit of sound lending opportunities; and
- Continued focus on maintaining our hallmark of customer service excellence.

We believe that the efficient and effective application of this strategy will position the Bank well to maximize the benefits when opportunities are presented, as the economy continues to recover in future periods.

ACKNOWLEDGEMENTS

On behalf of the Board of Directors, I express our sincere appreciation for the support and commitment of our shareholders and the loyalty and confidence of our customers.

To our management and staff, we thank you for your contribution and dedication over the past year.

ECAB – Our Future, Our Bank – is and will continue to be Stronger Together.

Craig J. Walter

Interim Chairman (01.01.13 - present)
Board of Directors

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DIRECTORS' REPORT

The Board of Directors is guided by the perspective that its fundamental purpose is the generation and delivery of sustained shareholder value in a manner that conforms to applicable legislative parameters and the Company's By-Laws. To this end, the Board determines the strategic posture of the institution and monitors execution by management with a view to ensuring practical and effective internal control systems and prudent risk management.

BOARD COMPOSITION

The Board of ECAB Ltd is comprised of seven (7) non-executive Directors. Members are individually and collectively positioned to advise and constructively challenge the Bank's management in respect of its achievement of established strategic goals.

Sir Edmund Lawrence holds the chairmanship of the Board with Mr. Robert Norstrom serving as the Deputy Chairman. The other members are Messrs. Derry Williams, Whitfield Harris Jr., Gladston Joseph, Bernard Thomas and Craig Walter.

DIRECTORS' TENURE

The Company's By-Laws allow for the appointment of a maximum of eleven (11) Directors to serve on its Board.

Pursuant to Clause 4.4

"Unless his tenure is sooner determined, a Director shall hold office from the date from which he is elected or appointed until the close of the annual meeting of the shareholders next following but he shall be eligible for re-election if qualified."

All Directors will retire in accordance with the provisions of the Company's By-Laws and are eligible for re-election. The shareholders' election of Directors shall be by show of hands unless a ballot is demanded, in which case, the election shall be by ballot.

MEETINGS

During the financial year ended September 30, 2012, the Board of Directors convened twelve (12) monthly meetings and two (2) Special Board Meetings. The Record of Attendance for the period is as follows:-

Director	Attendance		Absences	Percent
	Required	Actual		
Sir Edmund Lawrence	14	13	1	93%
Robert Norstrom	14	11	3	79%
Whitfield Harris Jr.	14	10	4	71%
Gladston Joseph	14	14	0	100%
Craig Walter	14	11	3	79%
Derry Williams	14	11	3	79%
Bernard Thomas	14	13	1	93%
Gail S. Pero (Corporate Secretary)	11	10	1	91%

BOARD COMMITTEES

The Board Committees augment the functions of the Board by assisting management with the identification, assessment and mitigation of operational risks.

The **Credit Committee** consists of four (4) members with Sir Edmund Lawrence as its Chairman. The **Human Resource Committee** is headed by Mr. Derry Williams with support from Mr. Gladston Joseph and Mr. Robert Norstrom. The **Audit & Risk Committee** is led by Mr. Craig Walter with support from Mr. Whitfield Harris Jr. and Mr. Bernard Thomas.

DIVIDEND

Following a loss of EC \$1.3 million in its first year of operation, the Bank rebounded and realised a profit of EC \$4.4 million for the financial year ending September 30, 2012. Notwithstanding this position, the Board of Directors does not recommend payment of dividend.

AUDITORS

The Auditors, PricewaterhouseCoopers retire and being eligible, offer themselves for re-appointment as External Auditors. The Board of Directors recommends the re-appointment to shareholders.

Gail S. Pero-Georges



Corporate Secretary

GENERAL MANAGER'S REPORT



OVERVIEW

This fiscal period ended September 30, 2012 marked only the second year of operation for ECAB. However, its overall financial performance during this time was rather impressive considering the challenges of the external environment. The Bank turned a net profit of \$4.4M compared to a net loss of \$1.3M in respect of the previous year. As highlighted in more detail under Management's Discussion on the Accounts, the asset base grew by \$69.3M (16.6%) to \$487.2M, funded largely by an increase of \$52.0M in customer deposits. These are positive indicators of the clear vision and sterling leadership of the Board of Directors, Management and the high productivity of the staff who deliver unrivalled service quality to customers.

STRATEGIC ACHIEVEMENTS

As highlighted in the financial statements, the bank was operationally profitable leading to an increase in shareholder value that surpassed expectations. Over the year, existing customers increased their patronage of ECAB and many new clients came on board signaling a significant rise in the level of public confidence in the Bank. The Bank's market share of total deposits rose from 10% as at September 30, 2011 to 11% as at September 30, 2012. Our share of the loan market remained at 11% and total assets, 8%.

Significant investment was made in strengthening the institutional framework of the Bank. Technological upgrades and systems enhancements were done to improve

the reliability of all the service delivery channels.

LOOKING AHEAD

The Bank is well poised to negotiate the uncertainties of the future and effectively manage the challenges that lie ahead. Its capital remains very strong and is reinforced by the collaborative strength of its institutional shareholders. We are therefore confident that the indomitable ECAB spirit that prevailed over the past two years of acute challenges will continue to embody the reasonable hopes and aspirations of the citizens of Antigua and Barbuda, and the wider currency union.

ACKNOWLEDGEMENTS

On behalf of the entire Management and Staff, I express sincere gratitude and appreciation to the customers of the Bank for their unwavering loyalty. I also thank the Board of Directors for their strong support and invaluable contribution to good corporate governance and overall outstanding performance.

Henry J Hazel

General Manager

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MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

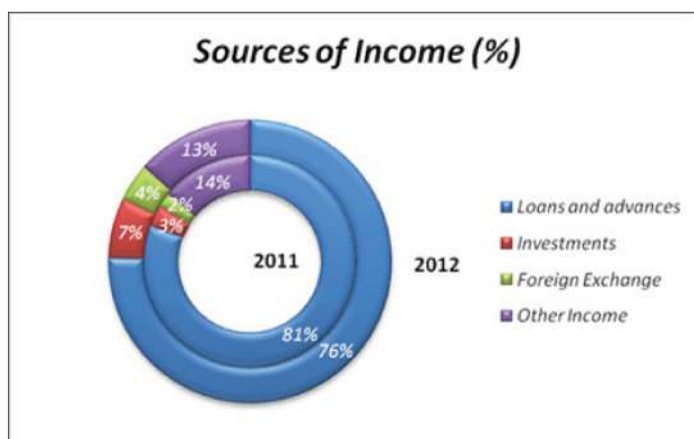
Despite the challenges within the local economy, the Bank delivered a strong performance for fiscal year ended September 30, 2012 with reported net income of \$4.4 million in comparison to a loss of \$1.3 million recorded for 2011. This improvement was driven by reductions in provision for loan loss and investment impairment expense.

PERFORMANCE HIGHLIGHTS

The bank commenced operation from October 18, 2010, and thus the 2011 comparative figures are based on a period of eleven and a half months.

For the year	2012	2011	% Change
Interest Income	\$31,170	\$29,417	6.0%
Interest Expense	\$13,330	\$11,488	16.0%
Loan Impairment Charges	(\$939)	(\$3,651)	(74.3%)
Net Fee Income	\$4,227	\$2,660	58.9%
Operating Expenses	\$16,756	\$18,714	(10.5%)
Net Income (Loss)	\$4,369	(\$1,253)	(448.8%)
Yield on Interest Earning Assets	8.2%	9.1%	
Cost of Funds	3.6%	3.9%	
Spread	4.5%	5.1%	
Efficiency Ratio	79.3%	107.2%	

At year end	2012	2011	2010
Loans & Advances	\$309,080	\$313,134	\$340,059
Investments	\$86,829	\$47,016	\$4,489
Fixed Assets	\$18,405	\$6,129	\$5,576
Total Assets	\$487,233	\$417,880	\$385,758
Total Deposits	\$396,256	\$344,326	\$289,916
Total Shareholders' Equity	\$74,986	\$70,617	\$24,000
Return on Assets	1.0%	(0.3%)	
Return on Equity	6.0%	(1.8%)	
Tier 1 Capital Ratio	52.0%	49.0%	



INTEREST INCOME

Interest income increased by \$1.8 million or 6.0% compared to the previous fiscal period. An increase in interest from investment securities was the main contributing factor. The value of the investment portfolio increased by \$39.8 million which was funded by growth in customer deposits. Interest from loans and advances remained fairly flat due to a contraction of \$4.5 million in the loan portfolio, as well as downward pressure on interest rates.

INTEREST EXPENSE

Interest expense increased by \$1.8 million or 16.0%. This increase was largely due to growth of \$52.6 million in customer deposits. In keeping with market conditions, interest rates were adjusted downwards from January, 2012 and resulted in a 25 basis point reduction in the cost of funds.

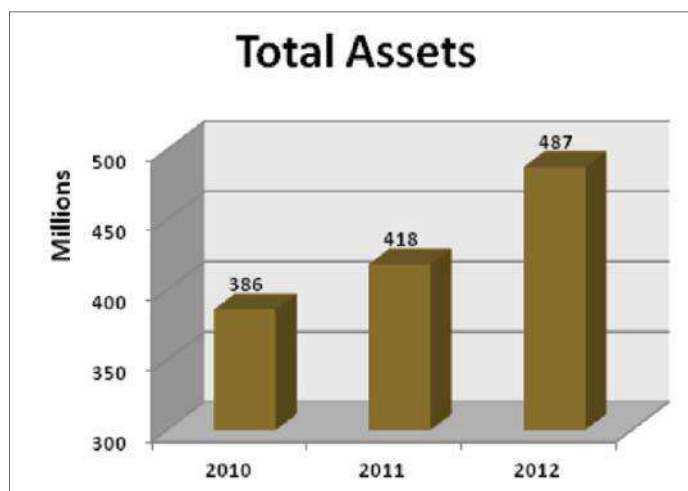
OPERATING EXPENSES

Operating expenses fell by \$2.0 million or 10.5%. Reductions were also recorded in rental expenses after the purchase of the Coolidge property in early 2012 and in marketing and public relations expense. Union negotiations were concluded during the fiscal year and both management and non-management staff received a 3% salary increase for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

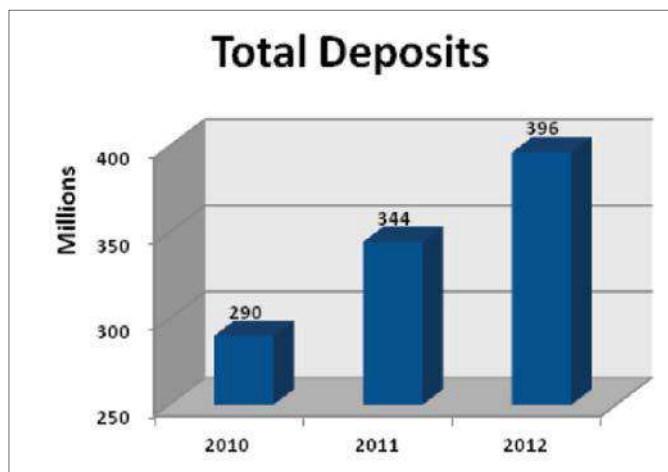
ASSETS

The bank recorded impressive growth in total assets, which increased by \$69.4 million or 16.6%. Surplus funds were invested in regional government securities and in placements with other financial institutions. Investment securities grew by \$39.8 million or 84.7% and the amount due from banks and other financial institutions grew by \$12.4 million or 80.6%. The purchase of the Coolidge branch property in January 2012 contributed to the increase of \$12.3 million or 200.3% in fixed assets.



