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Caribbean Investment Holdings Limited

Caribbean Investment Holdings Limited
Consolidated Financial Statements
March 31, 2016

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Report of the Chief Executive Officer

Caribbean Investment Holdings Group ("Group" or "Company") produced a net income before tax of $3.2 million in fiscal 2016 which was a considerable improvement over our financial performance in 2015 when the Group recorded a net loss of $12.6 million before tax.

Our investment in modern technology continues to yield enhanced operational efficiency which we are just beginning to leverage in the area of business growth through the establishment of new relationships and the use of new innovative and client focused products and services. In our last report we highlighted our engagement of Misys Limited to license its Fusion Banking Essence core banking software. Although somewhat delayed in its implementation during the year in review, we were able to complete the "Build Phase" as well as the "Functional Test Phase" of the project. We are currently making significant strides in the "System Integration Test Phase". We now anticipate that the core system will be installed and fully operational during the first quarter of 2017.

In 2015 the economy exhibited signs of a slowdown as the growth of Belize's GDP decelerated to an estimated 1.0% for the year ended December 2015 compared to 3.6% for the same period in 2014. The reduction of GDP growth was associated with a decline in commodity exports by roughly 13%, as falling revenues from petroleum, citrus, banana, and marine products outweighed increases in sugar receipts.

The tertiary sector saw a marginal increase of 0.9% in tourism, as there was a 6.2% increase in overnight tourists compared to 2014. However, fewer cruise ship passengers visited Belize in 2015 in comparison to 2014.

Belize's economic growth is expected to improve modestly to 1.5% for the year ending December 2016. This projection is based on the likelihood of a continuous growth in the tertiary sector mainly in tourism, transport & communication and construction. Inflation is expected to average between 0.5% and 1.0% based on stabilization of oil and food prices in the coming year.

During the first quarter Money Supply (M2) expanded by $97 million or 3% driven by growth in foreign assets and domestic credit. In line with the seasonal nature of tourism and commodity export receipts, private sector foreign assets expanded by 4% or some $12 million outpacing the $8 million expansion of Central Bank foreign assets.

The Banking system remains highly liquid, realizing an increase of 35% year-over-year, which continued to place pressure on the system's interest rates. Liquidity is expected to remain high for the 2016/2017 fiscal year and we expect further flattening of growth as government capital expenditure wanes.

While the Financial Services Division reported a reduction in its operating income before non-recurring loss from $5.5 million in fiscal 2015 to $4.2 million in fiscal 2016 due largely to reduced non-interest income from the international bank, its operating income after non-recurring income showed marked improvement from a loss position of $9.0 million in fiscal 2015 to an operating income of $6.0 million in fiscal 2016. To compensate for the loss of non-interest income from the international bank, the domestic bank has dedicated increased resources to the identification of new suitable lending opportunities. The increase in operational efficiency derived from the Mysis IT Systems is also expected to have a positive impact on income and operating expenses.

Net income per share for the year amounted to $0.01 in fiscal 2016 compared with a loss per share of $0.17 in fiscal 2015.

The Company's balance sheet remains strong with shareholders' equity of $57.7 million at March 31, 2016 compared with $57.7 million last year.

The Belize Bank's size relative to its peers in the domestic banking sector remained relatively unchanged at the end of March 2016. The Belize Bank accounted for approximately one-third of the system deposits and assets. In the very important area of term deposits the Belize Bank accounted for 50% of the total term deposits in the system. The Group continues to improve the overall risk profile and credit quality of its lending portfolio through (i) the continuous improvement in its underwriting policies and procedures and (ii) the controlled liquidation of the underlying assets securing collateral based non-performing loans.

The Belize Bank Limited (BBL) and Belize Bank International Limited (BBIL) both met their FATCA obligation for reporting to the United States Internal Revenue Service (IRS) for year 2016 as required by the FATCA provisions.

Significantly, and as it relates to the general state of the regulatory environment in Belize, earlier this year the Caribbean Action Task Force (CFATF) acknowledged the significant progress made by Belize in improving its AML/CFT regime. The fourth round evaluation for Belize is scheduled for 2021 when Belize will be evaluated on the technical compliance with the Financial Action Task Force (FATF) Recommendations and the effectiveness of AML/CFT Systems.

