

Our future, Our bank



EASTERN CARIBBEAN AMALGAMATED BANK

ANNUAL REPORT 2014

It Starts With Service





True Service comes from the heart,

It's a practice that becomes a habit

And a habit that becomes a genuine desire to serve

It's the bed-rock on which ECAB is grounded.

Our desire to serve is the fuel that drives us

“To be your Bank of Choice and Financial Partner for Life.”

OUR VISION

To be your Bank of choice and financial partner for life.

OUR MISSION

To create value for all stakeholders.

VALUES STATEMENT

At ECAB:

- Honesty and integrity are the overriding guiding principles.
- All employees are regarded as critical to the success of the institution. The proficiency, expertise, knowledge and vision of everyone are highly valued and mutual respect and trust are greatly emphasized.
- All customers are regarded as critical to the success of the institution. Bank staff is therefore very customer-focused, responsive and driven to exceed customers' expectations.
- The reputation of the Bank and the integrity, sincerity and transparency that staff demonstrate every day are held in the highest regard.
- Continuous learning is valued, reinforced by a commitment of the staff to listen to customers and to each other in order to institutionalize the discipline, processes and methodologies that offer the greatest reliability and quality of banking service.

STRATEGIC INTENT

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

CULTURAL PILLARS

The operations of the Bank have been built on the pillars of Customer Intimacy and Service Excellence. These pillars will distinguish ECAB as the Bank of choice and financial partner for life.

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Notice of Annual General Meeting

NOTICE is hereby given that the Fourth Annual General Meeting of the Eastern Caribbean Amalgamated Bank Limited will be held on **Tuesday, the 28th day of April, 2015** at its head office located at 1000 Airport Boulevard, Coolidge, in the parish of St. George's, in Antigua and Barbuda commencing at **5:30 p.m.** in the Board Room.

AGENDA

1. Call to Order
2. Prayers
3. Adoption of Agenda
4. Revision of Minutes of Third Annual General Meeting held on March 31, 2014
5. Matters Arising from Minutes of Third Annual General Meeting held on March 31, 2014
6. Chairman's Report
7. Directors' Report
8. Amendment to Articles of Incorporation and Shareholders Agreement
9. Auditors' Report and Financial Statement for the year ending September 30, 2014
10. Appointment of Auditors
11. Election of Directors and Confirmation of Remuneration
12. Any other Business

Dated the 1st day of April, 2015

BY ORDER OF THE BOARD OF DIRECTORS



TRACY BENN-ROBERTS
Corporate Secretary

Chairman's Report

ECONOMIC OVERVIEW

After two consecutive years of lackluster Gross Domestic Product (GDP) growth, 1.2 percent in 2012 and 1.8 percent in 2013, it appears that the performance of the Antigua and Barbuda economy has leveled off and significant expansion is now projected. The provisional data of the Eastern Caribbean Central Bank (ECCB) forecasts a 2.86 percent growth rate in GDP for Antigua and Barbuda for 2014 and 4.18 percent for 2015. This very positive outlook has been influenced, to a large extent, by the continuing global economic recovery led by the United States of America (USA) and China. Visitor arrivals have increased in 2014 and are expected to increase further in 2015 as our major source market, the USA, continues to rebound. A surge is also expected in the construction sector as a number of private and public sector construction projects come on stream. In addition, the recent precipitous decline in oil prices is anticipated to play a role in boosting the worldwide economic recovery. This will redound to the benefit of the Antigua and Barbuda public through cheaper fuel at the pumps, lower electricity rates, in particular, and reduced cost of doing business in general.

Given this economic milieu, the Board of Directors is of the view that our financial results for 2014 are laudable and 2015 will present many new opportunities for the Bank to continue to grow its asset base and further improve its profitability. We believe the Bank is strategically positioned to capitalize on these opportunities.

OUR PERFORMANCE

Given the precarious economic landscape which financial institutions must navigate, we are pleased to announce that Eastern Caribbean Amalgamated Bank Limited (ECAB) has diligently traversed the course and has emerged a stronger financial institution posting a net profit of \$6.2M for the year ended September 30, 2014, an 11.9 percent increase over the \$5.5M achieved in 2013. Total assets increased by 1.3 percent from \$506M as at September 30, 2013 to \$513M as at September 30, 2014 representing a 9.2 percent market share for total assets.



Liquidity remains strong with the Loans to Deposits Ratio of 80.1 percent which sits comfortably within ECCB's Prudential Benchmark of 75 – 85 percent. The Bank is also adequately capitalized with a capital adequacy ratio of 56 percent, up from 53 percent in the prior year, which is well in excess of ECCB's statutory minimum of 8.0 percent.

From an operations perspective, significant developments during this financial year included the closure of the Jolly Harbour branch and discontinuation of Saturday banking.

All assets and human resources from the Jolly Harbour branch were redeployed throughout the other branches, except for an ATM which is still maintained in Jolly Harbour. Though the Bank continues to offer a wide

network of ATMs on the island, we continue to explore new ways to expand our suite of online banking services. The rationalization of our branch network and cessation of Saturday banking have yielded dividends in respect of improved cost efficiency.

OUR STRATEGY

As we enter our fifth year of operations, ECAB will continue on its quest for improved financial performance, a stronger capital base and enhanced shareholder value. Our vision to be the leading provider of quality banking and financial services in Antigua and Barbuda will continue to be at the forefront of all our business processes. As we embark upon the 2015 journey, our strategic priorities will include:

- Providing superior customer service by offering customized and flexible banking solutions to increase customer loyalty and market share.
- Re-engineering and perfecting internal business processes via implementation of a business delivery model that is predicated on strong relationship banking.
- Review of our deposit interest rate structure to better align it with industry trends but still remain competitive.
- Execution of a variety of loan campaigns to continue to diversify and grow the loan portfolio.
- Continued emphasis on customer service and communications training to ensure optimum service delivery and customer satisfaction.
- Continued emphasis on effective risk mitigation through review of our policies and procedures and execution of a robust internal audit program.
- The promotion of the highest standards of corporate governance through effective Board oversight.
- Becoming an even better corporate citizen through our support of green technology and community development.

We are sanguine that our strategy will enable us to capitalize on the projected improvement in the economy, thereby facilitating the achievement of our 2015 profitability targets and increasing value for all our stakeholders.

The Board of Directors of the ECAB also uses this opportunity to welcome Mr. Michael Spencer as its new General Manager. Mr. Spencer joined the ECAB Team on December 1, 2014 with over 20 years of experience driving strategic growth within the banking and financial services sectors in various countries internationally and across the region. We believe that his diverse experience in project management, bank mergers, operations, credit risk management, and retail and corporate banking, when leveraged in his new role, will enhance the prospect of ECAB achieving and exceeding its strategic goals and objectives for 2015 and beyond.

ACKNOWLEDGEMENTS

On behalf of the Board of Directors, we would like to sincerely thank our valued shareholders for their unwavering commitment to the Bank. ECAB would not have been able to make its mark without your support.

To our existing customers, we would like to extend our deep appreciation for your continued patronage over the years. ECAB's growth and development would not have taken place without your loyalty to us. To our prospective customers, we invite you to make the right choice and join us on our journey to financial security and prosperity.

To the management and staff, we greatly treasure your firm diligence and dedication to the successful attainment of ECAB's goals and objectives. You are undeniably our most prized assets.

An even brighter future lies ahead with ECAB as your financial partner for life.

Craig J. Walter



Chairman
Board of Directors

Directors' Report

The Board of Directors of the Eastern Caribbean Amalgamated Bank Limited (ECAB) functions, largely, to ensure the maintenance of a strong risk management culture, a system of accountability, financial integrity and transparency throughout the Bank. The Board of Directors also has a fiduciary duty and a duty of care to ensure that all decisions made are in the best interests and welfare of the Bank and its shareholders and, further, that the trust and confidence of all stakeholders are maintained.



BOARD COMPOSITION

The Board of Directors comprises seven (7) members with Director Craig Walter as the Chairman and Director Esther Brown-Weekes as the Deputy Chairman. The non-executive Directors represent the six (6) shareholders of ECAB (as shown below for the year ended September 30, 2014). The diverse backgrounds and experiences of the Directors collectively position the Board to competently deal with all matters and challenge management to achieve the set mandates and strategic goals.

DIRECTORS	SHAREHOLDERS	NUMBER OF SHARES
Esther Brown-Weekes	Eastern Caribbean Financial Holding Company Ltd.	48,000
Lincoln Maynard\ Mitchell Gumbs	St. Kitts Nevis Anguilla National Bank Ltd.	38,400
Craig Walter and Gladston Joseph	Antigua Commercial Bank Ltd.	37,200
Whitfield Harris\ Rasona Davis-Crump	Government of Antigua and Barbuda	37,200
Paul Moses	National Bank of Dominica Ltd.	37,200
Derry Williams	Bank of St. Vincent and the Grenadines Ltd.	19,200

Notes:

1. Director Whitfield Harris represented the Government of Antigua and Barbuda until the appointment of Director Rasona Davis-Crump effective March 2014.
2. Alternate Director Michael Bird represented the National Bank of Dominica Ltd. between October 2013 and January 2014. Director Paul Moses was appointed effective February 2014.
3. Alternate Director Joanna Charles represented Eastern Caribbean Financial Holding Company Ltd. between September 2013 and December 2013. Director Esther Brown-Weekes was appointed effective January 2014.
4. Director Lincoln Maynard represented the St. Kitts Nevis Anguilla National Bank until November 2013. Director Mitchell Gumbs was appointed effective December 2013.

MEETINGS

The Board of Directors convene once per month and additional meetings are held when necessary. During the financial year ended September 30, 2014, there were twelve (12) Board of Directors meetings. The following table records the attendance of the Directors:

DIRECTORS	ATTENDANCE		PERCENTAGE
	Required	Actual	
Craig Walter	12	12	100%
Esther Brown-Weekes	9	7	78%
Gladston Joseph	12	11	92%
Derry Williams	12	12	100%
Mitchell Gumbs	10	9	90%
Paul Moses	8	7	88%
Rasona Davis-Crump	6	6	100%
Whitfield Harris	5	5	100%
Linkon Maynard	2	0	0%

BOARD SUB-COMMITTEES

There are four (4) sub-committees of the Board of Directors. These are and comprise of the following:

1. **Credit Committee** – Directors Gladston Joseph (Chairman), Craig Walter, Derry Williams, Esther Brown Weekes, Mitchell Gumbs, Paul Moses and Rasona Davis-Crump;
2. **Human Resource Committee** – Directors Derry Williams (Chairman), Gladston Joseph and Mitchell Gumbs;
3. **Audit & Risk Committee** – Directors Esther Brown-Weekes (Chairman), Paul Moses and Rasona Davis-Crump;
4. **Corporate Governance** – Directors Craig Walter (Chairman), Rasona Davis-Crump and Mitchell Gumbs

DIRECTORS' TENURE AND VOTING BY SHAREHOLDERS

All Directors retire at the end of the year and are eligible for re-election pursuant to Clause 4.4 of the By-Laws which states that: *“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 shall be eligible for re-election if qualified.”*

Clause 4.2 of the By-Laws provides that: *“There shall be a minimum of 7 directors and a maximum of 11 directors.”*

In accordance with Clause 12.6 of the By-Laws, shareholders shall vote at the election *‘in the first instance by a show of hands unless a person entitled to vote at the meeting has demanded a ballot’*. Each shareholder or proxy holder or individual authorized to represent a shareholder is entitled to one vote at every meeting at which he is entitled to vote based on Clause 12.6.1 of the By-Laws.

DIVIDEND

The Board of Directors does not recommend the payment of dividends for the year ended September 30, 2014 in accordance with its objectives and policies to further grow the capital base of the Bank.