CUSTOMER DEPOSITS

Significant growth was recorded in customer deposits, with total deposits increasing by \$51.9 million or 15.1%. These accounts provided strong liquidity for the bank to fund its operations and continue to grow its business.



THE BOARD OF DIRECTORS



Sir Edmund Lawrence
Chairman
(18.10.10 - 31.12.12)



Robert Norstrom
Vice Chairman



Craig Walter
Director



Whitfield Harris Jr.
Director



Gladston Joseph
Director



Derry Williams
Director

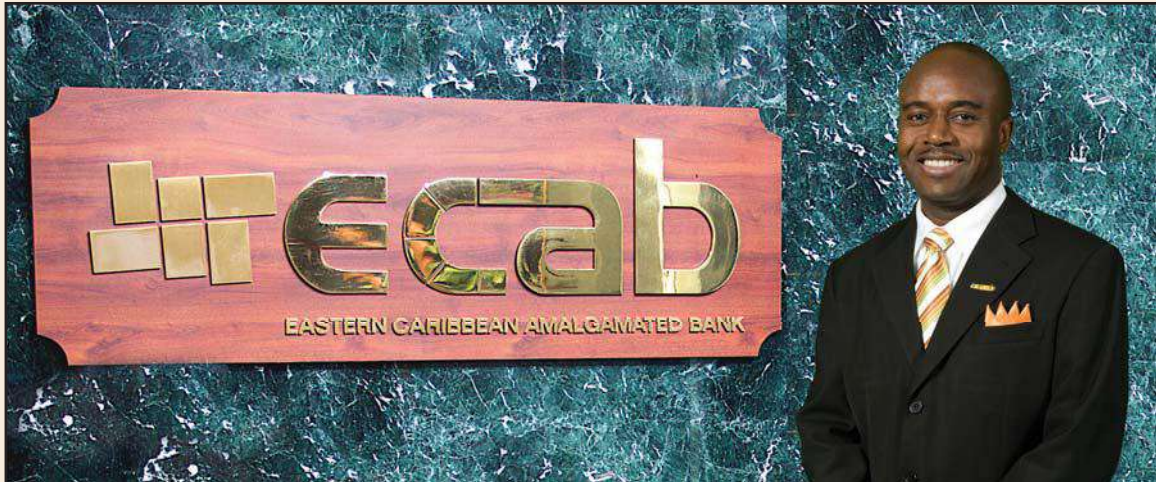


Gail S. Pero-Georges
Corporate Secretary /
Legal Counsel



Bernard Thomas
Director

EXECUTIVE MANAGEMENT



Henry Hazel
General Manager



Donna S. Cort
Executive Manager
Finance & Accounting



Peter Quinn
Internal Auditor



Valerie Acosta
Executive Manager
Operations



Sophie Thomas-Durand
Executive Manager
Information Systems

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SENIOR MANAGEMENT



Carol George-Martin
Senior Manager
Support Services



Debra Williams
Senior Manager
Risk & Compliance



Lauren Phillip
Senior Manager
Human Resources



Norris Antonio
Senior Manager
Recoveries & Securities
Administration



Sonya Roberts-Carter
Senior Manager
Banking Services



V. Alicia Gardner
Senior Manager
Credit

MANAGEMENT



Eleanor Mourillon
Manager
Banking Services



Gevon Dash
Manager
Finance & Accounting



Harold Barriteau
Manager
Information Systems



Tracy Edwards-Kentish
Manager
Card Services



Yvonne Hanley
Manager
Special Projects

ECAB in the Community

ECAB is committed to Corporate Social Responsibility and embarks on activities that involve the Bank favourably within the community. Its Corporate Relations and Sponsorship policy, encourages members of staff to volunteer their time and talents with a view to enhancing the communities throughout Antigua and Barbuda in the areas of sports, health, education, the arts, culture and community outreach. Below are the major activities undertaken during the year under review.

1a. & 1b. International Pairs Caribbean Open 2012

ECAB partnered with Golf Experience Caribbean as “The Official Banking Partner” of this prestigious tournament. The proceeds of the event went to Mr. Jeremiah “Tinni” Henry who became disabled as a result of a work related accident. International cricket icon and the only living National Hero of Antigua & Barbuda, Sir Vivian Richards, is the charity’s patron and was a winner of the tournament in 2012.

2a. & 2b. Rotaract Spelling Bee Competition

ECAB is a Queen Bee sponsor of the annual Rotaract Spelling Bee Competition. The Winning School, St. John’s Catholic Primary School, was awarded a facelift of all grade 5 classrooms and new lunch benches, courtesy of the Eastern Caribbean Amalgamated Bank. This work was undertaken by Rotaract members, ECAB employees, teachers, parents and children of the school.

3. Financial Information Month Walk-for-a-Cause

The Eastern Caribbean Central Bank held its annual Financial Information Month walk in October, 2012 in support of its 11th Anniversary under theme “Challenge Yourself (Innovate-Compete-Succeed)”. ECAB employees, friends and family members participated in this walk in support of the Dyslexia Centre.

4. Awarding Excellence

ECAB continues to award graduates for their academic achievements. Each year we donate educational supplies and Smart Start/College Savings accounts to various students in recognition of their outstanding achievements. Featured here is Kayah Ward of Grays Crescent Primary School who was awarded the Salutatorian Award in 2012.

5a. & 5b. Queen of Carnival

ECAB sponsored the Carnival Queen Contestant, Ms. Alana Michael for Antigua’s Carnival 2012. Ms. Michael and ECAB’s staff participated in numerous Community Outreach activities. Ms. Michael visited a few homes for orphaned and/or abandoned children and children with disabilities, as well as the Children’s Ward at Mount St. John’s Medical Centre.

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1. a



1. b



2. a



2. b



3.



4.



5. a



5. b



FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(Expressed In Eastern Caribbean Dollars)

EASTERN CARIBBEAN AMALGAMATED BANK



ANNUAL REPORT 2012

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Eastern Caribbean Amalgamated Bank Limited

We have audited the accompanying financial statements of **Eastern Caribbean Amalgamated Bank Limited**, which comprise the statement of financial position as of September 30, 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.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Eastern Caribbean Amalgamated Bank Limited** as of September 30, 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

Chartered Accountants
January 30, 2013
St. John's, Antigua

PricewaterhouseCoopers, 11 Old Parham Road • P.O. Box 1531 • St. John's, Antigua, West Indies
T: (268)-462-3000 • F: (268)-462-1902 • www.pwc.com/ag

"PricewaterhouseCoopers" refers to the PricewaterhouseCoopers East Caribbean Firm. A full listing of the partners of the East Caribbean Firm is available on request at the above address.

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Statement of Financial Position

As of September 30, 2012

(expressed in Eastern Caribbean dollars)

	2012	2011
	\$	\$
Assets		
Cash and balances with the Central Bank (note 5)	38,042,946	30,791,133
Due from banks and other financial institutions (note 6)	27,775,263	15,381,370
Investment securities (note 7)	86,828,735	47,015,994
Loans and advances to customers (note 8)	309,080,108	313,134,293
Other assets (note 9)	3,448,821	1,085,388
Property, plant and equipment (note 10)	18,405,144	6,129,277
Intangible assets (note 11)	3,652,363	4,342,876
Total assets	487,233,380	417,880,331
Liabilities		
Customers' deposits (note 12)	396,256,342	344,325,956
Other liabilities and accrued expenses (note 13)	4,262,737	2,937,749
Borrowings (note 14)	11,728,696	—
Total liabilities	412,247,775	347,263,705
Equity		
Preference shares (note 16)	47,869,339	47,869,339
Common shares (note 15)	24,000,000	24,000,000
Other reserves (note 17)	4,781,499	2,643,705
Accumulated deficit	(1,665,233)	(3,896,418)
Total equity	74,985,605	70,616,626
Total liabilities and equity	487,233,380	417,880,331

The notes on pages 26 to 87 are an integral part of this financial statement.

Approved by the Board of Directors on January 30, 2013



Director



Director

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Statement of Comprehensive Income

For the year ended September 30, 2012

(expressed in Eastern Caribbean dollars)

	2012 \$	For the period from October 18, 2010 to September 30, 2011 \$
Operating income		
Interest income (note 21)	31,170,091	29,417,045
Interest expense (note 21)	<u>(13,329,632)</u>	<u>(11,488,308)</u>
Net interest income	17,840,459	17,928,737
Loan impairment charges (note 8)	<u>(938,672)</u>	<u>(3,651,408)</u>
Net interest income after loan impairment charges	<u>16,901,787</u>	<u>14,277,329</u>
Fee and commission income (note 22)	6,717,817	5,193,730
Fee and commission expense (note 22)	<u>(2,490,862)</u>	<u>(2,533,731)</u>
Net fee income	<u>4,226,955</u>	<u>2,659,999</u>
Other (expenses)/income (note 23)	<u>(3,396)</u>	<u>524,406</u>
Net interest, fee, commission and other income	<u>21,125,346</u>	<u>17,461,734</u>
Expenses		
Personnel expenses (note 24)	8,777,980	7,512,111
General and administrative expenses (note 25)	6,161,202	7,466,465
Impairment of investment securities (note 7)	–	2,262,742
Amortization of intangible assets (note 11)	866,261	778,352
Depreciation of property and equipment (note 10)	<u>950,924</u>	<u>694,777</u>
Total operating expenses	<u>16,756,367</u>	<u>18,714,447</u>
Profit/(loss) for the year	4,368,979	(1,252,713)
Other comprehensive income	–	–
Comprehensive income/(loss) for the year	<u>4,368,979</u>	<u>(1,252,713)</u>

The notes on pages 26 to 87 are an integral part of this financial statement.