Both the jurisdiction and the Group continues to be negatively affected by the de-risking phenomenon brought on largely by US correspondent banks taking the decision to revisit the role they have historically played in facilitating international trade by providing the platform for non-US banks to make international payments on behalf of their clients for goods and services. While the Group continues to aggressively seek a long-term solution, we have nonetheless been able to satisfy the needs of our clients, in the short-term, via the utilization of various products and services.

As we reported last year the Group continues to explore opportunities which will allow for the expansion of our Financial Services Division regionally. Our goal, in this regard is both to enhance our earning capability and mitigate risk through diversification.

Over the years we have been able to put together an excellent team. Our management and staff continue to be the epitome of professionalism and customer-centricity. Their detailed knowledge of our products and services have allowed us to tailor our products to the discerning taste of our customers which has undoubtedly contributed to another successful year for the Bank. I consider it a signal honour to lead such a dedicated and devoted team of professionals and take this opportunity to thank each member of staff for their sterling contribution in 2016. Finally, on behalf of the entire management and staff of our Group I would like to once again thank our customers for providing us with both the opportunity and privilege to serve you.

Lyndon Guiseppi
Chief Executive Officer

Statement of management responsibilities

Management has prepared and is responsible for the consolidated financial statements and related notes of Caribbean Investment Holdings Limited and its subsidiary companies ("Group"). The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") and necessarily include amounts based on judgments and estimates by Management.

The Group maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with Management's authorization and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Group's administrative procedures and internal reporting requirements, operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to the preparation of financial statements.

Lyndon Guiseppi
Chief Executive Officer

Michael Coye
Chief Financial Officer

September 26, 2016

Independent auditor's report

To the Shareholders of

Caribbean Investment Holdings Limited

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Caribbean Investment Holdings Limited, which comprise the consolidated balance sheets as at March 31, 2016 and March 31, 2015 and the consolidated statements of comprehensive income and loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respect, the financial position of Caribbean Investment Holdings Limited at March 31, 2016 and March 31, 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moore Stephens Magaña LLP
Belize City, Belize

September 26, 2016

Consolidated statements of comprehensive income (in US dollars)

Year ended March 31	Notes	2016 $m	2015 $m
Financial Services			
Interest income	4	**37.6**	40.4
Interest expense	5	**(7.9)**	(8.7)
Net interest income		**29.7**	31.7
Allowance for loan losses	12	**(18.5)**	(17.8)
		11.2	13.9
Non-interest income	6	**13.2**	16.0
Non-interest expense	7	**(20.2)**	(24.4)
Operating loss before non-recurring loss		**4.2**	5.5
Non-recurring net income (loss)	8	**1.8**	(14.5)
Operating income (loss) - Financial Services		**6.0**	(9.0)
Corporate			
Corporate Income		**1.1**	1.2
Corporate expenses		**(3.9)**	(4.8)
Operating loss - Corporate		**(2.8)**	(3.6)
Net income (loss) before tax		**3.2**	(12.6)
Taxation		**(2.6)**	(4.6)
Net income (loss) after tax and before other comprehensive income		0.6	**(17.2)**
Other comprehensive income:			
Unrealized (losses) gains on securities		**(0.6)**	0.6
Total comprehensive income (loss)		**0.0**	(16.6)
Earnings (loss) per ordinary share (basic and diluted)	9	**$0.01**	$(0.17)

Consolidated statements of changes in shareholders' equity (in US dollars)

	Share capital $m	Additional paid in capital $m	Treasury shares $m	Retained earnings $m	Total $m
At April 1, 2014	0.6	52.8	(21.7)	42.6	74.3
Accumulated other comprehensive income	–	–	–	0.6	0.6
Net loss	–	–	–	(17.2)	(17.2)
At March 31, 2015	0.6	52.8	(21.7)	26.0	57.7
Accumulated other comprehensive loss	–	–	–	(0.6)	(0.6)
Net income	–	–	–	0.6	0.6
At March 31, 2016	0.6	52.8	(21.7)	26.0	57.7

At March 31, 2016, retained earnings included non-distributable statutory reserves in The Belize Bank Limited of $2.7 million (2015 - $2.7 million). Belize Bank International Limited does not have non-distributable statutory reserves.

See accompanying notes which are an integral part of these consolidated financial statements.