AUDITORS

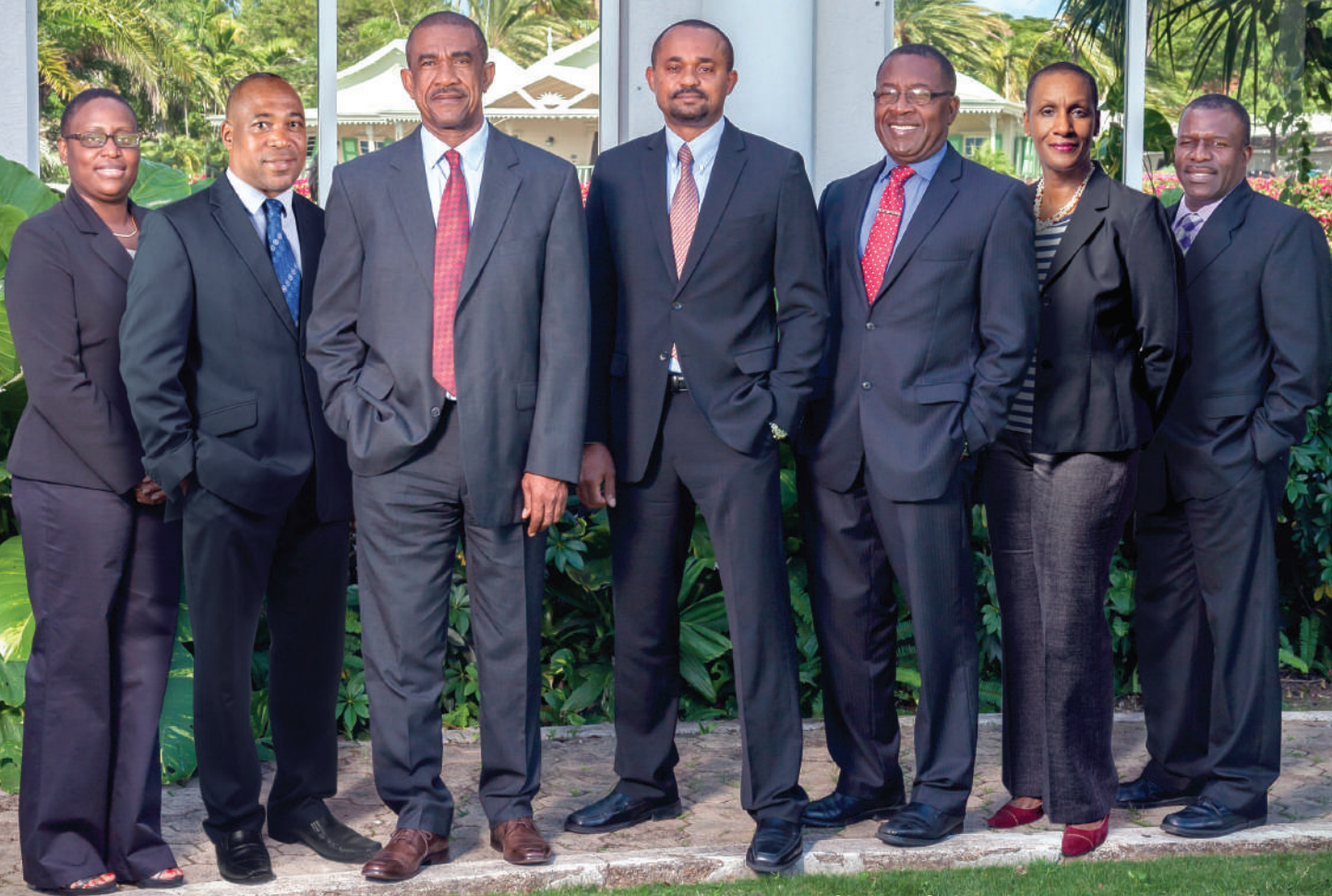
The Auditors, Grant Thornton, retired at the financial year ended September 30, 2014. The Auditors are eligible for re-appointment and have offered themselves as External Auditors for the year ended September 30, 2015. The Board of Directors recommends their re-appointment.

Tracy Benn-Roberts



Corporate Secretary

Board of Directors



Rasona Davis-Crump
Government of
Antigua & Barbuda

Derry T. Williams
Bank of St. Vincent and
the Grenadines Limited

Mitchell Gumbs
St. Kitts Nevis Anguilla
National Bank Limited

Craig J. Walter
Antigua Commercial
Bank Limited
Chairman

Gladston S. Joseph
Antigua Commercial
Bank Limited

Paul Moses
National Bank
of Dominica Limited

Esther Brown-Weekes
Eastern Caribbean Financial
Holding Company Limited

Executive Management



From left to right (Top to bottom):
Michael Spencer, General Manager | Donna Cort, Chief Financial Officer | Tracy Benn-Roberts, General Counsel/Corporate Secretary
Norris Antonio, Senior Manager – Credit Administration | Sophie Thomas-Durand, Chief Information Systems Officer
Sonya Roberts-Carter, Senior Manager – Operations (Ag.) | Peter Quinn, Internal Auditor

“ We define ECAB’s brand and ensure expectations are met.”
Remi - Corporate and Client Relations Department

Management's Discussion And Analysis

2014 ECONOMIC AND BUSINESS ENVIRONMENT

The increasing trend in global economic growth was sustained in 2014 despite setbacks which resulted in a downward revision in the growth forecast from 3.6 percent to 3.3 percent. Notwithstanding this downgrade, it still represented an improvement from the 2013 results and this continuing recovery is expected to support a gradual expansion in the economies within the ECCU. Preliminary data from the Eastern Caribbean Central Bank indicates that the economy of Antigua and Barbuda is expected to grow by 2.86 percent in 2014 driven by an increase in stay-over visitors and construction of hotels, villas and cottages under the Citizenship by Investment Programme (CIP) along with other foreign direct investment projects.

PERFORMANCE HIGHLIGHTS

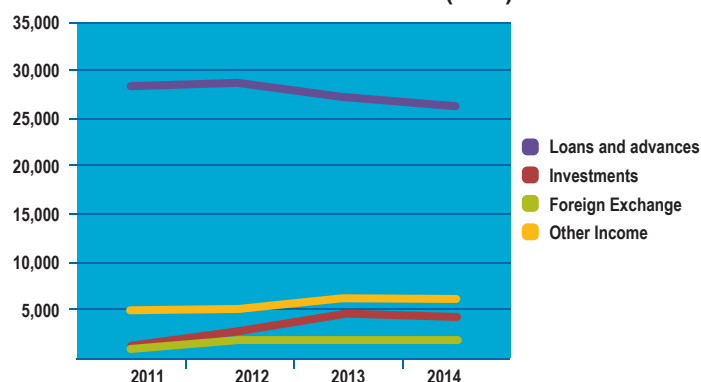
The Bank delivered a commendable performance for fiscal year ended September 30, 2014 with reported comprehensive income of \$6.2 million which is an increase of 11.9 percent in comparison to the 2013 results. Our performance in 2014 was influenced by strategic measures taken to reduce cost of funds and to improve credit quality.

HIGHLIGHTS OF FINANCIAL OPERATIONS (In Thousands of Dollars)

For the year	2014	2013	2012	2011
Interest Income	30,317	31,721	31,170	29,417
Interest Expense	11,738	13,740	13,300	11,488
Loan Impairment Charges	321	946	939	3,651
Net Fee Income	4,626	4,840	4,227	2,660
Operating Expenses	16,758	16,384	16,756	18,714
Net Income (Loss)	6,158	5,507	4,369	(1,253)
Yield on Interest Earning Assets	7.3%	7.4%	8.2%	9.1%
Cost of Funds	2.9%	3.0%	3.6%	3.9%
Spread	4.4%	4.4%	4.6%	5.2%
Efficiency Ratio	71.9%	74.8%	79.3%	107.2%

At year end	2014	2013	2012	2011
Loans & Advances	306,379	309,770	309,080	313,134
Investments	117,857	121,650	86,829	47,016
Total Assets	513,082	506,476	487,233	417,880
Total Deposits	414,160	416,381	396,256	344,326
Total Shareholders' Equity	86,650	80,493	74,986	70,617
Return on Assets	1.3%	1.1%	1.0%	(0.3%)
Return on Equity	7.4%	7.1%	6.0%	(1.8%)
Tier 1 Capital Ratio	56%	53%	52%	49%

Sources of Income ('000)



INTEREST INCOME

Interest income decreased by \$1.4 million or 4.4 percent to \$30.3 million in 2014 compared to 2013. The decrease was primarily due to reduction in interest income from non-performing loans and advances in accordance with IAS 39. In 2013 interest income from this source was \$1.1 million compared to negative \$0.2 million for 2014 as the differences between collateral values and carrying balances narrowed. In addition, average loans and advances balance in 2014 was \$304.5 million compared to \$312.3 million for 2013, and average investment securities balance was \$100.8 million in 2014 compared to \$112.8 million in 2013. Yield on interest earning assets dropped from 7.4 percent in 2013 to 7.3 percent in 2014.

INTEREST EXPENSE

Interest expense decreased by \$2.0 million or 14.6 percent to \$11.7 million in 2014 compared to 2013. This decrease was largely due to the decline in average customer deposits from \$442.3 million in 2013 to \$393.4 million in 2014 and to annual reduction in customer deposit rates from 2012. Cost of funds for 2014 was 2.9 percent compared to 3.0 percent for 2013.

LOAN IMPAIRMENT CHARGES

Provision for loan impairment decreased by \$0.6 million or 66.1 percent to \$0.3 million in 2014 compared to 2013. This was predominantly due to improvement in asset quality. The delinquency ratio improved from 8.4 percent in 2013 to 7.9 percent in 2014. Loans and advances were closely monitored by the Recoveries Unit during the year and early signals of delinquency were acted upon immediately.

NET FEE INCOME

Net fee income decreased by \$0.2 million or 4.4 percent to \$4.6 million in 2014 compared to 2013. This decrease was attributed to a reduction in penalty fees from \$0.7 million in 2013 to \$0.2 million in 2014 which was partially off-set by increases in net credit card and credit related fees.

OPERATING EXPENSES

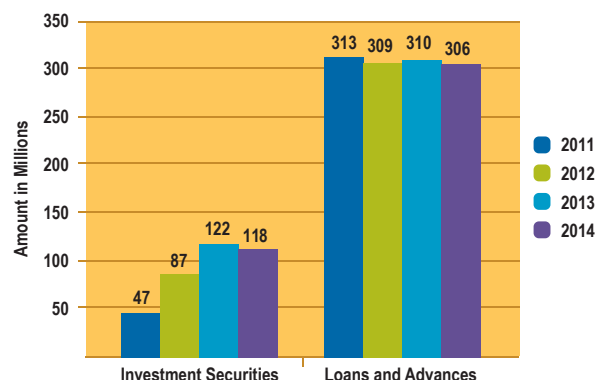
Operating expenses increased by \$0.4 million or 2.3 percent to \$16.8 million for 2014 compared to 2013 primarily driven by increases of \$0.3 million in personnel expenses and \$0.05 million in general and administrative expenses. Subsequent to the year end, the Bank concluded its Collective Agreement and a 3 percent salary increase was provided in 2014 for all staff. An increase of \$0.6 million in administration costs driven by higher electricity costs was countered by reductions in a number of other expense categories.

ASSETS

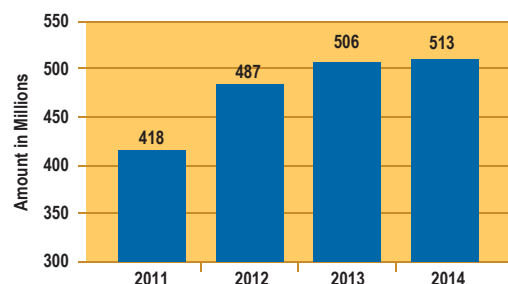
Total assets increased by \$6.6 million or 1.3 percent to \$513.1 million compared to 2013. The largest increase in assets came from growth in "Due from banks and other financial institutions" which increased by \$17.6 million or 124.7 percent. This increase was partially off-set by a

decrease in cash and balances with the Central Bank of \$3.3 million or 8.4 percent, investment securities which fell by \$3.8 million or 3.1 percent and loans and advances to customers which declined by \$3.4 million or 1.1 percent.