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Statement of Cash Flows

for the year ended September 30, 2012

(expressed in Eastern Caribbean dollars)

	2012 \$	For the period from October 18, 2010 to September 30, 2011 \$
Cash flows from operating activities		
Operating profit for the year	4,368,979	(1,252,713)
Adjustments for items not affecting cash:		
Interest income	(31,170,091)	(29,417,045)
Interest expense	13,329,632	11,488,308
Depreciation	950,924	694,777
Amortization of intangible assets	866,261	778,352
Provision for loan impairment charges	938,672	3,651,408
Loss on disposal of fixed asset	4,010	-
Provision for impairment of investments	-	2,262,742
Other non-cash items	(29,333)	(37,450)
Cash flows used in operating activities	(10,740,946)	(11,831,621)
Net (increase)/decrease in operating assets		
Loans and advances to customers	4,611,340	25,218,870
Mandatory deposits with the Central Bank	(2,217,809)	(9,418,784)
Other assets	(2,363,433)	17,050,929
Restricted deposits	(4,022,326)	1,160,438
Net increase/(decrease) in operating liabilities		
Deposits from customers	52,584,280	53,863,747
Other liabilities and accrued expenses	1,324,988	(1,435,593)
Provisions	-	(3,000,000)
Cash generated from operations	39,176,094	71,607,986
Interest received	29,361,159	27,225,360
Interest paid	(13,983,526)	(10,941,652)
Net cash from operating activities	54,553,727	87,891,694
Cash flows from investing activities		
Purchase of plant and equipment	(13,234,021)	(1,247,698)
Proceeds from disposal of fixed asset	3,220	-
Purchase of investment securities, net of disposals	(16,831,536)	(14,408,078)
Purchase of intangible assets	(175,748)	(519,742)
Net cash used in investing activities	(30,238,085)	(16,175,518)
Cash flows from financing activities		
Short term borrowings	-	(16,600,000)
Proceeds from long term borrowings (note 14)	12,250,000	-
Repayment of long term borrowings	(521,304)	-
Net cash from (used in) financing activities	11,728,696	(16,600,000)

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Statement of Cash Flows... *continued*

for the year ended September 30, 2012

(expressed in Eastern Caribbean dollars)

	2012 \$	For the period from October 18, 2010 to September 30, 2011 \$
Net increase in cash and cash equivalents	36,044,338	55,116,176
Exchange gains on cash and cash equivalents	29,333	37,450
Cash and equivalents at beginning of year	59,768,855	4,615,229
Cash and cash equivalents at end of year (note 20)	<u>95,842,526</u>	<u>59,768,855</u>

The notes on pages 26 to 87 are an integral part of this financial statement.

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Statement of Changes in Equity

for the year ended September 30, 2012

(expressed in Eastern Caribbean dollars)

	Preference shares \$	Common shares \$	Other reserves \$	Retained earnings \$	Total \$
At commencement date of October 18, 2010	–	24,000,000	–	–	24,000,000
Issuance of preference shares	47,869,339	–	–	–	47,869,339
Net loss and comprehensive loss for the period	–	–	–	(1,252,713)	(1,252,713)
Reserve for loan loss provision (note 8)	–	–	1,386,784	(1,386,784)	–
Reserve for interest recognised on impaired loans (note 8)	–	–	1,256,921	(1,256,921)	–
Balance at September 30, 2011	47,869,339	24,000,000	2,643,705	(3,896,418)	70,616,626
Net profit and comprehensive income for the year	–	–	–	4,368,979	4,368,979
Reserve for loan loss provision (note 8)	–	–	(212,672)	212,672	–
Reserve for interest recognised on impaired loans (note 8)	–	–	1,417,150	(1,417,150)	–
Statutory reserve (note 17)	–	–	933,316	(933,316)	–
Balance at September 30, 2012	47,869,339	24,000,000	4,781,499	(1,665,233)	74,985,605

The notes on pages 26 to 87 are in integral part of this financial statement.

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

1 General information

Eastern Caribbean Amalgamated Bank Limited (the "Bank") is a limited liability company incorporated on July 16, 2009 in Antigua and Barbuda under the provisions of the Antigua Companies Act 1995. The Bank is licensed to carry on banking business in Antigua and Barbuda and is regulated by the Eastern Caribbean Central Bank in accordance with the Banking Act No. 14 of 2005 and the Eastern Caribbean Central Bank Act No. 10 of 1983. The Bank provides a complete range of commercial banking services.

On October 18, 2010, the Bank purchased certain assets and liabilities from Bank of Antigua Limited and began trading on that date.

The Bank's registered office is located at 1000 Airport Boulevard, Coolidge, Antigua.

2 Summary of significant accounting policies

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

2.1 Basis of Preparation

The financial statements of Eastern Caribbean Amalgamated Bank Limited have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

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

Changes in accounting policies and disclosures

a) New standards, amendments and interpretations adopted by the Bank

There are no IFRSs or IFRIC interpretations that are effective for the financial period beginning on or after October 1, 2011 that would be expected to have a material impact on the Bank.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... continued

b) New standards, amendments and interpretations issued but not effective for the financial period beginning on October 1, 2011 and not early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after October 1, 2011, and have not been applied in preparing these financial statements. None of the following are expected to have a significant effect on the financial statements of the Bank, except the following set out below:

- IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendment to IAS 1 is effective from July 1, 2012.
- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Bank is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning 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. The Bank is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning after January 1, 2013.
- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The application date for IFRS 13 is January 1, 2013.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

2.2 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, non-mandatory deposits with the ECCB, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... continued

2.3 Financial assets and liabilities

2.3.1 Financial assets

The Bank classifies its financial assets in the following IAS 39 categories: loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial instruments at initial recognition.

(a) Loans and receivables

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

- (i) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates at fair value through profit or loss;
- (ii) those that the Bank upon initial recognition designates as available-for-sale; or
- (iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

(b) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or that are not classified as loans and receivables or held-to-maturity investments. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and are measured subsequently at fair value with gains and losses being recognised in the other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised within 'other comprehensive income' in the comprehensive income is recognised in the operating profit/loss. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the statement of comprehensive income.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... continued

2.3 Financial assets and liabilities ... continued

2.3.1 Financial assets ... continued

(c) Held-to-maturity financial assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity, other than:

- (a) those that the Bank upon initial recognition designates as at fair value through profit or loss;
- (b) those that the Bank designates as available for sale; and
- (c) those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in the statement of comprehensive income and reported as 'Interest income'. In the case of impairment, the impairment loss is reported as a reduction in the carrying value of the investment and recognised in the statement of comprehensive income as 'Impairment of investment securities'.

(d) Recognition

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

2.3.2 Financial liabilities

The Bank's holding in financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Financial liabilities are de-recognised when extinguished. Financial liabilities measured at amortised cost are deposits from banks or customers, short term borrowings, other financial liabilities and accrued expenses.

2.3.3 De-recognition

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

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... continued

2.3 Financial assets and liabilities ... continued

2.3.5 Classes of financial instruments

The Bank classifies its financial instruments into classes that reflect the nature of the information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

Financial assets	Loans and receivables	Due from banks and other financial institutions		Deposits with the Central Bank	
				Correspondent bank accounts	
				Fixed deposits	
		Loans and advances to customers	Loans and advances to individuals	Demand loans	
				Mortgage loans	
				Non-performing loans and advances	
				Rebate Loans	
				Overdrafts	
				Credit Card advances	
				Loans and advances to corporate entities	Demand Loans
					Mortgage loans
			Non-performing loans and advances		
			Overdrafts		
		Loans and advances to government and statutory bodies	Demand Loans		
			Overdrafts		
		Investment securities	Treasury bills	Local treasury bills	
			Debt instruments	Quoted	
Unquoted					
Other assets					
Available-for-sale financial assets	Investment securities	Debt instruments	Quoted		
			Unquoted		
	Equity securities	Quoted			
		Unquoted			
Held-to-Maturity	Investment securities	Debt instruments	Quoted		
Financial liabilities	Amortised cost	Customers' deposits			
		Other liabilities and accrued expenses			

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... continued

2.4. Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. The carrying amount is then reduced to the recoverable amount as at the date of the statement of financial position. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... continued

2.4. Impairment of financial assets ... continued

(a) Assets carried at amortised cost ... continued

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in loan impairment charges whilst impairment charges relating to investment securities (held to maturity and loans and receivables categories) are classified in 'Impairment of investment securities'.

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

(b) Assets classified as available-for-sale

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... continued

2.4. Impairment of financial assets ... continued

(b) Assets classified as available-for-sale ... continued

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the profit and loss within the statement of comprehensive income on equity instruments are not reversed through operating profit within the statement of comprehensive income.

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

(c) Renegotiated Loans

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

2.5 Offsetting financial instruments

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

2.6 Provisions

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

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

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

2.7 Property, plant and equipment and depreciation

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... continued

2.7 Property, plant and equipment and depreciation ... continued

Land is not depreciated. Depreciation of assets is calculated using the straight-line method at rates considered appropriate to allocate the value of an asset to its residual value over the estimated useful life of the asset at the following annual rates:

Buildings	50 years
Furniture and fixtures	3- 10 years
Equipment	3 -10 years
Computer equipment	3 – 5 years
Motor vehicles	3 – 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property, plant and equipment were impaired as at September 30, 2012.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other income' in the statement of comprehensive income.

2.8 Intangible assets

Separately acquired intangible assets are shown at historical cost. Intangible assets acquired in a business combination are recognised at fair value at the date of acquisition. Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. At each date of the statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount. Intangible assets with indefinite useful lives are tested annually for impairment or whenever there is an indication that the asset may be impaired.

Computer software

Acquired computer software licences in a business combination are recorded at their fair values and are amortised over their estimated useful lives of three to five years.

Customer list intangible

The customer list intangible is an intangible asset that represents the intrinsic value that is contained in the customer deposit base. It is recognised because it is separable and the cost can be reliably measured. The value of the customer list acquired in the business combination is generally determined using income approach methodologies such as the discounted cash flow method. The customer list intangible is stated at cost less amortisation and provisions for impairment, if any, plus reversals of impairment, if any. The asset is amortized over its estimated useful life of 11 years over the expected life of the customer relationship.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... continued

2.9 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean dollars at the closing rates of exchange prevailing at the reporting date. Foreign currency transactions are translated at the rates prevailing on the transaction dates. Foreign exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.10 Share capital

Ordinary shares and preference shares that do not exhibit any debt characteristics are classified as equity. Mandatorily redeemable preference shares are classified as liabilities. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.11 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.12 Impairment of non-financial assets

Intangible assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired in 2012.