Consolidated balance sheets (in US dollars)

At March 31	Notes	2016 $m	2015 $m
Assets			
Financial Services			
Cash, cash equivalents and due from banks	10	**172.1**	183.6
Interest-bearing deposits		**15.0**	55.9
Investment securities	11	**11.8**	46.2
Loans - net	12	**288.7**	320.5
Property, plant and equipment - net	13	**16.3**	16.4
Government of Belize receivable	14	**25.2**	18.0
Other assets	15	**17.5**	8.2
Total Financial Services assets		**546.6**	648.8
Corporate			
Cash and cash equivalents		**4.9**	–
Property, plant and equipment - net		**–**	0.1
Other current assets		**0.4**	6.1
Total assets		**551.9**	655.0
Liabilities and shareholders' equity			
Financial Services			
Deposits	16	**475.5**	577.3
Interest payable		**3.8**	3.7
Provisions	17	**0.4**	–
Other liabilities		**6.4**	8.2
Total Financial Services liabilities		**486.1**	589.2
Corporate			
Current liabilities		**8.1**	8.1
Total liabilities		**494.2**	597.3
Shareholders' equity:			
Share capital (ordinary shares of no par value - 2016 and 2015 -103,642,984)	19	**0.6**	0.6
Additional paid-in capital		**52.8**	52.8
Treasury shares	19	**(21.7)**	(21.7)
Retained earnings		**26.0**	26.0
Total shareholders' equity		**57.7**	57.7
Total liabilities and shareholders' equity		**551.9**	655.0

See accompanying notes which are an integral part of these consolidated financial statements.

Consolidated statements of cash flows (in US dollars)

Year ended March 31	2016 $m	2015 $m
Cash flows from operating activities		
Net income (loss) from operations	0.6	(17.2)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	1.7	2.2
Allowance for loan losses	18.5	17.8
Changes in assets and liabilities:		
Decrease in interest payable	0.1	(0.6)
(Increase) decrease in Government of Belize Receivable	(7.2)	6.6
(Increase) decrease in other and current assets	(3.6)	21.2
(Decrease) in other and current liabilities	(1.4)	(1.8)
Net cash provided by operating activities	8.7	28.2
Cash flows from investing activities		
Purchase of property, plant and equipment (net of disposals)	(1.5)	(1.4)
Decrease (increase) in interest-bearing deposits with correspondent banks	40.9	(1.6)
Decrease (increase) in investment securities	34.4	(8.9)
Decrease in Government of Belize securities	–	20.0
Decrease (increase) in loans (net of charge-offs) to customers	13.3	(12.1)
Net cash provided (utilized) by investing activities	87.1	(4.0)
Cash flows from financing activities		
(Decrease) in deposits	(101.8)	(15.7)
Unrealized gains on securities	(0.6)	0.6
Net cash (utilized) by financing activities	(102.4)	(15.1)
Net change in cash, cash equivalents and due from banks	(6.6)	9.1
Cash, cash equivalents and due from banks at beginning of year	183.6	174.5
Cash, cash equivalents and due from banks at end of year	177.0	183.6
Cash - financial services	172.1	183.6
Cash - corporate	4.9	–
	177.0	183.6

See accompanying notes which are an integral part of these consolidated financial statements.

Notes to consolidated financial statements

Note 1 – Description of business

Introduction

Caribbean Investment Holdings Limited ("Caribbean Investment" or "the Company") is a company incorporated in Belize. Caribbean Investment's shares are traded on the Alternative Investment Market of the London Stock Exchange and the Bermuda Stock Exchange. Caribbean Investment is a holding company with no independent business operations or assets other than its investment in its wholly-owned subsidiaries, intercompany balances and holdings of cash and cash equivalents. Caribbean Investment's businesses are conducted through its principle operating subsidiaries: The Belize Bank Limited, which directly owns Belize Bank International Limited, and Belize Corporate Services Limited which together comprise the Finance Services segment.

The business of the subsidiaries consist of the following: The Belize Bank Limited ("BBL") which is incorporated and based in Belize and focuses on the provision of financial services and lending to domestic clients, (ii) Belize Bank International Limited ("BBIL") (formerly named British Caribbean Bank International Limited) which is incorporated and based in Belize and focuses on the provision of financial services and lending to international clients, and (iii) Belize Corporate Services Limited which provides corporate services to clients in Belize and internationally. Caribbean Investment and its subsidiaries are referred herein as the "Group".