Interest Earning Assets



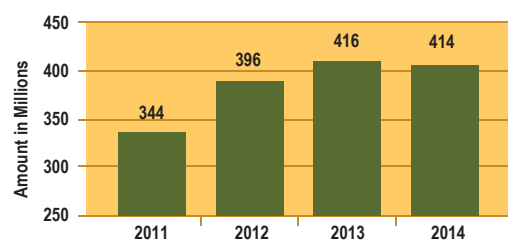
Total Assets



CUSTOMER DEPOSITS

Despite a decrease in customer deposits by \$2.2 million or 0.5 percent, the Bank maintained strong liquidity which was used to fund expansion of its operations. Surplus funds were invested in regional government securities and in placements with other financial institutions.

Total Deposits



Management's goal for 2015 is to continue on the path of increased profits built on a platform of excellent customer service and operational efficiency.

It Starts With Service

Since the inception of ECAB in 2010, it has been our mission to deliver the highest quality of service to our customers.

At ECAB, we strive to consistently exceed customer expectations. Service Excellence is more than just our cultural pillar; it is our way of life. It is what we do to ensure that we can be your financial partner for life.

At ECAB, we have also carved out our niche in the competitive local market. Our focus is on delivering the superior service our customers desire and deserve.

We base our customer service value propositions on personalized relationships with our clients. We strive to fully understand your needs in order to offer customized and flexible banking solutions. Collectively, all units within the Bank work in synergy to offer that seamless support needed to provide you with the service you have come to expect. Each employee plays a critical role in ensuring that we exceed your expectations.

As an ECAB Customer, we promise:

- *You will be treated with utmost respect.*
- *You will be served by staff who act with integrity and honesty at all times.*
- *Your voice will be heard and the exact nature of your request will be determined.*
- *Your inquiries will be answered promptly and efficiently.*
- *Your needs will be met in a professional, ethical and courteous manner.*
- *You will receive information and feedback that are timely and relevant.*
- *You will receive products and services that are the most competitively priced within the market, with no compromise on quality.*

In our constant pursuit of excellence, we conduct annual customer service and market surveys intended to capture your feedback about the delivery of our services. The purpose of our surveys is to identify where we are performing well and, more importantly, to recognize where we are not performing to your expectations, so we can take corrective action. We do not just want to meet your expectations but, exceed them.

While we certainly appreciate positive feedback from our clients, we also strongly value feedback regarding the areas we can improve. We use this information to immediately address any opportunities for enhancement of our service-delivery systems and, to drive our future initiatives.

We sincerely thank those of you who have participated in our surveys and really encourage others to do the same. Your suggestions and criticisms will assist us to identify the areas in which we can further differentiate ourselves from other financial institutions and provide superior customer service.

We are committed to being your Bank of choice.



Eastern Caribbean Amalgamated Bank Limited
FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(Expressed In Eastern Caribbean Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Eastern Caribbean Amalgamated Bank Limited

Grant Thornton
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West Indies

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We have audited the accompanying financial statements of **Eastern Caribbean Amalgamated Bank Limited**, which comprise the statement of financial position as of September 30, 2014 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants
January 27, 2015
St. John's, Antigua

Eastern Caribbean Amalgamated Bank Limited

STATEMENT OF FINANCIAL POSITION

As of September 30, 2014

(expressed in Eastern Caribbean dollars)

	Notes	2014 \$	2013 \$
Assets			
Cash and balances with the Central Bank	8	35,471,806	38,718,263
Due from banks and other financial institutions	9	31,659,657	14,091,475
Investment securities	10	117,856,527	121,650,251
Loans and advances to customers	11	306,379,115	309,770,300
Other assets	12	1,443,127	1,124,852
Property, plant and equipment	13	17,861,206	18,118,523
Intangible assets	15	2,410,504	3,002,365
Total assets		513,081,942	506,476,029
Liabilities			
Customers' deposits	16	414,159,573	416,380,799
Other liabilities and accrued expenses	17	8,112,941	4,052,756
Borrowings	18	4,159,364	5,549,928
Total liabilities		426,431,878	425,983,483
Equity			
Preference shares	20	47,869,339	47,869,339
Common shares	19	24,000,000	24,000,000
Other reserves	21	7,369,767	5,983,572
Retained earnings		7,410,958	2,639,635
Total equity		86,650,064	80,492,546
Total liabilities and equity		513,081,942	506,476,029

The notes on pages 22 to 86 are an integral part of this financial statement.

Approved by the Board of Directors on January 27, 2015



Director



Director

Eastern Caribbean Amalgamated Bank Limited
STATEMENT OF COMPREHENSIVE INCOME

For the year ended September 30, 2014

(expressed in Eastern Caribbean dollars)

	Notes	2014 \$	2013 \$
Operating income			
Interest income	25	30,317,406	31,720,748
Interest expense	25	<u>(11,738,019)</u>	<u>(13,740,135)</u>
Net interest income		18,579,387	17,980,613
Loan impairment charges	11	<u>(320,857)</u>	<u>(945,928)</u>
Net interest income after loan impairment charges		<u>18,258,530</u>	<u>17,034,685</u>
Fee and commission income	26	7,866,134	7,821,463
Fee and commission expense	26	<u>(3,240,244)</u>	<u>(2,981,608)</u>
Net fee income		<u>4,625,890</u>	<u>4,839,855</u>
Other income	27	<u>31,464</u>	<u>16,770</u>
Net interest, fee, commission and other income		<u>22,915,884</u>	<u>21,891,310</u>
Operating expenses			
Personnel expenses	28	8,912,978	8,602,227
General and administrative expenses	29	5,812,229	5,762,796
Amortization of intangible assets	15	864,365	857,598
Depreciation of property, plant and equipment	13	<u>1,168,794</u>	<u>1,161,748</u>
Total operating expenses		<u>16,758,366</u>	<u>16,384,369</u>
Profit for the year		6,157,518	5,506,941
Other comprehensive income		<u>—</u>	<u>—</u>
Comprehensive income for the year		<u>6,157,518</u>	<u>5,506,941</u>

The notes on pages 22 to 86 are an integral part of this financial statement.

Eastern Caribbean Amalgamated Bank Limited

STATEMENT OF CASH FLOWS

For the year ended September 30, 2014

(expressed in Eastern Caribbean dollars)

	Notes	2014 \$	2013 \$
Cash flows from operating activities			
Operating profit for the year		6,157,518	5,506,941
Adjustments for items not affecting cash:			
Interest income	25	(30,317,406)	(31,720,748)
Interest expense	25	11,738,019	13,740,135
Depreciation	13	1,168,794	1,161,748
Amortization of intangible assets	15	864,365	857,598
Provision for loan impairment charges	11	320,857	945,928
Provision for impairment of other assets	29	–	17,820
Other non-cash items		(16,536)	1,815
Cash flows used in operating activities		(10,084,389)	(9,488,763)
Net (increase)/decrease in operating assets			
Loans and advances to customers		4,869,316	(936,820)
Mandatory deposits with the Central Bank		3,931	(2,251,320)
Other assets		(318,275)	2,306,149
Restricted deposits		(803,250)	(500,000)
Net increase/(decrease) in operating liabilities		(1,149,055)	19,274,711
Deposits from customers		(1,149,055)	19,274,711
Other liabilities and accrued expenses		4,060,185	(209,981)
Cash (used in) generated from operations		(3,421,537)	8,193,976
Interest received		28,620,989	30,457,512
Interest paid		(12,810,189)	(12,890,389)
Net cash from operating activities		12,389,263	25,761,099
Cash flows from investing activities			
Purchase of plant and equipment		(911,477)	(875,127)
Purchase of investment securities, net of disposals		(13,673,710)	(19,905,972)
Purchase of intangible assets		(272,504)	(207,600)
Net cash used in investing activities		(14,857,691)	(20,988,699)
Cash flows from financing activities			
Repayment of long term borrowings		(1,390,564)	(6,178,768)
Net cash used in financing activities		(1,390,564)	(6,178,768)

Eastern Caribbean Amalgamated Bank Limited
STATEMENT OF CASH FLOWS

For the year ended September 30, 2014

(expressed in Eastern Caribbean dollars)

	Notes	2014 \$	2013 \$
Net decrease in cash and cash equivalents		(3,858,992)	(1,406,368)
Exchange gains (losses) on cash and cash equivalents		16,536	(1,815)
Cash and equivalents at beginning of year		<u>94,434,343</u>	<u>95,842,526</u>
Cash and cash equivalents at end of year	24	<u>90,591,887</u>	<u>94,434,343</u>

The notes on pages 22 to 86 are an integral part of this financial statement.

Eastern Caribbean Amalgamated Bank Limited
STATEMENT OF CHANGES IN EQUITY

For the year ended September 30, 2014

(expressed in Eastern Caribbean dollars)

	Notes	Preference shares \$	Common shares \$	Other reserves \$	Retained earnings \$	Total \$
Balance at September 30, 2012		47,869,339	24,000,000	4,781,499	(1,665,233)	74,985,605
Comprehensive income for the year		-	-	-	5,506,941	5,506,941
Reserve for loan loss provision	21	-	-	(1,035,067)	1,035,067	-
Reserve for interest recognised on impaired loans	21	-	-	1,071,825	(1,071,825)	-
Statutory reserve	21	-	-	1,165,315	(1,165,315)	-
Balance at September 30, 2013		47,869,339	24,000,000	5,983,572	2,639,635	80,492,546
Comprehensive income for the year		-	-	-	6,157,518	6,157,518
Reserve for loan loss provision	21	-	-	342,763	(342,763)	-
Reserve for interest recognised on impaired loans	21	-	-	(253,397)	253,397	-
Statutory reserve	21	-	-	1,296,829	(1,296,829)	-
Balance at September 30, 2014		47,869,339	24,000,000	7,369,767	7,410,958	86,650,064

The notes on pages 22 to 86 are an integral part of this financial statement.

(expressed in Eastern Caribbean dollars)

1 Nature of operation

The principal activity of Eastern Caribbean Amalgamated Bank Limited (the "Bank") is the provision of commercial banking services. 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.

2 General information and statement of compliance with IFRS

Eastern Caribbean Amalgamated Bank Limited is a limited liability company incorporated on July 16, 2009 in Antigua and Barbuda under the provisions of the Antigua Companies Act 1995. 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.

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRIC interpretations as issued by the International Accounting Standards Board (IASB).

3 Changes in accounting policies

3.1 New and revised standards that are effective for annual periods beginning on or after January 1, 2013

A number of new and revised standards are effective for annual periods beginning on or after January 1, 2013. Information on these new standards is presented below.

IFRS 13 'Fair Value Measurement' (IFRS 13)

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of IFRS 13 is broad and it applies for both financial and non-financial items for which other IFRSs require or permit fair value measurements, or disclosures about fair value measurements, except in certain circumstances.

IFRS 13 applies prospectively for annual periods beginning on or after January 1, 2013. Its disclosure requirements need not be applied to comparative information in the first year of application. The Bank has however included as comparative information the IFRS 13 disclosures that were required previously by IFRS 7 'Financial Instruments: Disclosures'.

The Bank has applied IFRS 13 for the first time in the current year, see Note 5.4.

(expressed in Eastern Caribbean dollars)

3 Changes in accounting policies ... continued

3.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Bank.

Management anticipates that all of the relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Bank's financial statements.

IFRS 9 'Financial Instruments' (2014)

The IASB recently released IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Bank's management have yet to assess the impact of IFRS 9 on these financial statements. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

Offsetting financial assets and financial liabilities (Amendments to IAS 32)

The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of 'currently has a legally enforceable right of set-off'; and
- that some gross settlement systems may be considered equivalent to net settlement.

The Amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively. Management does not anticipate a material impact on the Bank's financial statements from these Amendments.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

These amendments clarify that an entity is required to disclose the recoverable amount of an asset (or cash generating unit) whenever an impairment loss has been recognised or reversed in the period. In addition, they introduce several new disclosures required to be made when the recoverable amount of impaired assets is based on fair value less costs of disposal, including:

- i. additional information about fair value measurement including the applicable level of the fair value hierarchy, and a description of any valuation techniques used and key assumptions made; and
- ii. the discount rates used if fair value less costs of disposal is measured using a present value technique.

The Amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively in accordance with their transitional provisions. Management does not anticipate a material impact on the Bank's financial statements from these Amendments.

(expressed in Eastern Caribbean dollars)

4 Summary of accounting policies

4.1 Overall considerations

The financial statements have been prepared using the significant accounting policies and measurement bases summarised below.

4.2 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-mandatory deposits with the ECCB and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.3 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs. Subsequent measurement of financial assets and financial liabilities is described below. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables;
- held-to-maturity (HTM) investments; and
- available-for-sale (AFS) financial assets.

All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below. All income and expenses relating to financial assets that are recognised in profit or loss are presented within interest income and interest expense, except for impairment of loans and advances which is presented separately in the statement of comprehensive income.

(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. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Bank's cash and cash equivalents, loans and advances, and some investment securities fall into this category of financial instruments.

(expressed in Eastern Caribbean dollars)

4 Summary of accounting policies ... continued

4.3 Financial instruments ... continued

(b) Held-to-maturity financial assets

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities other than loans and receivables. Investments are classified as HTM if the Bank has the intention and ability to hold them until maturity. HTM investments are measured subsequently at amortised cost using the effective interest method.

(c) Available-for-sale financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The equity investments in Eastern Caribbean Securities Exchange Limited and Eastern Caribbean Home Mortgage Bank are measured at cost less any impairment charges, as the fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss. All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the AFS reserve within equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss. Interest is calculated using the effective interest method.

AFS financial assets 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.

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:
 - (1) adverse changes in the payment status of borrowers in the portfolio; or
 - (2) national or local economic conditions that correlate with defaults on the assets in the portfolio.

(expressed in Eastern Caribbean dollars)

4 Summary of accounting policies ... continued

4.3 Financial instruments ... continued

Impairment of financial assets ... continued

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

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.

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'.

(expressed in Eastern Caribbean dollars)

4 Summary of accounting policies ... continued

4.3 Financial instruments ... continued

Impairment of financial assets ... continued

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

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.

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 previously recognised in operating profit on equity instruments are not reversed through operating profit. Any subsequent changes in fair value are recognised in other 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.

Classification and subsequent measurement of financial liabilities

The Bank's financial liabilities include customer deposits, borrowings, and other liabilities and accrued expenses. Financial liabilities are measured subsequently at amortised cost using the effective interest method. All interest-related charges are included within interest expense in the statement of comprehensive income.

Eastern Caribbean Amalgamated Bank Limited
NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(expressed in Eastern Caribbean dollars)

4 Summary of accounting policies ... continued

4.3 Financial instruments ... continued

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		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
		Mortgage loans		
		Non-performing loans and advances		
		Overdrafts		
		Loans and advances to government and statutory bodies	Demand Loans	
			Overdrafts	
		Investment securities	Treasury bills	Local and regional 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		
		Borrowings		
		Other liabilities and accrued expenses		

(expressed in Eastern Caribbean dollars)

4 Summary of accounting policies ... continued

4.3 Financial instruments ... continued

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.

4.4 Provisions, contingent assets and contingent liabilities

Provisions for legal disputes or other claims are recognised when the Bank has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Bank and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are not recognised for future operating losses. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. 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. Provisions are discounted to their present values, where the time value of money is material. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised.

Any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

4.5 Property, plant and equipment and depreciation

Property, plant and equipment are initially recognised at acquisition cost including any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Bank's management.

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.

As no finite useful life for land can be determined, related carrying amounts are not depreciated. Depreciation of other assets is recognised on a straight-line basis to write down the cost less estimated residual values of the assets. The following useful lives are applied:

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

(expressed in Eastern Caribbean dollars)

4 Summary of accounting policies ... continued

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

Material residual value estimates and estimates of useful life are updated as required, but at least annually. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in the statement of comprehensive income within other income or other expenses.

4.6 Intangible assets

Computer software

Acquired computer software licences in a business combination are recorded at their fair values. Other acquired computer software licences are capitalised on the basis of the costs incurred to acquire and install the specific software.

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 amortised over its estimated useful life based on the expected life of the customer relationship.

Subsequent measurement

All of the Bank's intangible assets are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, generally not exceeding 20 years, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in note 4.10. The following useful lives are applied:

- Software: 3-5 years
- Customer list: 11 years.

Amortisation of intangible assets has been reported separately within the expenses in the statement of comprehensive income. Subsequent expenditures on the maintenance of computer software are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in the statement of comprehensive income within 'other income' or 'other expenses'.

(expressed in Eastern Caribbean dollars)

4 Summary of accounting policies ... continued

4.7 Foreign currency translation

Functional and presentation currency

The financial statements are presented in Eastern Caribbean Dollars, which is also the functional currency of the Bank.

Foreign currency transactions and balances

Foreign currency transactions are translated into Eastern Caribbean Dollars using the closing rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the statement of comprehensive income.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

4.8 Equity and reserves

Share capital represents the issue price of shares that have been issued. Any transaction costs associated with the issuing of shares are shown in equity as a deduction, net of any related income tax benefits. Ordinary shares and preference shares that do not exhibit any debt characteristics are classified as equity.

Other components of equity include the following:

- Other reserves – comprises statutory and regulatory reserves as stipulated by the Banking Act and the Eastern Caribbean Central Bank close gap (see note 21); and
- Retained earnings, which includes all current and prior period retained profits or losses.

4.9 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

(expressed in Eastern Caribbean dollars)

4 Summary of accounting policies ... continued

4.10 Impairment of non-financial assets

All individual assets or cash-generating units are tested 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 or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

4.11 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All of the Bank's leases are treated as operating leases and the Bank is a lessee. All payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

4.12 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 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.

(expressed in Eastern Caribbean dollars)

4 Summary of accounting policies ... continued

4.13 Fee and commission income

Fees and commissions are generally recognised on the 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 using the effective interest method over the term of the loan.

4.14 Employee Benefits

Post-employment benefit plan

The Bank provides post-employment benefits through a defined contribution plan. The Bank pays fixed contributions into a privately administered staff retirement savings plan for individual employees. The Bank has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that relevant employee services are received.

Prepaid employee short term benefit

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.

4.15 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 operating expenses.

(expressed in Eastern Caribbean dollars)

4 Summary of accounting policies ... continued

4.16 Current and deferred income taxes

Tax expense recognised in the statement of comprehensive income comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period in Antigua and Barbuda.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided those rates are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be able to be utilised against future taxable income. This is assessed based on the Bank's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

Deferred tax assets and liabilities are offset only when the Bank has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of assets) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

4.17 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 statement of comprehensive income over the period of the borrowings using the effective interest method.

4.18 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in interest expense (note 18).

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk

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)

5 Financial instruments risk... *continued*

5.1 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.

5.1.1 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 bonds and treasury bills issued by Governments within the Organisation of Eastern Caribbean States (OECS) 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)

5 Financial instruments risk ... continued

5.1.2 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, 2014

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

5.1.3 Impairment and provisioning policies

The internal rating system described in Note 5.1.1 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 doubtful grade. 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, 2014					
Pass	159,898,449	53	–	–	159,898,449
Special Mention	119,774,083	39	(381,361)	13	119,392,722
Substandard	21,624,154	7	(1,021,060)	36	20,603,094
Doubtful	2,512,106	1	(1,029,525)	36	1,482,581
Loss	419,595	–	(416,836)	15	2,759
<hr/>					
Gross loans and advances	304,228,387	100	(2,848,782)	100	301,379,605
Interest receivable	5,939,806	–	–	–	5,939,806
Deferred loan origination fees	(282,909)	–	–	–	(282,909)
Portfolio allowance	–	–	(657,387)	–	(657,387)
<hr/>					
	309,885,284	100	(3,506,169)	100	306,379,115
<hr/>					
At September 30, 2013					
Pass	164,006,534	53	–	–	164,006,534
Special Mention	115,760,779	38	(10,343)	–	115,750,436
Substandard	28,524,829	9	(2,227,998)	81	26,296,831
Doubtful	428,760	–	(145,145)	5	283,615
Loss	389,268	–	(372,089)	14	17,179
<hr/>					
Gross loans and advances	309,110,170	100	(2,755,575)	100	306,354,595
Interest receivable	4,140,818	–	–	–	4,140,818
Deferred loan origination fees	(178,075)	–	–	–	(178,075)
Portfolio allowance	–	–	(547,038)	–	(547,038)
<hr/>					
	313,072,913	100	(3,302,613)	100	309,770,300

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued**5.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements**

	2014	2013
	\$	\$
Credit risk exposures relating to on-balance sheet assets:		
Due from banks and other financial institutions	31,659,657	14,091,475
Investment securities:		
- Loans and receivables	103,673,324	108,647,997
- Held-to-maturity investments	2,025,400	3,037,600
- Available-for-sale investments – debt securities (quoted)	12,051,943	9,858,794
Loans and advances to customers	306,379,115	309,770,300
Other financial assets	273,964	89,726
	<u>456,063,403</u>	<u>445,495,892</u>
	2014	2013
	\$	\$
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	6,911,278	6,103,000
Loan commitments and other credit related facilities	22,427,671	16,593,894
	<u>29,338,949</u>	<u>22,696,894</u>
Total credit exposure	<u>485,402,352</u>	<u>468,192,786</u>

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

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

The previous table represents a worst case scenario of credit risk exposures to the Bank as of September 30, 2014, 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 63% (2013: 66%) of the total maximum exposure is derived from loans and advances to customers and 24% (2013: 26%) 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:

- 92% (2013: 91%) of the loans and advances portfolio are categorised in the top two grades of the internal rating system, being Pass and Special mention, as defined in 5.1.3;
- 55% (2013: 86%) of the loans and advances portfolio are considered to be neither past due nor impaired, as defined in 5.1.6; and
- 10% (2013: 10%) of loans and advances are considered impaired as defined in 5.1.6.

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 of September 30, 2014. For all classes of assets, the Bank has allocated exposures to regions based on the country of domicile of the counterparties.