2.13 Leases

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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... continued

2.14 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.15 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

2.16 Employee Benefits

The Bank facilitates loans to its staff at rates that are relatively low in comparison to the normal market rates in the Eastern Caribbean Currency Union (ECCU). These loans are recognised at fair value using a normal market rate, and the difference between the fair value and the consideration given to the employees is recorded as a pre-paid short term employee benefit. The pre-paid short-term employee benefit is amortised through the statement of comprehensive income over the expected service life of the relevant individual employees or the expected life of the relevant individual loans, whichever is shorter.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... continued

2.17 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the statement of comprehensive income within other operating expenses.

2.18 Current and deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in Antigua and Barbuda. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authority.

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... continued

2.19 Borrowings

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

2.20 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3 Financial risk management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management policies and procedures are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by the Bank's Asset and Liability Management Committee (ALCO) under policies approved by the Board of Directors. The ALCO committee identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating departments. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk, market risk (which are discussed below) and operational risk.

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

3.1 Credit risk

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

The Bank is also exposed to other credit risks arising from investments in debt securities.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control including risk on debt securities, cash, loans and advances, credit cards and loan commitments are monitored by the credit risk committee, which reports to the Board of Directors and the Executive Management team regularly.

3.1.1 Credit risk measurement

(a) Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of the counterparty. They have been developed based on the Eastern Caribbean Central Bank's guidelines. Customers of the Bank are segmented into five rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The ratings tools are kept under review and upgraded as necessary.

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

(b) Debt and equity securities

The Bank's portfolio of debt and equity securities and other bills consists of Government of St. Kitts bond, Government of Antigua and Barbuda treasury bills, bonds and corporate bonds. The bonds are quoted but not traded in an active market. The Bank assesses the risk of default on these instruments by regularly monitoring the performance of the respective Governments through published government data, information received directly from government departments and information published by international agencies such as the International Monetary Fund (IMF) and the World Bank. The risk of default on regional corporate debt is assessed by continuous monitoring of the performance of these companies through published financial information, and other data gleaned from various sources.

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

3.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified, in particular to individual counterparties and groups, and to industries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to regular review by the Board of Directors.

The exposure to any one borrower, including banks and brokers is further restricted by sub-limits covering on and off balance sheet exposures. Actual exposures against limits are monitored, on an ongoing basis.

Lending limits are reviewed in light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

(a) Collateral

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

- Mortgages over properties
- Charges over business assets, primarily the premises
- Hypothecation of deposits

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

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

(b) Financial guarantees (for credit related commitments)

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter term commitments.

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.1.3 Impairment and provisioning policies

The internal rating system described in Note 3.1.1 focuses on expected credit losses – that is, taking into account the risk of future events giving rise to loss. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date, based on the objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment allowance shown in the statement of financial position at year end is derived from each of the five rating grades. However, the largest component of the impairment allowance comes from the loss grades. The table below shows the percentage of the Bank's on- and off-balance sheet items, such as financial guarantees, loan commitments and other credit related obligations, relating to loans and advances and the associated impairment allowance for each of the Bank's rating categories.

	Loans and advances		Impairment provision		Net total
	\$	%	\$	%	\$
At September 30, 2012					
Pass	81,025,698	26	–	0	81,025,698
Special Mention	196,664,678	63	(235,443)	6	196,429,235
Substandard	29,791,724	10	(1,631,998)	39	28,159,726
Doubtful	562,177	0	(137,976)	3	424,201
Loss	2,188,836	1	(2,137,568)	52	51,268
<hr/>					
Gross loans and advances	310,233,113	100	(4,142,985)	100	306,090,128
Interest receivable	3,441,517	–	–	–	3,441,517
Deferred loan origination fees	(112,305)	–	–	–	(112,305)
Inherent risk provision	–	–	(339,232)	–	(339,232)
	313,562,325	100	(4,482,217)	100	309,080,108
<hr/>					
At September 30, 2011					
Pass	81,825,486	26	–	0	81,825,486
Special Mention	205,803,417	65	(434,760)	14	205,368,657
Substandard	24,220,370	8	(877,621)	27	23,342,749
Doubtful	1,287,036	0	(287,864)	9	999,172
Loss	1,634,059	1	(1,610,412)	50	23,647
<hr/>					
Gross loans and advances	314,770,368	100	(3,210,657)	100	311,559,711
Interest receivable	1,945,690	–	–	–	1,945,690
Deferred loan origination fees	(38,220)	–	–	–	(38,220)
Inherent risk provision	–	–	(332,888)	–	(332,888)
	316,677,838	100	(3,543,545)	100	313,134,293

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	2012	2011
	\$	\$
Credit risk exposures relating to on-balance sheet assets:		
Due from banks and other financial institutions	27,775,263	15,381,370
<i>Investment securities:</i>		
- Loans and receivables	82,053,635	41,935,276
- Held-to-maturity investments	3,237,500	3,237,600
- Available-for-sale investments – government securities (quoted)	1,431,740	1,737,258
Loans and advances to customers	309,080,108	313,134,293
Other financial assets	2,124,709	34,100
	425,702,955	375,459,897
	2012	2011
	\$	\$
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	5,832,000	1,782,000
Loan commitments and other credit related facilities	8,951,666	10,471,181
	14,783,666	12,253,181
Total credit exposure	440,486,621	387,713,078

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements ... continued

The above table represents a worst case scenario of credit risk exposures to the Bank as of September 30, 2012, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above 73% (2011: 83%) of the total maximum exposure is derived from loans and advances to customers and 20% (2011: 12%) is derived from investment securities.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities based on the following:

- 90% (2011: 92%) of the loans and advances portfolio are categorised in the top two grades of the internal rating system;
- 86% (2011: 85%) of the loans and advances portfolio are considered to be neither past due nor impaired; and
- 12% (2011: 12%) of loans and advances are considered impaired.

Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table analyses the Bank's main credit exposure at their carrying amounts, (without taking into account any collateral held or other credit support) as categorised by geographical region as at September 30, 2012. For all classes of assets, the Bank has allocated exposures to regions based on the country of domicile of the counterparties.

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... *continued*

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements ... *continued*

Concentration of risks of financial assets with credit risk exposure ... *continued*

As of September 30, 2012

	Antigua & Barbuda	Other Caribbean	North America	Europe	Total
	\$	\$	\$	\$	\$
Credit risk exposures relating to on-balance sheet assets:					
Due from banks and other financial institutions	1,925,619	301,855	24,182,594	1,365,195	27,775,263
<i>Investment securities:</i>					
– Loans and receivables investment	4,046,109	72,070,826	5,936,700	–	82,053,635
– Held-to-maturity investments	3,037,500	200,000	–	–	3,237,500
– Available-for-sale investments – government securities (quoted)	–	1,431,740	–	–	1,431,740
Loans and advances to customers	309,080,108	–	–	–	309,080,108
Other financial assets	124,709	2,000,000	–	–	2,124,709
	318,214,045	76,004,421	30,119,294	1,365,195	425,702,955
Credit exposures relating to off-balance sheet items:					
– Financial guarantees	5,832,000	–	–	–	5,832,000
– Loan commitments and other credit related facilities	8,951,666	–	–	–	8,951,666
Total	332,997,711	76,004,421	30,119,294	1,365,195	440,486,621

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements ... continued

Concentration of risks of financial assets with credit risk exposure ... continued

As of September 30, 2011

	Antigua & Barbuda	Other Caribbean	North America	Europe	Total
	\$	\$	\$	\$	\$
Credit risk exposures relating to on-balance sheet assets:					
Due from banks and other financial institutions	2,033,195	491,441	11,706,008	1,150,726	15,381,370
<i>Investment securities:</i>					
–Loans and receivables	58,357	41,876,919	–	–	41,935,276
–Held-to-maturity investments	3,037,600	200,000	–	–	3,237,600
–Available-for-sale investments – government securities (quoted)	–	1,737,258	–	–	1,737,258
Loans and advances to customers	313,134,293	–	–	–	313,134,293
Other financial assets	34,100	–	–	–	34,100
	318,297,545	44,305,618	11,706,008	1,150,726	375,459,897
Credit exposures relating to off-balance sheet items:					
–Financial guarantees	1,782,000	–	–	–	1,782,000
–Loan commitments and other credit related facilities	10,471,181	–	–	–	10,471,181
Total	330,550,726	44,305,618	11,706,008	1,150,726	387,713,078

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements ... continued

Concentration of risks of financial assets with credit risk exposure ... continued

Economic risk concentrations within the customer loan portfolio were as follows:

	2012		2011	
	\$	%	\$	%
Public sector	174,577,311	56.2%	176,194,455	56.0%
Personal	115,769,815	37.3%	120,055,080	38.1%
Construction/Real Estate	8,340,059	2.7%	7,323,603	2.3%
Credit card advances	3,691,680	1.2%	3,370,862	1.1%
Professional	4,235,673	1.4%	4,623,925	1.5%
Other Industries	1,716,855	0.6%	1,352,815	0.4%
Manufacturing	1,473,272	0.5%	1,352,130	0.4%
Tourism	428,448	0.1%	497,498	0.2%
Total	310,233,113	100%	314,770,368	100%

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	Loans and advances to customers 2012 \$	Loans and advances to customers 2011 \$
Neither past due nor impaired	265,103,392	264,825,062
Past due but not impaired	9,286,319	14,493,248
Impaired	35,843,402	35,452,058
Gross	310,233,113	314,770,368
Interest receivable	3,441,517	1,945,690
Deferred loan origination fees	(112,305)	(38,220)
Less: allowance for impairment	(4,482,217)	(3,543,545)
Net loans and advances	309,080,108	313,134,293

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.1.5 Loans and advances... continued

	Loans and advances to customers 2012 \$	Loans and advances to customers 2011 \$
Allocation of allowance for impairment:		
Individually impaired	(4,142,985)	(3,210,657)
Portfolio allowance	(339,232)	(332,888)
	<u>(4,482,217)</u>	<u>(3,543,545)</u>

The total impairment charge for loans and advances is \$4,482,217 of which \$4,142,985 relates to individually impaired loans and the remaining amount of \$339,232 represents the portfolio allowance. Further information on the impairment allowance for loans and advances to customers is provided in note 8.