Note 2 – Summary of significant accounting policies

Basis of presentation

The Group maintains its accounting records in accordance with the legislative requirements of the country of incorporation of each of the Group's companies. The accompanying consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply, in all material respects, with the requirements of accounting principles generally accepted in the United States of America ("US GAAP").

Basis of consolidation

The consolidated financial statements have been prepared in United States dollars ("US Dollars") in accordance with US GAAP and as described below, the consolidated financial statements incorporate the financial statements of the Group. Caribbean Investment consolidates its subsidiaries all of which are wholly owned. The results of subsidiary companies acquired or disposed of during the year are included in the consolidated financial statements from the effective date of acquisition or up to the date of disposal. All intercompany balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of consolidated financial statements in accordance with US GAAP requires management to make extensive use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These management estimates include, among others, an allowance for doubtful receivables, asset impairments, and useful lives for depreciation and amortization, loss contingencies, and allowance for loan losses. Estimates are based on historical experience, where applicable and other assumptions that management believes are reasonable under the circumstances. Actual results may differ materially from those estimates under different assumptions or conditions.

Government of Belize securities and other securities

Government of Belize securities available for sale are carried at fair value with unrealized holding gains and losses reported in other comprehensive income. The securities which consist of Government of Belize ("GOB") treasury notes and/or treasury bills, are issued by the Central Bank of Belize at a discount usually with a 90 day maturity. Interest income is recognized using the interest method during the period to maturity. BBL has the intent and ability to hold its securities to maturity, so they are carried at cost, which approximates market value. There is no active market for these securities in Belize.

Other marketable securities held as short term investments and available for sale are carried at fair value with unrealized holding gains and losses reported in other comprehensive income. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

Loans and interest income recognition

Loans are stated at the principal amount outstanding, net of unearned income and allowance for loan losses. Interest income is recorded on an accrual basis. When either the collectability of principal or interest is considered doubtful, or payment of principal or interest is ninety days or more past due, loans are placed on non-accrual status and previously accrued but unpaid interest is charged against current year interest income, unless the amounts are in the process of collection. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Interest expenses

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of interest expenses.

Allowance for loan losses

The Group's consideration as to the adequacy of the allowance to provide for probable loan losses is based on a continuing review of the loan portfolio and includes, but is not limited to, consideration of the actual loan loss experience, the present and prospective condition of each borrower and its related industry, general economic conditions prevailing from time to time, and the estimated fair value of the related collateral. Loans are charged off against allowance for loan losses when the amounts are deemed to be uncollectible.

The Group measures its estimates of impaired loans in accordance with Accounting Standards Codification (ASC) Topic 310-10-35 Receivables subsequent measurements. Under the Group's accounting policy for allowance for loan losses, the Group evaluates the probability of an impairment loss when a loan is classified as non-accrual. An impairment loss is recognized and fully provided for if the recorded amount of the non-accrual loan exceeds the estimated fair value of the underlying collateral less costs to sell. Impairment on certain loans is also measured by calculating the present value of estimated collections and comparing with the carrying amount. The amount of the difference (carrying value less estimated collections) is recorded as a provision. The majority of the Group's loan portfolio is fully collateralized. Interest income on impaired loans is recognized only when payments are received and the Group considers that the loan will remain performing.

Leases

Leasing transactions are classified according to the lease agreements which specify the rewards and risks associated with the leased property. Leasing transactions for the Group are operating leases. Payments made under operating leases are recorded as an expense.

Acceptances

The Group's potential liability under acceptances is reported as a liability in the balance sheet. The Group has equal and offsetting claims against its customers in event of a call on these commitments, which are reported as an asset.

Foreign currency translation

The reporting and functional currency of the Group is US dollars. The results of subsidiaries and associates, which account in a functional currency other than US dollars, are translated into US dollars at the average rate of exchange for the year. The assets and liabilities of subsidiaries and associates which account in a functional currency other than US dollars are translated into US dollars at the rate of exchange ruling at the balance sheet date. The rate of exchange between the US dollar and the Belize dollar has been fixed since 1976 at the rate of Belize $2.00 equals US $1.00.