September 30, 2014

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ...continued

5.1.5 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, 2014

	Antigua & Barbuda \$	Other Caribbean \$	North America \$	Europe \$	Total \$
Credit risk exposures relating to on-balance sheet assets:					
Due from banks and other financial institutions	1,046,589	575,155	24,979,919	5,057,994	31,659,657
<i>Investment securities:</i>					
- Loans and receivables investments	8,896,034	88,848,790	5,928,500	-	103,673,324
- Held-to-maturity investments	2,025,400	-	-	-	2,025,400
- Available-for-sale investments – debt securities (quoted)	-	12,051,943	-	-	12,051,943
Loans and advances to customers	306,379,115	-	-	-	306,379,115
Other financial assets	273,964	-	-	-	273,964
	318,621,102	101,475,888	30,908,419	5,057,994	456,063,403
Credit exposures relating to off-balance sheet items:					
- Financial guarantees	6,911,278	-	-	-	6,911,278
- Loan commitments and other credit related facilities	22,427,671	-	-	-	22,427,671
Total	347,960,051	101,475,888	30,908,419	5,057,994	485,402,352

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

5.1.5 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, 2013

	Antigua & Barbuda	Other Caribbean	North America	Europe	Total
	\$	\$	\$	\$	\$
Credit risk exposures relating to on-balance sheet assets:					
Due from banks and other financial institutions	118,429	491,718	9,396,611	4,084,717	14,091,475
<i>Investment securities:</i>					
– Loans and receivables investments	4,913,857	97,804,090	5,930,050	–	108,647,997
– Held-to-maturity investments	3,037,600	–	–	–	3,037,600
– Available-for-sale investments – debt securities (quoted)	–	9,858,794	–	–	9,858,794
Loans and advances to customers	309,770,300	–	–	–	309,770,300
Other financial assets	89,726	–	–	–	89,726
	317,929,912	108,154,602	15,326,661	4,084,717	445,495,892
Credit exposures relating to off-balance sheet items:					
– Financial guarantees	6,103,000	–	–	–	6,103,000
– Loan commitments and other credit related facilities	16,593,894	–	–	–	16,593,894
Total	340,626,806	108,154,602	15,326,661	4,084,717	468,192,786

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

5.1.5 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:

	2014		2013	
	\$	%	\$	%
Public sector	173,983,640	57.2%	175,214,756	56.7%
Personal	111,141,559	36.5%	116,029,731	37.5%
Construction/Real Estate	8,647,133	2.8%	7,503,904	2.4%
Credit card advances	3,304,934	1.1%	3,148,405	1.1%
Professional	3,541,808	1.2%	3,271,446	1.1%
Manufacturing	1,613,309	0.5%	1,640,277	0.5%
Other industries	1,703,279	0.6%	1,930,661	0.6%
Tourism	292,725	0.1%	370,990	0.1%
Total	304,228,387	100%	309,110,170	100%

5.1.6 Loans and advances

Loans and advances are summarised as follows:

	Loans and advances to customers 2014 \$	Loans and advances to customers 2013 \$
Neither past due nor impaired	166,834,864	264,542,712
Past due but not impaired	107,017,268	12,923,614
Impaired	30,376,255	31,643,844
Gross	304,228,387	309,110,170
Interest receivable	5,939,806	4,140,818
Deferred loan origination fees	(282,909)	(178,075)
Less: Provision for losses on loans and advances	(3,506,169)	(3,302,613)
Net loans and advances	306,379,115	309,770,300

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

5.1.6 Loans and advances ... continued

	Loans and advances to customers 2014 \$	Loans and advances to customers 2013 \$
Allocation of allowance for impairment:		
Individually impaired	(2,848,782)	(2,755,575)
Portfolio allowance	(657,387)	(547,038)
	<u>(3,506,169)</u>	<u>(3,302,613)</u>

The total impairment allowance for loans and advances is \$3,506,169 of which \$2,848,782 relates to individually impaired loans and the remaining amount of \$657,387 represents the portfolio allowance. Further information on the impairment allowance for loans and advances to customers is provided in note 11.

Eastern Caribbean Amalgamated Bank Limited
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September 30, 2014

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

5.1.6 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, 2014					September 30, 2013					
	Credit cards	Overdrafts	Personal	Commercial	Public sector	Credit cards	Overdrafts	Personal	Commercial	Public sector	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Pass	3,022,459	15,818	70,546,186	8,058,738	78,255,248	2,886,326	2,842,065	71,584,913	6,822,005	79,871,225	164,006,534
Special mention	-	4,040,778	2,267,371	628,266	-	-	1,937,667	3,429,269	887,007	94,282,235	100,536,178
	3,022,459	4,056,596	72,813,557	8,687,004	78,255,248	2,886,326	4,779,732	75,014,182	7,709,012	174,153,460	264,542,712

Eastern Caribbean Amalgamated Bank Limited
NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

5.1.6 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, 2014

	Credit cards \$	Personal \$	Commercial \$	Public sector \$	Total \$
Past due up to 30 days	140,426	6,714,740	170,547	–	7,025,713
Past due 31 – 60 days	115,407	3,032,918	–	–	3,148,325
Past due 61 – 90 days	26,643	1,263,638	872,623	94,680,326	96,843,230
	282,476	11,011,296	1,043,170	94,680,326	107,017,268

As of September 30, 2013

	Credit cards \$	Personal \$	Commercial \$	Public sector \$	Total \$
Past due up to 30 days	144,486	4,209,312	3,141,884	–	7,495,682
Past due 31 – 60 days	71,531	2,225,900	714,458	–	3,011,889
Past due 61 – 90 days	37,006	2,379,037	–	–	2,416,043
	253,023	8,814,249	3,856,342	–	12,923,614

September 30, 2014

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ...continued

5.1.6 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 \$30,376,255 (2013: \$31,643,844). The breakdown of the gross amount of individually impaired loans and advances by class is as follows:

As of September 30, 2014

	Credit cards	Overdrafts	Personal	Commercial	Total
	\$	\$	\$	\$	\$
Individually impaired loans and advances	-	1,174,932	22,717,298	6,484,025	30,376,255

As of September 30, 2013

	Credit cards	Overdrafts	Personal	Commercial	Total
	\$	\$	\$	\$	\$
Individually impaired loans and advances	9,056	1,039,595	26,200,260	4,394,933	31,643,844

(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.

Renegotiated loans and advances to customers:

- Continuing to be impaired after restructuring – individuals
- Non-impaired after restructuring – would otherwise not have been impaired - individuals
- Non-impaired after restructuring would otherwise not have been impaired – public sector

	2014	2013
	\$	\$
	2,604,081	3,675,260
	6,992,437	6,186,002
	-	94,282,235
	9,596,518	104,143,497

Eastern Caribbean Amalgamated Bank Limited
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(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

5.1.7 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, 2014.

As of September 30, 2014

	Loans and receivables	Available for sale	Held to maturity	Total
	\$	\$	\$	\$
Unrated	103,673,324	12,051,943	2,025,400	117,750,667
Total	103,673,324	12,051,943	2,025,400	117,750,667

As of September 30, 2013

	Loans and receivables	Available for sale	Held to maturity	Total
	\$	\$	\$	\$
Unrated	108,647,997	9,858,794	3,037,600	121,544,391
Total	108,647,997	9,858,794	3,037,600	121,544,391

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

5.2 Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value of 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 market risk primarily arises from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios market risk also includes equity price risks arising from the Bank's available-for-sale investment securities.

5.2.1 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.

5.2.2 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, 2014. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

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(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

5.2.2 Foreign exchange risk ... continued	XCD	USD	EUR	GBP	Other	Total
	\$	\$	\$	\$	\$	\$
As of September 30, 2014						
Cash and balances with the Central Bank	34,725,024	498,968	126,001	62,903	58,910	35,471,806
Due from banks and financial institutions	1,315,494	29,146,971	176,341	922,371	98,480	31,659,657
<i>Investment securities:</i>						
– Held to maturity securities	2,025,400	–	–	–	–	2,025,400
– Loans and receivables	81,928,155	21,745,169	–	–	–	103,673,324
– Available-for-sale equity investments						
– unquoted	105,860	–	–	–	–	105,860
– Available-for-sale debt investment						
government securities – quoted	11,398,973	652,970	–	–	–	12,051,943
Loans and advances to customers	241,217,591	65,161,524	–	–	–	306,379,115
Other financial assets	273,964	–	–	–	–	273,964
Total financial assets	372,990,461	117,205,602	302,342	985,274	157,390	491,641,069
Liabilities						
Customer's deposits	353,997,692	60,161,881	–	–	–	414,159,573
Borrowings	4,159,364	–	–	–	–	4,159,364
Other liabilities and accrued expenses	7,445,746	661,450	–	5,745	–	8,112,941
Total financial liabilities	365,602,802	60,823,331	–	5,745	–	426,431,878
Net on-balance sheet position	7,387,659	56,382,271	302,342	979,529	157,390	65,209,191
Credit commitments	22,427,671	6,911,278	–	–	–	29,338,949

Eastern Caribbean Amalgamated Bank Limited
NOTES TO FINANCIAL STATEMENTS

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(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

	XCD	USD	EUR	GBP	Other	Total
	\$	\$	\$	\$	\$	\$
5.2.2 Foreign exchange risk ... continued						
As of September 30, 2013						
Cash and balances with the Central Bank	38,243,752	270,721	81,502	69,251	53,037	38,718,263
Due from banks and financial institutions	366,407	13,351,849	115,848	175,065	82,306	14,091,475
<i>Investment securities:</i>						
– Held to maturity securities	3,037,600	–	–	–	–	3,037,600
– Loans and receivables	75,846,062	32,801,935	–	–	–	108,647,997
– Available-for-sale equity investments						
– unquoted	105,860	–	–	–	–	105,860
– Available-for-sale debt investment						
government securities – quoted	9,858,794	–	–	–	–	9,858,794
Loans and advances to customers	243,711,044	66,059,256	–	–	–	309,770,300
Other financial assets	89,726	–	–	–	–	89,726
Total financial assets	371,259,245	112,483,761	197,350	244,316	135,343	484,320,015
Liabilities						
Customer's deposits	335,670,993	80,709,806	–	–	–	416,380,799
Borrowings	5,549,928	–	–	–	–	5,549,928
Other liabilities and accrued expenses	3,351,464	701,292	–	–	–	4,052,756
Total financial liabilities	344,572,385	81,411,098	–	–	–	425,983,483
Net on-balance sheet position	26,686,860	31,072,663	197,350	244,316	135,343	58,336,532
Credit commitments	16,593,894	6,103,000	–	–	–	22,696,894

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

5.2.3 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
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(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

5.2.3 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
	\$	\$	\$	\$	\$	\$	\$
As of September 30, 2014							
Assets							
Cash and balances with the Central bank	-	-	-	-	-	35,471,806	35,471,806
Due from banks and other financial institutions	-	-	-	-	-	31,659,657	31,659,657
Investment securities:							
– Held to maturity investments	-	-	1,025,400	1,000,000	-	-	2,025,400
– Loans and receivables	26,591,488	38,043,507	39,038,329	-	-	-	103,673,324
– Available-for-sale equity securities – unquoted	-	-	-	-	-	105,860	105,860
– Available-for-sale debt investments – government securities – quoted	306,745	107,617	1,353,137	7,893,262	2,391,182	-	12,051,943
Loans and advances to customers	13,326,624	137,534	1,027,774	16,108,212	275,778,971	-	306,379,115
Other financial assets	-	-	-	-	-	273,964	273,964
Total financial assets	40,224,857	38,288,658	42,444,640	25,001,474	278,170,153	67,511,287	491,641,069
Liabilities							
Customers' deposits	177,323,733	56,270,346	163,394,989	16,554,084	616,421	-	414,159,573
Borrowings	120,895	244,213	1,140,022	2,654,234	-	-	4,159,364
Other liabilities and accrued expenses	-	-	-	-	-	8,112,941	8,112,941
Total financial liabilities	177,444,628	56,514,559	164,535,011	19,208,318	616,421	8,112,941	426,431,878
Total interest repricing gap	(137,219,771)	(18,225,901)	(122,090,371)	5,793,156	277,553,732	59,398,346	65,209,191

Eastern Caribbean Amalgamated Bank Limited
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September 30, 2014

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued							
5.2.3 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
	\$	\$	\$	\$	\$	\$	\$
As of September 30, 2013							
Assets							
Cash and balances with the Central bank	–	–	–	–	–	38,718,263	38,718,263
Due from banks and other financial institutions	–	–	–	–	–	14,091,475	14,091,475
Investment securities:							
– Held to maturity investments	–	–	37,600	3,000,000	–	–	3,037,600
– Loans and receivables	46,847,881	30,533,518	29,258,520	2,008,078	–	–	108,647,997
– Available-for-sale equity securities – unquoted	–	–	–	–	–	105,860	105,860
– Available-for-sale debt investments - government securities – quoted	126,700	88,050	3,000	4,500,000	5,141,044	–	9,858,794
Loans and advances to customers	15,213,501	836,435	3,335,373	15,113,447	275,271,544	–	309,770,300
Other financial assets	–	–	–	–	–	89,726	89,726
Total financial assets	62,188,082	31,458,003	32,634,493	24,621,525	280,412,588	53,005,324	484,320,015
Liabilities							
Customers' deposits	163,146,268	49,756,479	197,123,040	5,949,755	405,257	–	416,380,799
Borrowings	111,629	225,496	1,052,652	4,160,151	–	–	5,549,928
Other liabilities and accrued expenses	–	–	–	–	–	4,052,756	4,052,756
Total financial liabilities	163,257,897	49,981,975	198,175,692	10,109,906	405,257	4,052,756	425,983,483
Total interest repricing gap	(101,069,815)	(18,523,972)	(165,541,199)	14,511,619	280,007,331	48,952,568	58,336,532

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

5.2.3 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 generally fixed hence there is no undue exposure to cash flow interest rate risk.