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.1.5 Loans and advances ... continued

(a) Loans and advances neither past due nor impaired

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

September 30, 2012

	Credit Cards \$	Overdrafts \$	Personal \$	Commercial \$	Public sector \$	Total \$
Pass	3,440,401	3,299,973	66,505,155	7,780,170	–	81,025,699
Special mention	–	1,813,048	6,176,080	2,250,711	173,837,854	184,077,693
	3,440,401	5,113,021	72,681,235	10,030,881	173,837,854	265,103,392

September 30, 2011

	Credit Cards \$	Overdrafts \$	Personal \$	Commercial \$	Public sector \$	Total \$
Pass	2,537,159	3,705,191	67,050,376	8,532,760	–	81,825,486
Special mention	–	1,605,358	5,730,218	173,503	175,490,497	182,999,576
	2,537,159	5,310,549	72,780,594	8,706,263	175,490,497	264,825,062

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.1.5 Loans and advances ... continued

(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not considered impaired unless other information is available to indicate the contrary. Gross amounts of loans and advances by class to customers that were past due but not impaired were as follows:

As of September 30, 2012

	Credit cards \$	Personal \$	Commercial \$	Total \$
Past due up to 30 days	189,884	3,420,898	2,061,963	5,672,745
Past due 31 – 60 days	29,815	2,500,801	–	2,530,616
Past due 61 – 90 days	25,626	1,029,505	27,827	1,082,958
	245,325	6,951,204	2,089,790	9,286,319

As of September 30, 2011

	Credit cards \$	Personal \$	Commercial \$	Total \$
Past due up to 30 days	314,066	3,873,028	1,754,568	5,941,662
Past due 31 – 60 days	41,958	5,579,481	107,661	5,729,100
Past due 61 – 90 days	101,549	2,691,536	29,400	2,822,485
	457,573	12,144,045	1,891,629	14,493,247

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.1.5 Loans and advances ... continued

(c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is \$35,843,402 (2011: \$35,452,058).

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

As of September 30, 2012

	Credit cards \$	Over drafts \$	Personal \$	Commercial \$	Total \$
Individual impaired loans and advances	5,954	1,682,986	28,397,104	5,757,358	35,843,402

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.1.5 Loans and advances ... continued

September 30, 2011

	Credit cards \$	Over drafts \$	Personal \$	Commercial \$	Total \$
Individual impaired loans and advances	376,130	887,153	24,019,704	10,169,071	35,452,058

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

	2012 \$	2011 \$
Renegotiated loans and advances to customers – individuals:		
- Continuing to be impaired after restructuring	9,855,830	2,851,110
Loans to individuals:		
- Non-impaired after restructuring – would otherwise have been impaired	-	736,028
- Non-impaired after restructuring – would otherwise not have been impaired	7,422,656	7,241,819
	17,278,486	10,828,957

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.1.6 Debt securities

There is no formal rating of the credit quality of bonds, treasury bills and equity investments. A number of qualitative and quantitative factors are considered in assessing the risk associated with each investment. However, there is no hierarchy of ranking. There are no external ratings of securities at the year end. The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at September 30, 2012.

As of September 30, 2012

	Loans and receivables \$	Available for sale \$	Held to maturity \$	Total \$
Unrated	82,053,635	1,431,740	3,237,500	86,722,875
Total	82,053,635	1,431,740	3,237,500	86,722,875

As of September 30, 2011

	Loans and receivables \$	Available for sale \$	Held to maturity \$	Total \$
Unrated	41,935,276	1,737,258	3,237,600	46,910,134
Total	41,935,276	1,737,258	3,237,600	46,910,134

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.2 Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank's exposure to market risk is from non-trading portfolios.

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

3.2.1 Price risk

Though the Bank's investment portfolio includes securities that are quoted on the Eastern Caribbean Securities Exchange, its exposure to securities price risk is minimal because the total of these securities is insignificant in relation to its statement of financial position, and because of limited volatility in this market. The Bank does not hold securities that are quoted on the world's major securities markets. The Bank is not exposed to commodity price risk.

3.2.2 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Most of the Bank's assets and liabilities in foreign currencies are held in United States dollars. The exchange rate of the Eastern Caribbean dollar (EC\$) to the United States dollar (US\$) has been formally pegged at EC\$2.7 = US\$1.00 since 1974. Therefore, there is no significant exposure to foreign exchange risk.

The following table summarises the Bank's exposure to foreign currency exchange risk as of September 30, 2012. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.2.2 Foreign exchange risk ... continued

As at September 30, 2012

	XCD \$	USD \$	EUR \$	GBP \$	Other \$	Total \$
Cash and balances with the Central Bank	37,160,410	605,321	98,438	50,924	127,853	38,042,946
Due from banks and financial institutions	2,175,605	24,182,566	336,370	1,001,825	78,897	27,775,263
<i>Investment securities:</i>						
– Held to maturity securities	3,237,500	–	–	–	–	3,237,500
– Loans and receivables	49,498,743	32,554,891	–	–	–	82,053,634
– Available-for-sale equity investments						
– unquoted	25,000	–	–	–	–	25,000
– Available-for-sale debt investment						
– government securities – quoted	1,431,740	–	–	–	–	1,431,740
– Available-for-sale equity investments						
– quoted	80,860	–	–	–	–	80,860
Loans and advances to customers	241,782,549	67,297,559	–	–	–	309,080,108
Other financial assets	2,124,709	–	–	–	–	2,124,709
Total financial assets	337,517,116	124,640,337	434,808	1,052,749	206,750	463,851,760
Liabilities						
Customer's deposits	319,439,335	76,817,007	–	–	–	396,256,342
Borrowings	11,728,696	–	–	–	–	11,728,696
Other liabilities and accrued expenses	4,262,737	–	–	–	–	4,262,737
Total financial liabilities	335,430,768	76,817,007	–	–	–	412,247,775
Net on-balance sheet position	2,086,348	47,823,330	434,808	1,052,749	206,750	51,603,985
Credit commitments	14,783,666	–	–	–	–	14,783,666

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.2.2 Foreign exchange risk ... continued

As at September 30, 2011

	XCD	USD	EUR	GBP	Other	Total
	\$	\$	\$	\$	\$	\$
Cash and balances with the Central Bank	30,345,892	365,005	10,909	33,210	36,117	30,791,133
Due from banks and financial institutions	2,517,537	11,423,747	822,997	327,730	289,359	15,381,370
<i>Investment securities:</i>						
– Held to maturity securities	3,237,600	–	–	–	–	3,237,600
– Loans and receivables	26,269,998	15,665,278	–	–	–	41,935,276
– Available-for-sale equity investments						
– unquoted	25,000	–	–	–	–	25,000
– Available-for-sale debt investment						
– government securities – quoted	1,737,258	–	–	–	–	1,737,258
– Available-for-sale equity investments						
– quoted	80,860	–	–	–	–	80,860
Loans and advances to customers	245,350,869	67,783,424	–	–	–	313,134,293
Other financial assets	34,100	–	–	–	–	34,100
Total financial assets	309,599,114	95,237,454	833,906	360,940	325,476	406,356,890
Liabilities						
Customer's deposits	292,077,485	52,248,471	–	–	–	344,325,956
Other liabilities and accrued expenses	2,937,749	–	–	–	–	2,937,749
Total financial liabilities	295,015,234	52,248,471	–	–	–	347,263,705
Net on-balance sheet position	14,583,880	42,988,983	833,906	360,940	325,476	59,093,185
Credit commitments	12,253,181	–	–	–	–	12,253,181

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.2.3 Interest rate risk

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

The following table summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.2.3 Interest rate risk ... continued

At September 30, 2012

	Under 1 Month \$	1 to 3 Months \$	3 to 12 Months \$	1 to 5 Years \$	Over 5 Years \$	Non-interest Bearing \$	Total \$
Assets							
Cash and balances with the Central bank	-	-	-	-	-	38,042,946	38,042,946
Due from banks and other financial institutions	-	-	-	-	-	27,775,263	27,775,263
<i>Investment securities:</i>							
- Held to maturity investments	-	-	237,500	3,000,000	-	-	3,237,500
- Loans and receivables	34,472,403	24,197,515	23,383,716	-	-	-	82,053,634
- Available-for-sale equity securities - unquoted	-	-	-	-	-	25,000	25,000
- Available-for-sale debt investments - government securities - quoted	-	-	-	-	1,431,740	-	1,431,740
- Available-for-sale equity securities - quoted	-	-	-	-	-	80,860	80,860
Loans and advances to customers	15,354,952	1,965,551	1,247,887	17,199,103	273,312,615	-	309,080,108
Other financial assets	-	-	-	-	-	2,124,709	2,124,709
Total financial assets	49,827,355	26,163,066	24,869,103	20,199,103	274,744,355	68,048,778	463,851,760
Liabilities							
Customer's deposits	140,840,701	39,390,562	159,582,395	56,312,753	129,931	-	396,256,342
Borrowings	68,935	141,852	666,140	4,296,395	6,555,374	-	11,728,696
Other liabilities and accrued expenses	-	-	-	-	-	4,262,737	4,262,737
Total financial liabilities	140,909,636	39,532,414	160,248,535	60,609,148	6,685,305	4,262,737	412,247,775
Total interest repricing gap	(91,082,281)	(13,369,348)	(135,379,432)	(40,410,045)	268,059,050	63,786,041	51,603,985

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.2.3 Interest rate risk ... continued

	Under 1 Month \$	1 to 3 Months \$	3 to 12 Months \$	1 to 5 Years \$	Over 5 Years \$	Non-interest Bearing \$	Total \$
At September 30, 2011							
Assets							
Cash and balances with Central Bank	–	–	–	–	–	30,791,133	30,791,133
Due from banks and other financial institutions	1,890,674	–	–	–	–	13,490,696	15,381,370
<i>Investment securities:</i>							
– Held to maturity investments	16,327,450	10,318,743	13,281,005	2,008,078	–	–	41,935,276
– Loans and receivables	–	–	37,600	3,200,000	–	–	3,237,600
– Available-for-sale equity securities – unquoted	–	–	–	–	–	25,000	25,000
– Available-for-sale debt investments – government securities – quoted	–	–	–	–	1,737,258	–	1,737,258
– Available-for-sale equity securities – quoted	–	–	–	–	–	80,860	80,860
Loans and advances to customers	12,294,688	603,074	2,722,778	21,535,590	275,978,163	–	313,134,293
Other financial assets	–	–	–	–	–	34,100	34,100
Total financial assets	30,512,812	10,921,817	16,041,383	26,743,668	277,715,421	44,421,789	406,356,890
Liabilities							
Customer's deposits	119,687,079	48,445,947	165,672,807	10,520,123	–	–	344,325,956
Other liabilities and accrued expenses	–	–	–	–	–	2,937,749	2,937,749
Total financial liabilities	119,687,079	48,445,947	165,672,807	10,520,123	–	2,937,749	347,263,705
Total interest repricing gap	(89,174,267)	(37,524,130)	(149,631,424)	16,223,545	277,715,421	41,484,040	59,093,185

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.2.3 Interest rate risk ... continued

Because of limited volatility in the securities markets in which the Bank's investments are held, the Bank is not unduly exposed to fair value interest rate risk.

Cash flow interest rate risk arises from loans and advances to customers, and other interest bearing assets at variable rates. The interest rates on loans are fixed hence there is no exposure to cashflow interest rate risk.