Transaction gains/losses are included in determining net income for the period in the financial statements.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and highly liquid instruments, with an original maturity of three months or less. As a result of the short-term maturity of these financial instruments, their carrying value is approximately equal to their fair market value.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided to write off the cost of the assets over their estimated useful lives, using the straight-line method, over the following periods:

Buildings	life of building, not exceeding 50 years
Leasehold improvements	term of lease
Motor vehicle	4 years
Fixtures, fittings and office equipment	3 to 10 years

The carrying value of property, plant and equipment is evaluated periodically in relation to the operating performance and future cash flows of the underlying businesses. Where, in the opinion of the Group, an impairment in the value of property plant and equipment has occurred, the amount of the impairment is recorded in the consolidated statements of comprehensive income.

Repairs and maintenance costs are expensed as incurred. Gains and losses arising on the disposal of property, plant and equipment are included in the consolidated statements of income.

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, are capitalized with the carrying amount of the component subject to depreciation. Other subsequent expenditures are capitalized only when they increase future economic benefits embodied in an item of property, plant and equipment. All other expenditures are recognized as expenses in the consolidated statement of income as incurred.

Stock-based compensation

Stock-based employee compensation is accounted for under the fair value based method of accounting (note 19).

Other assets classified as held for sale

Other assets classified as available for sale are stated at the lower of cost or net realizable value in the balance sheet. The Group assesses at the end of each reporting period whether there is objective evidence that an asset held for sale is impaired and the realizable value is less than book value. Realizable value is ascertained by reference to one of the following: market bid prices where these have been available, independent valuation where these have been obtained or Management estimates of realizable value.

Taxation

Taxation has been provided for in the financial statements in accordance with Belize legislation currently in force. The Bank is a member of a PIC Group as defined by Section 115 of the International Business Companies Act, 1990 of Belize, as amended in 1995 (IBC Act). In 1998, corporate taxation was replaced by business tax which, in the case of banks, is assessed on revenues less interest expense. Taxes, other than business tax, are recorded within operating expenses.

New accounting standards

In fiscal 2016, consideration was given to the implications, if any, of the following new and revised standards:

ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Topic 326 amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. This ASU affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. This ASU is the final version of Proposed ASU 2012-260 - Financial Instruments - Credit Losses (Subtopic 825-15), which has been deleted. Management is currently evaluating the impact of adoption, but does not anticipate it will have a material effect on the Group's financial position, results of operation or cash flows.

ASU 2016-03, Intangibles - Goodwill and Other (Topic350); Business Combinations (Topic 805); Consolidation (Topic 810); Derivatives and Hedging (Topic 815): The amendments in this Update address the concerns of private company stakeholders about the required assessment of preferability when electing a private company accounting alternative for the first time after its effective date. Those stakeholders were concerned about scenarios in which it may be suboptimal for a private company to elect the alternative by its effective date because of the private company's facts and circumstances or because it was unaware of the alternative until after the effective date. Stakeholders were also concerned about whether private companies were benefitting from the favourable transition provisions provided in other Updates when a private company voluntarily elects an alternative in those Updates after Its effective date. ASU 2016-03 The amendments in this Update resolve stakeholders' concerns by making the guidance in Updates 2014-02, 2014-03, 2014-07, and 2014-18 effective immediately by removing their effective dates. Management is currently evaluating the impact of adoption, but does not anticipate it will have a material effect on the Group's financial position, results of operation or cash flows.

ASU 2016-02, Leases (Topic 842) The amendments in this Update create Topic 842, Leases, and supersede the leases requirements in Topic 840, Leases. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful Information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. Management is currently evaluating the impact of adoption, but does not anticipate it will have a material effect on the Group's financial position, results of operations or cash flows.

ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) The amendments in this Update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee). The amendments in this Update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Management is currently evaluating the impact of adoption, but does not anticipate it will have a material effect on the Group's financial position, results of operations or cash flows.

The Group has adopted, on a prospective basis, all of the FASB pronouncements it considers relevant to its operations. Adoption has not materially impacted the Group's financial condition or results of operations.

Note 3 – Segmental analysis

The Group reports its business activities through two reportable operating segments: financial services and corporate.