5.3 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.

5.3.1 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.

5.3.2. 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)

5 Financial instruments risk ... continued

5.3.3 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 the liquidity risk management process in note 5.3.1.

	Under 1 Month \$	1 to 3 Months \$	3 to 12 Months \$	1 to 5 Years \$	Over 5 Years \$	Total \$
As of September 30, 2014						
Customers' deposits	177,341,620	56,558,984	167,016,866	17,476,016	891,684	419,285,170
Borrowings	148,626	297,253	1,337,637	2,835,901	-	4,619,417
Other liabilities and accrued expenses	8,112,941	-	-	-	-	8,112,941
Total financial liabilities (contractual maturity dates)	185,603,187	56,856,237	168,354,503	20,311,917	891,684	432,017,528
Assets held for managing liquidity risk (contractual maturity dates)	108,935,143	40,684,466	59,905,657	130,393,548	326,972,159	666,890,974

Eastern Caribbean Amalgamated Bank Limited
NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

5.3.3 Non derivative financial liabilities and assets held for managing liquidity risk ... continued

	Under 1 Month \$	1 to 3 Months \$	3 to 12 Months \$	1 to 5 Years \$	Over 5 Years \$	Total \$
As of September 30, 2013						
Customers' deposits	163,180,089	50,048,174	201,260,686	6,248,379	397,901	421,135,229
Borrowings	148,626	297,253	1,337,637	4,619,817	—	6,403,333
Other liabilities and accrued expenses	4,052,756	—	—	—	—	4,052,756
Total financial liabilities (contractual maturity dates)	167,381,471	50,345,427	202,598,323	10,868,196	397,901	431,591,318
Assets held for managing liquidity risk (contractual maturity dates)	111,814,922	36,646,466	56,751,385	132,867,563	347,506,838	685,587,174

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

5.3.4 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.

5.3.5 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.

	Up to 1 year \$	1 to 5 years \$	Total \$
As of September 30, 2014			
Financial guarantees	6,911,278	–	6,911,278
Credit commitments	22,427,671	–	22,427,671
	29,338,949	–	29,338,949
As of September 30, 2013			
Financial guarantees	6,103,000	–	6,103,000
Credit commitments	16,593,894	–	16,593,894
	22,696,894	–	22,696,894

(c) Operating Lease Commitments

The Bank had no contractual operating lease commitments as of September 30, 2014.

(d) Capital commitments

The Bank had no contractual capital commitments as of September 30, 2014.

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

5.4 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	
	2014 \$	2013 \$	2014 \$	2013 \$
Financial assets				
Due from other banks and financial institutions	31,659,657	14,091,475	31,659,657	14,091,475
<i>Investment securities:</i>				
– Held-to-maturity investments	2,025,400	3,037,600	2,031,360	3,023,900
– Loans and receivables	103,673,324	108,647,997	103,673,324	108,647,997
Loans and advances to customers	306,379,115	309,770,300	306,069,808	308,171,437
Other financial assets	273,964	89,726	273,964	89,726
	444,011,460	435,637,098	443,708,113	434,024,535
Financial liabilities				
Customers' deposits	414,159,573	416,380,799	414,416,391	416,136,661
Borrowings	4,159,364	5,549,928	4,159,364	5,549,928
Other liabilities and accrued expenses	8,112,941	4,052,756	8,112,941	4,052,756
	426,431,878	425,983,483	426,688,696	425,739,345

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

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

(a) Financial instruments not 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 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 deposits with similar remaining maturity.

5.4.1 Fair value measurement

Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) 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 or indirectly.
- Level 3: unobservable inputs for the asset or liability. This level includes equity investments and debt instruments with significant unobservable components.

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued**5.4.2 Assets and liabilities measured at fair value**

As of September 30, 2014	Level 3 \$	Total \$
Financial assets		
<i>Investment securities:</i>		
– Available-for-sale debt investments – quoted	11,811,794	11,811,794
Total assets	11,811,794	11,811,794
As of September 30, 2013	Level 3 \$	Total \$
Financial assets		
<i>Investment securities:</i>		
– Available-for-sale debt investments – quoted	9,641,044	9,641,044
Total assets	9,641,044	9,641,044

Reconciliation of level 3 items

The following table presents changes in level 3 instruments for the year ended September 30, 2014.

	Available-for- sale financial assets
	Debt securities
	\$
Opening balance as of September 30, 2013	9,641,044
Additions	2,645,170
Settlements	(474,420)
As of September 30, 2014	11,811,794

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 \$254,781 or a decrease of \$273,003.

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... continued

5.4.2 Assets and liabilities measured at fair value ... continued

The following table presents the changes in level 3 instruments for the year ended September 30, 2013.

	Available-for- sale financial assets
	Debt securities
	\$
Opening balance as of September 30, 2012	1,431,740
Additions	8,500,000
Settlements	(290,696)
As of September 30, 2013	9,641,044

5.4.3 Measurement of fair value of financial instruments

The Bank's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. The finance team reports directly to the chief financial officer (CFO) and to the ALCO committee. Valuation processes and fair value changes are discussed among the audit committee and the valuation team annually, in line with the Bank's reporting dates.

The valuation techniques used for instruments categorised in Level 3 is described below:

Available-for-sale investments – Government securities (quoted) (Level 3)

The fair value is estimated based on discounted cash flows using prevailing interest rates for debts with similar credit risk and remaining maturity.

6 Capital management policies and procedures

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.

Eastern Caribbean Amalgamated Bank Limited

NOTES TO FINANCIAL STATEMENTS

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(expressed in Eastern Caribbean dollars)

6 Capital management policies and procedures ... continued

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 the asset 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.

The following table summarises the composition of the regulatory capital and the ratios of the Bank as of September 30, 2014. At this date the Bank complied with all the externally imposed capital requirements to which they are subject.

	2014	2013
	\$	\$
Tier 1 capital		
Common share capital	24,000,000	24,000,000
Preference share capital	47,869,339	47,869,339
Retained earnings	7,410,958	2,639,635
Reserve for loan loss impairment	481,808	139,045
Reserve for interest on non-performing loans	3,492,500	3,745,896
Statutory reserve	3,395,459	2,098,631
Customer lists intangible asset	(1,292,456)	(1,477,092)
Total qualifying Tier 1 capital	85,357,608	79,015,454
Tier 2 capital		
General loan loss provisions	657,387	547,038
Total qualifying Tier 2 capital	657,387	547,038
Total regulatory capital	86,014,995	79,562,492

(expressed in Eastern Caribbean dollars)

6 Capital management policies and procedures ... continued

	2014	2013
	\$	\$
Risk weighted assets		
On-balance sheet	149,867,000	146,805,000
Off-balance sheet	4,486,000	3,319,000
Total risk weighted assets	154,353,000	150,124,000
Basel ratio	56%	53%

7 Significant management judgement in applying accounting policies and estimation uncertainty

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis for the regulatory prudential reporting purposes and annually in preparing its IFRS financial statements. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by a 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 would be an estimated \$931,736 higher or \$730,579 lower. Were the discount period used in calculation of the present value of the future cash flows to differ by +/- 1 year, the impairment loss would be an estimated \$631,383 higher or \$609,844 lower.

(expressed in Eastern Caribbean dollars)

8 Cash and balances with the Central Bank

	Note	2014 \$	2013 \$
Cash on hand		4,423,495	4,856,094
Balances with ECCB other than mandatory reserves		11,876,336	14,686,263
Included in cash and cash equivalents	24	16,299,831	19,542,357
Mandatory reserve deposits with the ECCB		19,171,975	19,175,906
Total cash and balances with the Central Bank		35,471,806	38,718,263

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.

9 Due from banks and other financial institutions

	Note	2014 \$	2013 \$
Operating accounts with other banks		30,189,953	14,055,320
Items in the course of collection from other banks		666,454	36,155
Included in cash and cash equivalents	24	30,856,407	14,091,475
Restricted deposits		803,250	–
Total due from banks and other financial institutions		31,659,657	14,091,475

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, 2014 amounted to \$583,192 (2013: \$247,120).

The restricted deposits are used as collateral for letters of credit existing at the year end.

Eastern Caribbean Amalgamated Bank Limited
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10 Investment securities

Loans and receivables investment securities

	Notes	Nominal value 2014 \$	Cost 2014 \$	Nominal value 2013 \$	Cost 2013 \$
Treasury bills					
Treasury bills at amortized cost – OECS Governments with original maturities of three (3) months or less and interest rates ranging from 2.0% to 8.0%					
		13,059,500	12,956,897	23,869,500	23,606,677
Included in cash and cash equivalents	24	13,059,500	12,956,897	23,869,500	23,606,677
Treasury bills at amortized cost - OECS Governments with original maturities greater than three (3) months ranging from 3.9% to 6.5%					
		17,942,000	17,566,411	11,942,000	11,557,822
Interest receivable		-	386,500	-	442,600
Total treasury bills		31,001,500	30,909,808	35,811,500	35,607,099

Included in the treasury bills are amounts held with a shareholder, the Government of Antigua and Barbuda, totalling \$8,721,234 (2013: \$4,733,357).

Interest income earned from treasury bills held with the Government of Antigua and Barbuda amounted to \$489,778 (2013: \$271,489).

(expressed in Eastern Caribbean dollars)

10 Investment securities ... continued

Loans and receivables investment securities ... continued

	Notes	2014 \$	2013 \$
Term Deposits			
St. Kitts Nevis Anguilla National Bank, with original maturities of three (3) months or less at interest rates ranging from 1% to 2%.		8,228,622	8,554,686
Bank of St. Vincent & the Grenadines, maturing on October 2, 2013 with an interest rate of 4.0%		–	4,275,754
Bank of Saint Lucia, with original maturities of three (3) months or less with an interest rate of 3.0%		14,694,027	14,859,002
Included in cash and cash equivalents	24	22,922,649	27,689,442
Term deposits with other OECS banks with original maturities greater than three (3) months up to one year at interest rates ranging from 2% to 3.75%		25,053,431	21,516,236
Restricted term deposits with Bank of America with original maturities of one year at interest rates of 0.28% to 0.31%.		5,913,000	5,913,000
Restricted term deposit with Caribbean Credit Card Corporation with an original maturity of one year at an interest rate of 4.5%.		500,000	500,000
Interest receivable		289,155	406,450
		54,678,235	56,025,128
Fixed rate notes			
Government of Saint Lucia:			
- Maturing on March 16, 2015 with an interest rate of 6.0%		2,008,078	2,008,078
- Maturing on July 18, 2015 with an interest rate of 5.0%		5,400,000	5,400,000
Interest receivable		64,800	61,000
		7,472,878	7,469,078

Included in the term deposits are amounts held with the shareholder banks totalling \$47,976,079 (2013: \$49,205,677). Interest income earned during the year on term deposits held with the shareholder banks amounted to \$1,296,080 (2013: \$1,682,824).