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

3.3.1 Liquidity risk management process

The Bank's liquidity management process is carried out by the Bank's Board of Directors and Executive Management Team. Oversight includes the following:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.
- Maintaining the liquidity ratios of the statement of financial position against internal and regulatory requirements;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement, and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The ALCO Committee also monitors unmatched medium term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

3.3.2. Funding approach

Sources of liquidity are regularly reviewed by management and the Board of Directors in order to maintain a wide diversification by currency, geography, provider, product and term.

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.3.3 Non derivative financial liabilities and assets held for managing liquidity risk

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

The Bank does not anticipate any shortfalls during the next 12 months since its customers generally roll-over their term deposits at maturity and no major withdrawals are anticipated for customer demand and savings accounts. Also, refer to liquidity risk management note 3.3.1.

	Under 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$	\$
As at September 30, 2012						
Customers' deposits	140,865,562	39,663,125	163,517,677	58,502,015	128,169	402,676,548
Borrowings	148,626	297,253	1,337,637	7,134,062	7,789,596	16,707,174
Other liabilities and accrued expenses	4,262,737	-	-	-	-	4,262,737
Total financial liabilities (contractual maturity dates)	145,276,925	39,960,378	164,855,314	65,636,077	7,917,765	423,646,459
Assets held for managing liquidity risk (contractual maturity dates)	95,494,266	30,616,491	52,102,701	133,200,714	351,195,418	662,609,590

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

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(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.3.3 Non derivative financial liabilities and assets held for managing liquidity risk

	Under 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$	\$
As at September 30, 2011						
Customers' deposits	119,719,919	48,766,715	169,998,014	11,164,983	-	349,649,631
Other liabilities and accrued expenses	2,874,059	-	63,692	-	-	2,937,751
Total financial liabilities (contractual maturity dates)	122,593,978	48,766,715	170,061,706	11,164,983	-	352,587,382
Assets held for managing liquidity risk (contractual maturity dates)	61,053,350	7,760,944	34,273,119	147,578,356	400,747,830	651,413,599

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.3.4 Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality financial assets to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise of the following:

- Unrestricted cash and balances due from banks;
- Loans and receivables investment securities; and
- Unimpaired loans and advances.

3.3.5 Off balance sheet items

(a) Credit commitments

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

(b) Financial guarantees

The Bank's financial guarantees are also included in the table below based on the earliest contractual maturity date.

(c) Operating Lease Commitments

The bank had no contractual operating lease commitments as of September 30, 2012.

(d) Capital commitments

The Bank had no contractual capital commitments as of September 30, 2012.

	Up to 1 year \$	1 to 5 years \$	Total \$
As at September 30, 2012			
Financial guarantees	5,832,000	–	5,832,000
Credit commitments	8,951,666	–	8,951,666
	14,783,666	–	14,783,666

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

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(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.3.5 Off balance sheet items ... continued

	Up to 1 year \$	1 to 5 years \$	Total \$
September 30, 2011			
Financial guarantees	1,782,000	–	1,782,000
Operating lease commitments	16,905	–	16,905
Credit commitments	10,471,181	–	10,471,181
	12,270,086	–	12,270,086

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.4 Fair value of financial assets and liabilities

(a) *Financial instruments not measured at fair value.*

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

	Carrying Value		Fair Value	
	2012	2011	2012	2011
Financial assets				
Due from other banks and financial institutions	27,775,263	15,381,370	27,775,263	15,381,370
<i>Investment securities:</i>				
– Held-to-maturity investments	3,237,500	3,237,600	3,218,188	3,005,530
– Loans and receivables	82,053,634	41,935,276	82,053,634	41,935,276
Loans and advances to customers	309,080,108	313,134,293	309,325,014	316,419,113
Other financial assets	2,124,709	34,100	2,124,709	34,100
	424,271,214	373,722,639	424,496,808	376,775,389
Financial liabilities				
Customers' deposits	396,256,342	344,325,956	357,127,006	345,044,391
Borrowings	11,728,696	–	11,728,696	–
Other liabilities and accrued expenses	4,262,737	2,937,749	4,262,737	2,937,749
	412,247,775	347,263,705	373,118,439	347,982,140

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.4 Fair value of financial assets and liabilities ... continued

(a) Financial instruments measured at fair value ... continued

(i) Due from banks and other financial institutions

Amounts due from banks and other financial institutions include inter-bank placements and items in the course of collection. The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Loans and advances to customers

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iii) Investment securities

The fair value for loans and receivables, available-for-sale and held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated for the debt investment securities based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and remaining maturity.

(iv) Deposits from banks and due to customers and other borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

3.4.1 Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; and unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

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

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.4.2 Assets and liabilities measured at fair value

	Level 2 \$	Level 3 \$	Total \$
Financial assets			
<i>Investment securities:</i>			
– Available-for-sale equity investments – unquoted	–	25,000	25,000
– Available-for-sale debt investments – quoted	–	1,431,740	1,431,740
– Available-for-sale equity investments – quoted	80,860	–	80,860
Total assets	80,860	1,456,740	1,537,600

Reconciliation of level 3 items

The following table presents changes in level 3 instruments for the year ended September 30, 2012.

	<u>Available- for-sale financial assets</u>		Total \$
	Debt securities \$	Equity securities \$	
Opening balance as of September 30, 2011	1,737,258	25,000	1,762,258
Settlements	(305,518)	–	(305,518)
At September 30, 2012	1,431,740	25,000	1,456,740

If the market interest rate on the available-for-sale bond investment were to change by +/- 10%, the impact on other comprehensive income would be an increase of \$66,136 or a decrease of \$70,642.

The following table presents the changes in level 3 instruments for the period ended September 30, 2011.

	<u>Available- for-sale financial assets</u>		Total \$
	Debt securities \$	Equity securities \$	
Opening balance as of October 18, 2010	–	25,000	25,000
Transfers into Level 3	1,737,258	–	1,737,258
At 30th September 2011	1,737,258	25,000	1,762,258
Total losses for the period including in profit or loss for assets held at September 30, 2011	(2,262,742)	–	(2,262,742)

(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.5 Capital management

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

- To comply with the capital requirements set by the Eastern Caribbean Central Bank (the ECCB);
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored quarterly by the Bank's management employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the ECCB, for supervisory purposes. The required information is filed with the ECCB on a quarterly basis.

The ECCB requires all banks under its jurisdiction to: (a) hold the minimum level of regulatory capital of \$5,000,000 and (b) maintain a ratio of total regulatory capital to the risk-weighted assets ('the Basel ratio') at or above the internationally agreed minimum of 8%.

The Bank's regulatory capital as managed by senior management is divided into two tiers:

- Tier 1 capital: share capital (net of any book values of treasury share), general bank reserves, statutory reserve, retained earnings and reserves created by appropriations of retained earnings.
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of securities held as available-for-sale.

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

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

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(expressed in Eastern Caribbean dollars)

3 Financial risk management ... continued

3.5 Capital management ... continued

The following table summarises the composition of the regulatory capital and the ratios of the Bank as at September 30, 2012. At this date the Bank complied with all the externally imposed capital requirements to which they are subject.

	2012 \$	2011 \$
Tier 1 capital		
Common share capital	24,000,000	24,000,000
Preference share capital	47,869,339	47,869,339
Retained earnings	(1,665,233)	(3,896,418)
Reserve for loan loss impairment	1,174,112	1,386,784
Reserve for interest on non-performing loans	2,674,071	1,256,921
Statutory reserve	933,316	–
Customer lists intangible asset	(1,661,728)	(1,846,364)
Total qualifying Tier 1 capital	73,323,877	68,770,262
Tier 2 capital		
General loan loss provisions	339,232	332,888
Total qualifying Tier 2 capital	339,232	332,888
Total regulatory capital	73,663,109	69,103,150
Risk weighted assets		
On-balance sheet	140,606,000	127,783,737
Off-balance sheet	1,790,400	12,253,181
Total risk weighted assets	142,396,400	140,036,918
Basel ratio	52%	49%

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements

The Bank's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and management's judgements for certain items are especially critical for the Bank's results and financial situation due to their materiality.

i) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis for the Central Bank's prudential reporting purposes and annually for IFRS. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Were the net present value of estimated cash flows to differ by +/-10% the impairment loss is to be estimated to be \$881,272 higher or \$557,733 lower.

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

5 Cash and balances with the Central Bank

	2012 \$	2011 \$
Cash on hand	4,520,414	4,787,464
Balances with ECCB other than mandatory reserves	16,597,946	11,296,892
Included in cash and cash equivalents (note 20)	21,118,360	16,084,356
Mandatory reserve deposits with the ECCB	16,924,586	14,706,777
Total cash and balances with the Central Bank	38,042,946	30,791,133

Commercial banks doing banking business in member states of the Organization of the Eastern Caribbean States are required to maintain a non-interest bearing reserve with the ECCB equivalent to a minimum 6% of their total deposit liabilities (excluding inter-bank deposits and foreign currencies). This reserve deposit is not available for use in the Bank's day-to-day operations.

6 Due from banks and other financial institutions

	2012 \$	2011 \$
Operating accounts with other banks	25,910,831	11,718,750
Items in the course of collection from other banks	1,864,432	1,771,946
Included in cash and cash equivalents (note 20)	27,775,263	13,490,696
Restricted deposits	-	1,890,674
Total due from banks and other financial institutions	27,775,263	15,381,370

Operating accounts with other banks and financial institutions represent ordinary cash deposits made with other banks. Balances held with shareholder banks as of September 30, 2012 amounted to \$267,303 (2011: \$566,850).

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

7 Investment securities

Loans and receivables investment securities

	Nominal value 2012 \$	Cost 2012 \$	Nominal value 2011 \$	Cost 2011 \$
Treasury bills				
Treasury bills at amortized cost – OECS Governments with original maturities of three (3) months or less and interest rates ranging from 3.99% to 8%	16,109,500	15,921,366	13,019,500	12,855,305
Included in cash and cash equivalents (note 20)	16,109,500	15,921,366	13,019,500	12,855,305
Treasury bills at amortized cost - OECS Governments with original maturities greater than three (3) months ranging from 5.23% to 6.25%	9,518,000	9,339,515	6,700,000	6,700,000
Interest receivable	–	352,650	–	231,183
Total treasury bills	25,627,500	25,613,531	19,719,500	19,786,488

Included in the treasury bills are amounts held with a shareholder, the Government of Antigua and Barbuda, totalling \$5,423,625 (2011: \$58,357).

Interest income earned from treasury bills held with the Government of Antigua and Barbuda amounted to \$32,260 (2011: \$9,311).