Financial services comprise of all banking activities and related corporate services for the Group's customers. Financial services product offerings include lending, traditional savings accounts, term deposits, non-interest bearing and interest bearing checking accounts as well as credit and debit cards and offering of payment processing services to merchants.

Corporate activities comprise the cost of executive management of the Caribbean Investment Group's activities, the administrative cost of operating a listed company together with other related general corporate costs. Corporate income comprises principally consultancy fees received.

Segment information for the reportable segments is set out below:

	Total Group		Financial Services		Corporate	
At March 31	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Assets	551.9	655.0	546.6	648.8	5.3	6.2
Liabilities	494.2	597.3	486.1	589.2	8.1	8.1
Capital Expenditures	3.0	1.6	3.0	1.6	–	–

	Total Group		Financial Services		Corporate	
At March 31	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Net interest income	29.7	31.7	29.7	31.7	–	–
Non interest income	14.3	17.2	13.2	16.0	1.1	1.2
Total revenues, net of interest expense	44.0	48.9	42.9	47.7	1.1	1.2
Provision for loan losses	18.5	17.8	18.5	17.8	–	–
Depreciation and amortization	1.7	1.8	1.7	1.8	–	–
Other non interest expense	22.4	27.4	18.5	22.6	3.9	4.8
Non recurring net (gain) loss	(1.8)	14.5	(1.8)	14.5	–	–
Gain (loss) before taxes	3.2	(12.6)	6.0	(9.0)	(2.8)	(3.6)
Taxation	2.6	4.6	2.6	4.6	–	–
Gain (loss) net of tax	0.6	(17.2)	3.4	(13.6)	(2.8)	(3.6)

Note 4 – Interest income

Year ended March 31	**2016** **$m**	2015 $m
Interest on loans to customers	**31.6**	34.5
Interest on Government of Belize securities	–	0.1
Interest on Government of Belize receivable	**5.2**	4.4
Interest on other securities	**0.8**	1.4
	37.6	40.4

Note 5 – Interest expense

Year ended March 31	**2016** **$m**	2015 $m
Interest on customer deposits	**7.9**	8.7
	7.9	8.7

Note 6 – Non-interest income

Year ended March 31	**2016** **$m**	2015 $m
Foreign exchange income and commissions	**3.7**	4.4
Customer service and letter of credit fees	**2.0**	2.9
Credit card fees	**4.6**	5.4
Other financial and related services	**1.7**	2.4
Other income	**1.2**	0.9
	13.2	16.0

Note 7 – Non-interest expense

Year ended March 31	**2016** **$m**	2015 $m
Salaries and benefits	**9.6**	9.7
Premises and equipment	**3.6**	3.9
Other expenses	**7.0**	10.8
	20.2	24.4

Note 8 – Non-recurring net income (loss)

Year ended March 31	**2016** **$m**	2015 $m
Tax Dispute Settlement (i)	–	(3.5)
Impairment release / (charge) (ii)	**1.8**	(11.0)
	1.8	(14.5)

(i) In August 2013, the Commissioner of Income Tax in Belize issued business tax demand notices to The Belize Bank Limited for taxes of $15.3 million being taxes allegedly due for the period January 01, 2001 to December 31, 2005 together with interest and penalties. The Bank challenged the validity of the demand notices given that a Settlement Deed dated March 22, 2005 had settled in full all and any liabilities, assessments and claims arising in respect of business tax in respect of all periods up to and including March 31, 2005. In March 2015, however, the Supreme Court ruled that the Bank was liable for a tax component only which totalled $4.7 million. This was paid in full by the Bank. An existing tax accrual of $1.2 million was offset against the charge of $4.7 million.

(ii) The impairment release of $1.8 million relates to the Arbitration Award dated January 15, 2013 which is described more fully in Note 14. Management continues to pursue the full recovery of the Arbitration Award.

Note 9 – Loss per ordinary share

Basic and diluted loss per ordinary share have been calculated on the net loss attributable to ordinary shareholders and the weighted average number of ordinary shares in issue (net of treasury shares) in each year.

Year ended March 31	2016 $m	2015 $m
Net income / (loss)	**0.6**	(17.2)
Weighted average number of shares (basic and diluted)	**99,902,085**	99,902,085
Basic and diluted gain (loss) per ordinary share	**$0.01**	$(0.17)

During the year ended March 31, 2016 and 2015 the weighted average effect of share options and warrants has been excluded from the calculation of diluted earnings per ordinary share, since they were anti-dilutive under the treasury method of earnings per share calculation (note 18).