Eastern Caribbean Amalgamated Bank Limited
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September 30, 2014

(expressed in Eastern Caribbean dollars)

10 Investment securities ... continued

Loans and receivables investment securities ... continued

	Notes	2014	2013
		\$	\$

Fixed income paper

First Citizens Investments Services Limited with original maturities of three (3) months or less

– Maturing on October 10, 2014 with an interest rate of 1.75%		5,542,391	5,447,230
– Maturing on October 28, 2013 with interest rate of 2.75%		–	4,057,162
– Maturing on November 24, 2014 with an interest rate of 2.25%		2,013,712	–
		2,013,712	–

Include in cash and cash equivalents

	24	7,556,103	9,504,392
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First Citizen Investment Services Limited with original maturities greater than three (3) months

– Maturing on January 12, 2015 with an interest rate of 2.5%		1,000,000	–
– Maturing on October 20, 2014 with an interest rate of 3.0%		2,000,000	–
Interest receivable		56,300	42,300
		56,300	42,300

		10,612,403	9,546,692
--	--	------------	-----------

Total loans and receivables investment securities

		103,673,324	108,647,997
--	--	-------------	-------------

Total principal

		102,876,569	107,695,647
--	--	-------------	-------------

Interest receivable

		796,755	952,350
--	--	---------	---------

		103,673,324	108,647,997
--	--	-------------	-------------

Current portion

		103,673,324	106,639,919
--	--	-------------	-------------

Non-current portion

		–	2,008,078
--	--	---	-----------

		103,673,324	108,647,997
--	--	-------------	-------------

Available-for-sale – unquoted

Eastern Caribbean Securities Exchange Limited
 2,500 Class ‘C’ shares (2,500 shares at cost of \$10 each)

		25,000	25,000
--	--	--------	--------

Eastern Caribbean Home Mortgage Bank
 622 shares with market value of \$160 per share

		80,860	80,860
--	--	--------	--------

Available-for-sale equity investments

		105,860	105,860
--	--	---------	---------

(expressed in Eastern Caribbean dollars)

10 Investment securities ... continued

	2014 \$	2013 \$
Available-for-sale- quoted		
Eastern Caribbean Home Mortgage Bank bonds with original maturities ranging from two (2) to four (4) years at an interest rate of 3.75%	1,500,000	1,500,000
OECS Government bonds with original maturities ranging from five (5) to ten (10) years at interest rates ranging from 6% to 7.5%	10,311,793	8,141,044
Interest receivable	240,150	217,750
Available-for-sale debt investments	<u>12,051,943</u>	<u>9,858,794</u>
Total available-for-sale investment securities	<u>12,157,803</u>	<u>9,964,654</u>
Held-to-maturity investments		
Government of Antigua and Barbuda Bonds, maturing on July 28, 2016 with an interest rate of 7.5%	2,000,000	3,000,000
Interest receivable	25,400	37,600
Total held to maturity investment securities	<u>2,025,400</u>	<u>3,037,600</u>
Summary of investment securities		
Total principal	116,794,222	120,442,551
Total interest receivable	<u>1,062,305</u>	<u>1,207,700</u>
Total investment securities	<u>117,856,527</u>	<u>121,650,251</u>
Current	104,938,874	106,895,268
Non-current	<u>12,917,653</u>	<u>14,754,983</u>
Total investment securities	<u>117,856,527</u>	<u>121,650,251</u>

Included in the held to maturity investments are amounts held with a shareholder, the Government of Antigua and Barbuda, totalling \$2,000,000 (2013: \$3,000,000).

Interest income earned from bonds held with the Government of Antigua and Barbuda amounted to \$194,050 (2013: \$225,100).

Eastern Caribbean Amalgamated Bank Limited
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10 Investment securities ... continued

The movement in investment securities is summarised as follows:

	Available- for-sale (unquoted) \$	Available- for-sale- (quoted) \$	Held-to- maturity \$	Loans and receivables \$	Total \$
Opening balance as of September 30, 2012	105,860	1,431,740	3,237,500	82,053,635	86,828,735
Purchase of investments	-	8,500,000	-	113,099,192	121,599,192
Disposal of investments	-	(290,696)	(200,000)	(86,810,580)	(87,301,276)
(Decrease)/increase in interest receivable, net	-	217,750	100	305,750	523,600
Balance as of September 30, 2013	105,860	9,858,794	3,037,600	108,647,997	121,650,251
Opening balance as of September 30, 2013	105,860	9,858,794	3,037,600	108,647,997	121,650,251
Purchase of investments	-	2,645,170	-	61,745,878	64,391,048
Disposal of investments	-	(474,421)	(1,000,000)	(66,564,956)	(68,039,377)
(Decrease)/increase in interest receivable, net	-	22,400	(12,200)	(155,595)	(145,395)
Balance as of September 30, 2014	105,860	12,051,943	2,025,400	103,673,324	117,856,527

(expressed in Eastern Caribbean dollars)

11 Loans and advances to customers

	2014	2013
	\$	\$
Demand loans	208,876,513	208,983,788
Mortgage loans	57,489,927	59,436,250
Non-performing loans and advances	30,376,255	31,643,844
Rebate loans	124,162	1,127,207
Overdrafts	4,056,596	4,779,732
Credit card advances	3,304,934	3,139,349
	304,228,387	309,110,170
Deferred loan origination fees	(282,909)	(178,075)
Interest receivable	5,939,806	4,140,818
Less: Provision for losses on loans and advances	(3,506,169)	(3,302,613)
Total loans and advances to customers	306,379,115	309,770,300
Current	14,491,932	19,385,309
Non-current	291,887,183	290,384,991
	306,379,115	309,770,300

Roll forward of allowance for losses on loans and advances

	2014	2013
	\$	\$
Balance at beginning of year	3,302,613	4,482,217
Provision for loan impairment	320,857	945,928
Loans written-off during the year as uncollectible	(117,301)	(2,125,532)
Balance at end of year	3,506,169	3,302,613

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to \$3,987,977 (2013: \$3,441,658) and the difference of \$481,808 (2013: \$139,045) 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 21.

According to the ECCB prudential guidelines, interest income is not accrued for loans that are non-performing. The accrued interest of \$3,492,500 (2013: \$3,745,896) on non-performing loans has been set aside as a specific reserve in equity, see note 21.

Eastern Caribbean Amalgamated Bank Limited
NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(expressed in Eastern Caribbean dollars)

12 Other assets

	2014	2013
	\$	\$
Financial assets		
Trade receivables	291,784	107,546
Provision for doubtful debts	(17,820)	(17,820)
	<u>273,964</u>	<u>89,726</u>
Non-financial assets		
Prepayments	709,779	717,659
Prepaid purchases	459,384	317,467
	<u>1,169,163</u>	<u>1,035,126</u>
Total other assets	<u>1,443,127</u>	<u>1,124,852</u>
Current	<u>1,443,127</u>	<u>1,124,852</u>

Eastern Caribbean Amalgamated Bank Limited
NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(expressed in Eastern Caribbean dollars)

13 Property, plant and equipment

	Artwork	Land	Buildings	Furniture, Fixtures & Equipment	Computer equipment	Motor vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
Year ended September 30, 2013							
Opening net book amount at October 1, 2012	51,740	4,769,200	10,498,378	750,031	2,180,670	155,125	18,405,144
Additions	-	-	-	240,030	635,097	-	875,127
Depreciation charge	-	-	(251,616)	(166,297)	(692,127)	(51,708)	(1,161,748)
Net book amount	51,740	4,769,200	10,246,762	823,764	2,123,640	103,417	18,118,523
At September 30, 2013							
Cost	51,740	4,769,200	10,744,986	1,225,839	3,879,207	255,000	20,925,972
Accumulated depreciation	-	-	(498,224)	(402,075)	(1,755,567)	(151,583)	(2,807,449)
Net book amount	51,740	4,769,200	10,246,762	823,764	2,123,640	103,417	18,118,523
Year ended September 30, 2014							
Opening net book amount at October 1, 2013	51,740	4,769,200	10,246,762	823,764	2,123,640	103,417	18,118,523
Additions	-	-	55,502	186,628	669,347	-	911,477
Depreciation charge	-	-	(245,748)	(179,606)	(691,731)	(51,709)	(1,168,794)
Net book amount	51,740	4,769,200	10,056,516	830,786	2,101,256	51,708	17,861,206

Eastern Caribbean Amalgamated Bank Limited
NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(expressed in Eastern Caribbean dollars)

13 Property, plant and equipment ...continued

	Artwork	Land	Buildings	Furniture, Fixtures & Equipment	Computer equipment	Motor vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
At September 30, 2014							
Cost	51,740	4,769,200	10,800,488	1,412,467	4,548,554	255,000	21,837,449
Accumulated depreciation	-	-	(743,972)	(581,681)	(2,447,298)	(203,292)	(3,976,243)
Net book amount	51,740	4,769,200	10,056,516	830,786	2,101,256	51,708	17,861,206

Eastern Caribbean Amalgamated Bank Limited

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(expressed in Eastern Caribbean dollars)

14 Financial assets and liabilities

Categories of financial assets and financial liabilities

Categories of financial assets and financial liabilities

Note 4.3 provides a description of each category of financial assets and financial liabilities and the related accounting policies. The carrying amounts of financial assets and financial liabilities in each category are as follows:

	Notes	Available for sale \$	Held to maturity \$	Loans and receivables \$	Total \$
As of September 30, 2014					
Financial assets					
Loans and advances to customers	11	-	-	306,379,115	306,379,115
Investment securities	10	12,157,803	2,025,400	103,673,324	117,856,527
Other financial assets	12	-	-	273,964	273,964
Due from banks and other financial institutions	9	-	-	31,659,657	31,659,657
		12,157,803	2,025,400	441,986,060	456,169,263
			Other Liabilities (carried at Amortised cost) \$	Total \$	
Financial liabilities					
Customers' deposits	16	414,159,573	414,159,573		
Borrowings	18	4,159,364	4,159,364		
Other liabilities and accrued expenses	17	8,112,941	8,112,941		
		426,431,878	426,431,878		
As of September 30, 2013					
Financial assets					
Loans and advances to customers	11	-	-	309,770,300	309,770,300
Investment securities	10	9,964,654	3,037,600	108,647,997	121,650,251
Other financial assets	12	-	-	89,726	89,726
Due from banks and other financial institutions	9	-	-	14,091,475	14,091,475
		9,964,654	3,037,600	432,599,498	445,601,752

Eastern Caribbean Amalgamated Bank Limited
NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(expressed in Eastern Caribbean dollars)

14 Financial assets and liabilities ... continued

	Notes	Other Liabilities (carried at Amortised cost) \$	Total \$
Financial liabilities			
Customers' deposits	16	416,380,799	416,380,799
Borrowings	18	5,549,928	5,549,928
Other liabilities and accrued expenses	17	4,052,756	4,052,756
		<u>425,983,483</u>	<u>425,983,483</u>

A description of the Banks's financial instrument risks, including risk management objectives and policies is given in note 5.

The methods used to measure financial assets and liabilities reported at fair value are described in note 5.

15 Intangible assets

	Computer software \$	Customer lists \$	Total \$
Year ended September 30, 2013			
Net book value at October 1, 2012	1,990,635	1,661,728	3,652,363
Additions	207,600	–	207,600
Amortisation charge	(672,962)	(184,636)	(857,598)
Net book amount	<u>1,525,273</u>	<u>1,477,092</u>	<u>3,002,365</u>
At September 30, 2013			
Cost	3,473,576	2,031,000	5,504,576
Accumulated amortisation	(1,948,303)	(553,908)	(2,502,211)
Net book amount	<u>1,525,273</u>	<u>1,477,092</u>	<u>3,002,365</u>
Year ended September 30, 2014			
Net book value at October 1, 2013	1,525,273	1,477,092	3,002,365
Additions	272,504	–	272,504
Amortisation charge	(679,729)	(184,636)	(864,365)
Net book amount	<u>1,118,048</u>	<u>1,292,456</u>	<u>2,410,504</u>

(expressed in Eastern Caribbean dollars)

15 Intangible assets ... continued

	Computer software \$	Customer lists \$	Total \$
At September 30, 2014			
Cost	3,746,080	2,031,000	5,777,080
Accumulated amortisation	(2,628,032)	(738,544)	(3,366,576)
Net book amount	1,118,048	1,292,456	2,410,504

16 Customers' deposits

	2014 \$	2013 \$
Time deposits	252,632,046	277,608,170
Savings accounts	80,166,357	76,052,531
Current accounts	77,161,211	57,447,968
	409,959,614	411,108,669
Interest payable	4,199,959	5,272,130
Total customers' deposits	414,159,573	416,380,799
Current	396,989,068	410,025,787
Non-current	17,170,505	6,355,012
	414,159,573	416,380,799

Included in the customers' deposits at year end are deposits from related parties amounting to \$21,283,501 (2013: \$18,118,852) as disclosed in note 23.