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

7 Investment securities ... continued

Loans and receivables investment securities ... continued

	2012 \$	2011 \$
Term Deposits		
St. Kitts Nevis Anguilla National Bank, maturing on November 10, 2012 at an interest rate of 3.5%	3,026,250	4,037,500
Bank of St. Vincent & the Grenadines, maturing on October 3, 2012 with an interest rate of 4.5%	4,089,883	–
National Bank of Dominica, maturing on October 19, 2012 with an interest rate of 4.0%	5,100,223	–
Bank of Saint Lucia, maturing before December 31, 2012 with interest rates ranging from 1.5% to 5.5%	18,811,181	8,243,738
Included in cash and cash equivalents (note 20)	31,027,537	12,281,238
Term deposits with other OECS banks with original maturities greater than three (3) months up to one year at interest rates ranging from 3.5% to 5%	11,797,539	2,700,000
Restricted term deposits with Bank of America with original maturities of one year at interest rates of 0.39% to 0.50%	5,913,000	–
Interest receivable	230,450	46,562
	48,968,526	15,027,800
Fixed rate notes		
Government of Saint Lucia:		
– Maturing on March 31, 2013 with an interest rate of 6.25%	2,008,078	2,008,078
– Maturing on July 20, 2013 with an interest rate of 5.0%	5,400,000	–
Interest receivable	63,500	10,300
	7,471,578	2,018,378

Included in the term deposits are amounts held with the shareholder banks totalling \$43,031,825 (2011: \$15,027,000). Interest income earned during the year on term deposits held with the shareholder banks amounted to \$904,004 (2011: \$250,813).

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7 Investment securities ... continued

Loans and receivables investment securities ... continued

	2012 \$	2011 \$
Fixed income paper		
First Citizens Investments Services Limited, matured on October 12, 2011 with an interest of 4.25% (note 20)	–	5,057,260
Interest receivable	–	45,350
	–	5,102,610
Total loans and receivables investments	82,053,635	41,935,276
Total principal	81,407,035	41,601,881
Interest receivable	646,600	333,395
	82,053,635	41,935,276
Current portion	82,053,635	39,927,198
Non-current portion	–	2,008,078
	82,053,635	41,935,276
Available-for-sale – unquoted		
Eastern Caribbean Securities Exchange Limited 2,500 Class 'C' shares (2,500 shares with cost of \$10 each)	25,000	25,000
Available-for-sale – quoted		
Eastern Caribbean Home Mortgage Bank 622 shares with market value of \$160 per share	80,860	80,860
Available-for-sale – Government securities (quoted)		
Government of St. Kitts restructured Bonds, maturing on April 20, 2032 with an interest rate of 6% for the first four (4) years and 3% thereafter.	1,431,740	4,000,000
Less: Provision for impairment	–	(2,262,742)
Total available-for-sale investment securities	1,537,600	1,843,118

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

7 Investment securities ... continued

	2012 \$	2011 \$
Held-to-maturity investments		
Eastern Caribbean Home Mortgage Bank Bonds, maturing on July 1, 2013, with an interest rate of 6%	200,000	200,000
Government of Antigua and Barbuda Bonds, maturing on July 28, 2016 with an interest rate of 7.6%	3,000,000	3,000,000
Interest receivable	37,500	37,600
Total held to maturity investment securities	3,237,500	3,237,600
Summary of investment securities		
Total principal, net of impairment provision	86,144,635	46,644,999
Total interest receivable	684,100	370,995
Total investment securities	86,828,735	47,015,994
Current	82,291,135	41,702,056
Non-current	4,537,600	5,313,938
Total investments	86,828,735	47,015,994

Included in the held to maturity investments are amounts held with a shareholder, the Government of Antigua and Barbuda, totalling \$3,000,000 (2011: \$3,000,000).

Interest income earned from bonds held with the Government of Antigua and Barbuda amounted to \$224,900 (2011: \$37,600).

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

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7 Investment securities ... continued

The Bank considers an investment to be impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset. In the prior year, the Bank reclassified certain assets originally classified as held-to-maturity as they were settled at an amount significantly below the amortised cost.

The movement in investment securities is summarized as follows:

	Available- for-sale- (unquoted) \$	Available- for-sale- (quoted) \$	Held-to- maturity \$	Loans and receivables \$	Total \$
Opening balance as at October 18, 2010	25,000	80,860	4,325,000	58,357	4,489,217
Purchase of investments	-	-	3,000,000	53,523,584	56,523,584
Disposal of investments	-	-	-	(11,980,060)	(11,980,060)
Reclassification of investments	-	4,000,000	(4,000,000)	-	-
Impairment of investments	-	(2,262,742)	-	-	(2,262,742)
(Decrease)/increase in interest receivable, net	-	-	(87,400)	333,395	245,995
Balance as at September 30, 2011	25,000	1,818,118	3,237,600	41,935,276	47,015,994
Opening balance as at September 30, 2011	25,000	1,818,118	3,237,600	41,935,276	47,015,994
Purchase of investments	-	-	-	95,595,801	95,595,801
Disposal of investments	-	(305,518)	-	(55,790,647)	(56,096,165)
(Decrease)/increase in interest receivable, net	-	-	(100)	313,205	313,105
Balance as at September 30, 2012	25,000	1,512,600	3,237,500	82,053,635	86,828,735

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

8 Loans and advances to customers

	2012 \$	2011 \$
Demand loans	209,423,675	211,110,805
Mortgage loans	53,437,042	53,693,814
Non performing loans and advances	35,843,402	35,452,058
Rebate loans	2,730,247	6,208,413
Overdrafts	5,113,021	5,310,546
Credit card advances	3,685,726	2,994,732
	310,233,113	314,770,368
Deferred loan origination fees	(112,305)	(38,220)
Interest receivable	3,441,517	1,945,690
Less: Provision for losses on loans and advances	(4,482,217)	(3,543,545)
Total loans and advances to customers	309,080,108	313,134,293
Current	18,568,391	16,354,066
Non-current	290,511,717	296,780,227
	309,080,108	313,134,293

Roll forward of allowance for losses on loans and advances

	2012 \$	2011 \$
Balance at beginning of period	3,543,545	–
Provision for loan impairment	938,672	3,651,408
Loans written-off during the period as uncollectible	–	(107,863)
Balance at end of period	4,482,217	3,543,545

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to \$5,656,329 (2011: \$4,930,428) and the difference of \$1,174,112 (2011: \$1,386,784) between this figure and the provision for loan impairment calculated under IAS 39 has been set aside as a specific reserve in equity, see note 17.

According to the ECCB prudential guidelines, interest income is not accrued for loans that are non-performing. The accrued interest of \$2,674,071 (2011: \$1,256,921) on non-performing loans has been set aside as a specific reserve in equity, see note 17.

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

9 Other assets

	2012 \$	2011 \$
Financial Assets		
Trade receivables	124,709	32,503
Other receivables	2,000,000	1,597
	<u>2,124,709</u>	<u>34,100</u>
Non financial assets		
Prepayments	878,724	861,818
Prepaid purchases	445,388	189,470
	<u>1,324,112</u>	<u>1,051,288</u>
Total other assets	<u>3,448,821</u>	<u>1,085,388</u>
Current	<u>3,448,821</u>	<u>1,085,388</u>

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

10 Property, plant and equipment

Period ended September 30, 2011

Fair value of assets acquired on October

18, 2010

Additions

Depreciation charge

Net book amount

At September 30, 2011

Cost

Accumulated depreciation

Net book amount

Year ended September 30, 2012

Opening net book amount at October 1,

2011

Additions

Depreciation charge

Disposal

Net book amount

At September 30, 2012

Cost

Accumulated depreciation

Net book amount

	Artwork	Land	Buildings	Furniture fixtures & equipment	Computer equipment	Motor vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
Fair value of assets acquired on October 18, 2010	51,740	2,153,500	1,048,273	440,184	1,627,659	255,000	5,576,356
Additions	-	-	-	267,175	980,523	-	1,247,698
Depreciation charge	-	-	(60,085)	(108,847)	(476,970)	(48,875)	(694,777)
Net book amount	51,740	2,153,500	988,188	598,512	2,131,212	206,125	6,129,277
At September 30, 2011							
Cost	51,740	2,153,500	1,048,273	707,359	2,608,182	255,000	6,824,054
Accumulated depreciation	-	-	(60,085)	(108,847)	(476,970)	(48,875)	(694,777)
Net book amount	51,740	2,153,500	988,188	598,512	2,131,212	206,125	6,129,277
Year ended September 30, 2012							
Opening net book amount at October 1, 2011	51,740	2,153,500	988,188	598,512	2,131,212	206,125	6,129,277
Additions	-	2,615,700	9,696,713	285,680	635,928	-	13,234,021
Depreciation charge	-	-	(186,523)	(126,931)	(586,470)	(51,000)	(950,924)
Disposal	-	-	-	(7,230)	-	-	(7,230)
Net book amount	51,740	4,769,200	10,498,378	750,031	2,180,670	155,125	18,405,144
At September 30, 2012							
Cost	51,740	4,769,200	10,744,986	985,809	3,244,110	255,000	20,050,845
Accumulated depreciation	-	-	(246,608)	(235,778)	(1,063,440)	(99,875)	(1,645,701)
Net book amount	51,740	4,769,200	10,498,378	750,031	2,180,670	155,125	18,405,144

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

11 Intangible assets

	Computer software \$	Customer lists \$	Total \$
Period ended September 30, 2011			
Fair value of Assets acquired	2,570,486	2,031,000	4,601,486
Additions	519,742	–	519,742
Amortisation charge	(593,716)	(184,636)	(778,352)
Net book amount	2,496,512	1,846,364	4,342,876
At September 30, 2011			
Cost	3,090,228	2,031,000	5,121,228
Accumulated Amortisation	(593,716)	(184,636)	(778,352)
	2,496,512	1,846,364	4,342,876
Year ended September 30, 2012			
Net book value at October 1, 2011	2,496,512	1,846,364	4,342,876
Additions	175,748	–	175,748
Amortisation Charge	(681,625)	(184,636)	(866,261)
Net book amount	1,990,635	1,661,728	3,652,363
At September 30, 2012			
Cost	3,265,976	2,031,000	5,296,976
Accumulated Amortisation	(1,275,341)	(369,272)	(1,644,613)
	1,990,635	1,661,728	3,652,363

12 Customers' deposits

	2012 \$	2011 \$
Time deposits	271,800,456	242,779,155
Savings accounts	73,775,128	56,687,801
Current accounts	46,258,374	39,782,722
Total	391,833,958	339,249,678
Interest payable	4,422,384	5,076,278
Total customers' deposits	396,256,342	344,325,956
Current	339,813,659	334,005,414
Non-current	56,442,683	10,320,542
	396,256,342	344,325,956

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

12 Customers' deposits...continued

Included in the customers' deposits at year end are deposits from related parties amounting to \$17,581,769 (2011: \$19,831,612) as disclosed in note 19.