Included in the customers' deposits at year end are deposits from other financial institutions, excluding shareholder banks, amounting to \$36,706,882 (2013: \$11,623,985).

Deposits held as collateral for loans and advances amounted to \$7,433,229 (2013: \$7,601,314).

Eastern Caribbean Amalgamated Bank Limited
NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(expressed in Eastern Caribbean dollars)

17 Other liabilities and accrued expenses

	2014	2013
	\$	\$
Trade payables and accrued expenses	2,179,931	1,468,805
Manager's cheques	4,977,579	1,341,176
Transfers payable	134,874	499,258
Other payables	820,557	743,517
Total other liabilities and accrued expenses	8,112,941	4,052,756
Current	8,112,941	4,052,756

18 Borrowings

	2014	2013
	\$	\$
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 120th month together with all outstanding interest. Interest is charged at 8% per annum.	4,159,364	5,549,928
Current portion of loan	1,505,129	1,390,178
Non-current portion of loan	2,654,235	4,159,750
Balance at end of year	4,159,364	5,549,928

On January 19, 2012, the Bank purchased the commercial 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.

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 commercial property at Coolidge for \$11,106,700.

The Bank's Board of Directors approved a lump sum payment of EC\$5,000,000 which was paid in January 2013.

(expressed in Eastern Caribbean dollars)

19 Share capital

	2014	2013
	\$	\$
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	<u>24,000,000</u>	<u>24,000,000</u>
100,000 preference shares issued at \$478.69 each	<u>47,869,339</u>	<u>47,869,339</u>

20 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 shareholders 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, 2014

(expressed in Eastern Caribbean dollars)

21 Other reserves

	2014	2013
	\$	\$
Regulatory reserve for loan impairment	481,808	139,045
Regulatory reserve for interest on non-performing loans	3,492,499	3,745,896
Statutory reserve	3,395,460	2,098,631
Total	7,369,767	5,983,572

(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 2005, 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.

22 Commitments

a) Credit commitments and others

	2014	2013
	\$	\$
Guarantees	6,911,278	6,103,000
Undrawn Commitments – Loans and overdrafts	17,181,796	11,770,853
Undrawn Commitments – Credits cards	5,245,875	4,823,041
	29,338,949	22,696,894

b) Operating lease commitments

The bank had no contractual operating lease commitments as of September 30, 2014.

September 30, 2014

(expressed in Eastern Caribbean dollars)

23 Related parties

	Interest rate	2014 \$	2013 \$
Loans to Government of Antigua and Barbuda	8.0 – 9.8%	176,530,797	174,879,632
Loans to key management personnel	6.0 – 8.5%	679,784	1,933,142
		177,210,581	176,812,774

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 \$15,599,554 (2013: \$15,758,185). The average interest rate on these loans is 8.73% (2013: 8.76%).

Deposits from related parties

	Interest rate	2014 \$	2013 \$
Deposits from shareholders	3.0 – 4.0%	19,721,643	17,007,910
Deposits from key management personnel	0 – 4.0%	903,442	810,937
Deposits from staff retirement savings fund	5%	649,018	280,106
Deposits from directors	3.0%	9,398	19,899
		21,283,501	18,118,852

Interest expense paid on shareholders', directors', key members of management's and the staff retirement savings fund deposits during the year amounted to \$532,633 (2013: \$648,443). The average interest rate on these deposits is 2.97% (2013: 3.67%).

Remuneration of key management personnel

	2014 \$	2013 \$
Salaries and allowances	1,498,501	1,470,341
Directors' fees	287,351	239,716
Social Security and Medical Benefits costs	62,828	58,792
Other staff costs	15,314	14,668
	1,863,994	1,783,517

Refer to notes 9 and 10 for details of additional related party balances and transactions.

Eastern Caribbean Amalgamated Bank Limited
NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(expressed in Eastern Caribbean dollars)

24 Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

	Notes	2014 \$	2013 \$
Term deposits with original maturities of ninety days or less	10	22,922,649	27,689,442
Operating accounts due from local banks	9	30,856,407	14,091,475
Cash and non-mandatory balances with the Central Bank	8	16,299,831	19,542,357
Treasury bills	10	12,956,897	23,606,677
Fixed income paper with original maturities of ninety days or less	10	7,556,103	9,504,392
		90,591,887	94,434,343

25 Interest income and interest expense

	2014 \$	2013 \$
Interest income		
Loans and advances	26,192,937	27,178,183
Investment securities	4,122,756	4,541,618
Short term deposits	1,713	947
Total interest income	30,317,406	31,720,748
Interest expense		
Demand accounts	170,686	188,243
Savings accounts	2,135,547	2,092,848
Fixed deposits	9,038,911	10,850,574
Borrowings	392,875	608,470
Total interest expense	11,738,019	13,740,135
Net interest income	18,579,387	17,980,613

September 30, 2014

(expressed in Eastern Caribbean dollars)

26 Net fee income

	2014	2013
	\$	\$
Fee income		
Credit card fees	3,376,653	2,992,635
Other fees and commission	1,577,339	1,983,580
Foreign exchange gain/losses	1,794,904	1,757,701
Service charge – deposits	766,241	769,666
Credit related fees	350,997	317,881
Total fee income	7,866,134	7,821,463
Fee expense		
Credit card expenses	2,782,232	2,448,973
Bank charges	430,463	447,778
Other fees – expenses	27,549	84,857
Total fee expense	3,240,244	2,981,608
Net fee income	4,625,890	4,839,855

27 Other income/expenses

	2014	2013
	\$	\$
Recovery of loan items written-off	27,534	16,445
Recovery of credit card items written-off	3,930	325
Total other income	31,464	16,770

28 Personnel expenses

	2014	2013
	\$	\$
Salaries and allowances	7,409,754	7,205,601
Other personnel expenses	759,536	705,336
Statutory contributions	570,385	521,032
Insurance contributions	173,303	170,258
Total personnel expenses	8,912,978	8,602,227

Eastern Caribbean Amalgamated Bank Limited
NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(expressed in Eastern Caribbean dollars)

29 General and administrative expenses

	2014	2013
	\$	\$
Administration costs	1,935,000	1,368,558
Information technology	910,000	990,910
Professional fees	882,076	887,228
Telecommunications and postage	628,101	578,352
Repairs and maintenance	450,830	605,339
Insurance	296,599	336,395
Directors' fees	287,351	239,716
Marketing and public relations	181,620	408,888
Rent	164,169	173,263
Travel, conferences and meetings	76,483	156,327
Impairment expense – other assets	–	17,820
Total general and administrative expenses	5,812,229	5,762,796

30 Income tax

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.

The applicable income tax rate for the year is 25% (2013: 25%). However, the effective tax rate is nil (2013: \$nil) as a result of the income tax exemption.

	2014	2013
	\$	\$
Tax charge		
Net income for the period before taxation	6,157,518	5,506,941
Tax charge at the applicable tax rate	1,539,380	1,376,735
Movement in deferred taxes not recognised	83,020	52,256
Effect of permanent differences	(589,378)	(562,115)
Effect of income tax exemption	(1,033,022)	(866,876)
Tax charge for the year	–	–

Eastern Caribbean Amalgamated Bank Limited
NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(expressed in Eastern Caribbean dollars)

30 Income tax ... continued

Deferred tax liability

At the year end, the Bank had a net deferred tax liability of \$269,247 (2013: \$352,266) at the future tax rate of 25% which was not recognised in the financial statements as the Bank currently has an exemption from the payment of income taxes for a period of 15 years from November 25, 2011. The unrecorded net deferred tax liability is comprised as follows:

	2014	2013
	\$	\$
Tax losses	780,412	780,412
Deferred commissions on loans	70,727	44,519
Regulatory loan loss reserve	(993,577)	(971,235)
Depreciation on property, plant and equipment	(126,809)	(205,962)
Balance, end of year	(269,247)	(352,266)

Tax losses

The Bank has a loss for tax purposes of \$3,121,647 (2013: \$3,121,647). These losses can only be carried forward for six years. However, given the Bank's current corporate tax exemption period, these amounts will likely never be recovered.

The tax losses expire as follows.

	\$
2017	3,034,293
2018	87,354
	<u>3,121,647</u>

(expressed in Eastern Caribbean dollars)

31 Employee benefits

During the prior year, effective from December 1, 2012, the Bank established a defined contribution staff retirement savings plan which is mandatory for all permanent employees joining the Bank subsequent to that date. Qualifying employees choose to allocate a percentage of their basic monthly salary to the fund and the Bank matches the employee's contribution up to a maximum of 5%. Each employee is entitled to receive 100% of their contribution to the Fund in addition to the accrued interest earned at the time of terminating the employment relationship with the Bank. Each employee is entitled to receive a percentage of the Bank's contribution to the Fund in addition to the accrued interest earned at the time of terminating the employment relationship as follows:

- Less than 3 years - 0%
- 3 years but less than 5 years - 25%
- 5 years but less than 7 years - 50%
- 7 years but less than 10 years - 75%
- 10 years and over - 100%

An employee is not entitled to the Bank's contribution if terminated for just cause. An employee whose employment ceases due to medical reasons of a terminable nature is entitled to 100% of contributions made on their behalf by the Bank. The trustees of the fund is a committee comprising of the General Manager, the Senior Manager of Human Resources and three employees who are staff nominated, voted and determined by the employees. The retirement savings plan expense for the year was \$177,581 (2013: \$135,092).

32 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 \$449,813 relating to unpaid pension fund. The Court has provided a judgment on the case that was in favor of the Bank. However, this has subsequently been appealed by the former employee. No significant loss is expected to arise from this pending claim; however the outcome of the appeal is currently unknown.

Corporate Information

REGISTERED OFFICE AND POSTAL ADDRESS

1000 Airport Boulevard, Coolidge,
St. Georges, Antigua
P.O. Box 315, St. John's, Antigua

INDEPENDENT AUDITORS

Grant Thornton,
Chartered Accountants
11 Old Parham Road,
P.O. Box 1531,
St. John's, Antigua

BRANCH LOCATIONS

Head Office

1000 Airport Boulevard Coolidge,
St. George's, Antigua

High Street Branch

High & Thames Streets, St. John's, Antigua

Dockyard Branch

Nelson's Dockyard, English Harbour,
St. Paul's, Antigua

ATM LOCATIONS

1000 Airport Boulevard Coolidge,
St. George's, Antigua

High & Thames Streets, St. John's, Antigua

Nelson's Dockyard, English Harbour,
St. Paul's, Antigua

Jolly Harbour, St. Mary's, Antigua

Epicurean Fine Foods & Pharmacy,
Friars Hill, St. John's, Antigua

CORRESPONDENT BANKING RELATIONSHIPS

Antigua Commercial Bank Limited
Bank of America
Bank of Montserrat Limited
Bank of Saint Lucia Limited
Bank of Saint Vincent and Grenadines Limited
Crown Agents Bank
Eastern Caribbean Central Bank
National Bank of Anguilla Limited
National Bank of Dominica Limited
RBC Royal Bank (Barbados) Limited
Republic Bank (Grenada) Limited
St. Kitts - Nevis - Anguilla National Bank Limited

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