Included in the customers' deposits at year end are deposits from other financial institutions, excluding shareholder banks amounting to \$10,795,477 (2011: \$11,165,540).

Deposits held as collateral for loans and advances amounted to \$11,133,823 (2011: \$12,973,022).

13 Other liabilities and accrued expenses

	2012	2011
	\$	\$
Trade payables and accrued expenses	1,620,070	1,550,847
Manager's cheques	1,539,643	1,323,210
Transfers payable	901,165	-
Other payables	201,859	63,692
Total other liabilities and accrued expenses	4,262,737	2,937,749
Current	4,262,737	2,937,749

14 Borrowings

	2012	2011
	\$	\$
Consortium loan payable over ten (10) years in blended monthly instalments of \$148,627 commencing on March 8, 2012 with final payment of principal due at the end of the 120 th month together with all outstanding interest. Interest is charged at 8% per annum.	11,728,696	-
Current portion of loan	5,876,928	-
Non current portion of loan	5,851,768	-
Balance at end of year	11,728,696	-

On January 19, 2012, the Bank purchased the property at 1000 Airport Boulevard, Coolidge, St. John's, Antigua, for \$12,250,000. This purchase was financed by a consortium loan from the shareholders excluding the Government of Antigua and Barbuda.

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

14 Borrowings...continued

The loan is secured as follows:

- Registered charge over commercial property at Coolidge stamped to cover \$12,250,000
- Fire and other perils policy with risks assigned to the lending shareholder banks on a pari-passu basis over the building at Coolidge for \$11,106,700.

Subsequent to the end of the financial reporting period, the Bank's Board of Directors approved a lump sum payment of EC\$5,000,000, to be paid on January 2, 2013. As a result, this amount has been classified as current along with the contractual current portion of \$876,928.

15 Share capital

	2012 \$	2011 \$
Authorised share capital:		
710,000 common shares at no par value	-	-
100,000 preference shares at no par value	-	-
Issued and fully paid:		
240,000 common shares issued at \$100 each	24,000,000	24,000,000
100,000 preference shares issued at \$478.69 each	47,869,339	47,869,339

16 Preference shares

The subscriptions for preference shares were made by the Government of Antigua and Barbuda. According to the shareholders agreement, the preference shares are convertible, redeemable and non cumulative. The rights, privileges, restrictions and conditions for the preference shares outlined in the shareholders agreement are as follows:

- Preference share holders are entitled to receive dividends as and when declared by the Board and in the priority of disbursements and distributions as set forth in the by-laws paid out of the net profits of the Bank at 3.5% of par value.
- Upon any liquidation, dissolution or winding up of the Bank, the preference shares will rank highest in priority of all share holdings.
- Preference shares are redeemable at the discretion of the Bank.
- Preference shares are classified as equity in the statement of financial position.

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

17 Other reserves

	2012	2011
	\$	\$
Regulatory reserve for loan impairment	1,174,112	1,386,784
Regulatory reserve for interest on non-performing loans	2,674,071	1,256,921
Statutory reserve	933,316	–
Total	4,781,499	2,643,705

(a) Reserve for loan impairment

This reserve is created to set aside the amount by which the loan loss provision calculated under the Prudential Guidelines of the Eastern Caribbean Central Bank exceeds the loan loss provision calculated in accordance with IAS 39. The excess is therefore set aside in a reserve and is not available for distribution to the shareholders.

(b) Reserve for interest on non-performing loans

This reserve is created to set aside interest accrued on non-performing loans where certain conditions are met in accordance with International Accounting Standard (IAS) 39. The prudential guidelines of the Eastern Caribbean Central Bank, however do not allow for the accrual of such interest. The interest is therefore set aside in a reserve and is not available for distribution to the shareholders.

(c) Statutory Reserve

Under the Banking Act, at least 20% of the net income of each year should be transferred to a reserve fund, if the amount of such reserve is less than 100% of the paid up capital.

18 Commitments

a) Credit commitments and others

	2012	2011
	\$	\$
Guarantees	5,832,000	1,782,000
Undrawn Commitments – Loans and overdrafts	4,476,104	5,746,884
Undrawn Commitments – Credits cards	4,475,561	4,724,297
	14,783,665	12,253,181

b) Operating lease commitments

The future minimum lease payments under the non-cancellable operating leases are as follows:

	2012	2011
	\$	\$
No later than one year	–	16,905
Later than one year, but no later than five years	–	–
	–	16,905

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

19 Related parties

Loans to related parties

	Interest rate	2012 \$	2011 \$
Loans to Government of Antigua and Barbuda	8.0 – 9.8%	174,577,236	176,194,455
Loans to key management personnel	7.0%	883,744	823,972
		175,460,980	177,018,427

The loans to shareholders and key management personnel are secured by assets including cash and property. Interest income earned on shareholders', directors' and key members of management's loans and advances during the year amounted to \$15,898,457 (2011: \$15,449,690). The average interest rate on these loans is 8.1% (2011: 8.1%).

Deposit from related parties

	Interest rate	2012 \$	2011 \$
Deposits from directors	3.0%	159,444	108,066
Deposits from shareholders	4.50 – 6.25%	16,142,208	18,182,526
Deposits from key management personnel	0 – 5.75%	1,280,117	1,541,020
		17,581,769	19,831,612

Interest expense paid on shareholders', directors' and key members of management's deposits during the year amounted to \$746,281 (2011: \$837,426). The average interest rate on these deposits is 4.6% (2011: 4.1%).

Remuneration of key management personnel

	2012 \$	2011 \$
Salaries and allowances	1,107,070	1,284,586
Directors fees	233,400	218,021
Social Security and Medical Benefits costs	44,936	42,686
Other staff costs	11,300	14,014
	1,396,706	1,559,307

Refer to notes 6 and 7 for details of additional related party balances and transactions.

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

20 Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

	2012 \$	2011 \$
Term deposits with original maturities of ninety days or less (note 7)	31,027,537	12,281,238
Operating accounts due from local banks (note 6)	27,775,263	13,490,696
Cash and balances with the Central Bank (note 5)	21,118,360	16,084,356
Treasury bills (note 7)	15,921,366	12,855,305
Fixed rate note with original maturities of ninety days or less (note 7)	–	5,057,260
	<u>95,842,526</u>	<u>59,768,855</u>

21 Interest income and interest expense

	2012 \$	2011 \$
Interest income		
Loans and advances	28,577,125	28,299,717
Investment securities	2,590,831	1,115,533
Short term deposits	2,135	1,795
Total interest income	<u>31,170,091</u>	<u>29,417,045</u>
Interest expense		
Demand accounts	160,343	302,186
Savings accounts	1,897,220	1,552,235
Fixed deposits	10,604,362	9,540,486
Borrowings	667,707	93,401
Total interest expense	<u>13,329,632</u>	<u>11,488,308</u>
Net interest income	<u>17,840,459</u>	<u>17,928,737</u>

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

22 Net fee income

	2012 \$	2011 \$
Fee income		
Credit related fees	423,797	255,401
Service charge – deposits	998,633	1,189,821
Foreign exchange gain/losses	1,666,512	817,064
Other fees and commission	3,628,875	2,931,444
Total fee income	6,717,817	5,193,730
Fee expense		
Bank charges	510,309	347,822
Credit card expenses	1,977,396	2,183,535
Other fees – expenses	3,157	2,374
Total fee expense	2,490,862	2,533,731
Net fee income	4,226,955	2,659,999

23 Other (expenses)/income

	2012 \$	2011 \$
Write-back of over provision for legal settlement	–	523,866
Recovery of credit card items written-off	614	540
Loss on disposal of fixed assets	(4,010)	–
Total other (expense) income	(3,396)	524,406

24 Personnel expenses

	2012 \$	2011 \$
Salaries and allowances	7,640,088	6,403,762
Other personnel expenses	492,570	528,847
Statutory contributions	476,125	430,783
Insurance contributions	169,197	148,719
Total personnel expenses	8,777,980	7,512,111

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

25 General and administrative expenses

	2012 \$	2011 \$
Administration costs	1,434,317	1,526,186
Rent and maintenance expense	527,023	1,152,824
Marketing and public relations	504,294	1,071,038
Professional fees	900,352	1,012,067
Information technology	860,834	930,298
Repairs and maintenance	559,906	522,789
Telecommunications and postage	526,977	485,264
Insurance	393,269	446,304
Directors' fees	233,400	218,021
Travel, conferences and meetings	220,830	101,674
Total general and administrative expenses	6,161,202	7,466,465

26 Income tax

During the year, effective from November 25, 2011, the Bank was granted an exemption from the payment of corporate income tax for a period of fifteen (15) years, with the ability to carry forward tax losses incurred in respect of that period for periods of five (5) years for each tax year.

The applicable income tax rate for the year is 3.77% (2011: 25%).

	2012 \$	2011 \$
Tax charge		
Net income/(loss) for the period before taxation	4,368,979	(1,252,713)
Tax credit at the applicable tax rate	164,585	(313,178)
Movement in deferred taxes not recognised	1,744	(132,658)
Effect of permanent differences	(169,630)	(312,737)
Effect of income tax exemption	(28,436)	–
Tax losses carried forward	31,737	758,573
Tax charge for the year	–	–

EASTERN CARIBBEAN AMALGAMATED BANK LIMITED

Notes to Financial Statements

September 30, 2012

(expressed in Eastern Caribbean dollars)

26 Income tax...continued

Deferred tax asset

At the year end, the Bank had a net deferred tax asset of \$613,212 (2011: \$579,731 at the future tax rate of 25%) which was not recognised in the financial statements. The deferred tax asset is comprised as follows:

	2012 \$	2011 \$
Tax losses	790,310	758,573
Deferred commissions on loans	28,076	9,555
Depreciation on property, plant and equipment	(205,174)	(188,397)
Balance, end of year	613,212	579,731

Tax losses

The Bank has a loss for tax purposes of \$3,161,241 (2011: \$3,034,293). \$3,034,293 of the losses were incurred prior to the exemption period and can only be carried forward for six years. \$126,948 of the losses were incurred during the period of tax exemption of fifteen years and can be carried forward for 5 years after the end of the tax exemption period. The losses have not been agreed with the Commissioner of Inland Revenue nor have they been disputed.

The tax losses expire as follows.

	\$
2017	3,034,293
2032	126,948
	<u>3,161,241</u>

27 Contingent liabilities

Pending litigation

A legal claim was filed against the Bank in February 2011 by a former employee of Bank of Antigua Limited for \$430,312 relating to unpaid pension fund. During the year, the Court provided a judgement on the case that was in favour of the Bank. However, this has subsequently been appealed by the former employee. No significant loss is expected to arise from this pending claim.







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