Note 10 - Cash, cash equivalents and due from banks

At March 31	2016 $m	2015 $m
Cash in hand	**10.0**	10.9
Balances with the Central Bank of Belize (i)	**150.7**	115.5
Balances with other financial institutions	**9.9**	55.0
Amounts in the course of collection	**1.5**	2.2
	172.1	183.6

(i) BBL is required to maintain an average minimum non-interest bearing deposit balance with the Central Bank of Belize equal to 8.5 percent of the average deposit liabilities of BBL. At March 31, 2016, the actual amount was 35.7 percent. In addition, BBL must maintain an average aggregate of approved liquid assets (which include the average minimum non-interest bearing deposit balance maintained with the Central Bank of Belize) equal to 23 percent of the average deposit liabilities of BBL. At March 31, 2016, the actual amount was 41.5 percent.

Note 11 - Investment securities

At March 31	2016 $m	2015 $m
Securities available for sale	**6.7**	25.5
Securities held to maturity	**5.1**	20.7
	11.8	46.2

The fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

At March 31, 2016	Gross amortized cost $m	Gross unrealized gains $m	Gross unrealized losses $m	Fair value $m
Government sponsored entities and agencies	1.0	–	(0.2)	0.8
Corporate bonds	5.7	0.2	–	5.9
	6.7	0.2	(0.2)	6.7

At March 31, 2015	Gross amortized cost $m	Gross unrealized gains $m	Gross unrealized losses $m	Fair value $m
Government sponsored entities and agencies	4.5	0.1	(0.2)	4.4
Corporate bonds	20.4	0.7	–	21.1
	24.9	0.8	(0.2)	25.5

A summary of securities as of March 31, 2016, by contractual maturity, is presented below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

At March 31	2016 $m	2015 $m
Due in one year or less	**–**	25.5
Due in one to five years	**4.8**	19.7
Due from five to ten years	**4.5**	–
Due after ten years	**2.5**	1.0
	11.8	46.2

Management has the positive intent and ability to hold the securities classified as held to maturity to their respective maturities, so they are carried at amortized cost which approximates market value.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

Note 12 – Loans - net

At March 31	2016 $m	2015 $m
Loans (net of unearned income):		
Residential mortgage	**40.6**	46.9
Credit card	**8.7**	8.4
Other consumer	**42.8**	46.9
Commercial - real estate	**69.3**	69.6
Commercial - other	**180.2**	191.8
	341.6	363.6
Allowance for loan losses:		
Residential mortgage	**(0.3)**	(0.8)
Credit card	**(0.3)**	(0.4)
Other consumer	**(2.8)**	(3.0)
Commercial - real estate	**(9.1)**	(4.9)
Commercial - other	**(40.4)**	(34.0)
	(52.9)	(43.1)
Loans (net of unearned income and allowance for loan losses):		
Residential mortgage	**40.3**	46.1
Credit card	**8.4**	8.0
Other consumer	**40.0**	43.9
Commercial - real estate	**60.2**	64.7
Commercial - other	**139.8**	157.8
Loans (net of unearned income and allowance for loan losses)	**288.7**	320.5

The maturity range of loans outstanding is shown in the table below. All loans, other than consumer loans, are legally repayable on demand; however, they are disclosed below as if they run to their full maturity.

At March 31, 2016	Due in one year or less $m	Due after one year through five years $m	Due after five years $m	Total $m
Residential mortgage	0.1	3.3	37.2	40.6
Credit card	8.5	0.1	0.1	8.7
Other consumer	7.0	30.0	5.8	42.8
Commercial - real estate	15.3	7.9	46.1	69.3
Commercial - other	54.1	34.9	91.2	180.2
	85.0	76.2	180.4	341.6

At March 31, 2015	Due in one year or less $m	Due after one year through five years $m	Due after five years $m	Total $m
Residential mortgage	4.4	2.9	39.6	46.9
Credit card	8.1	0.1	0.2	8.4
Other consumer	7.2	32.9	6.8	46.9
Commercial - real estate	12.5	9.2	47.9	69.6
Commercial - other	63.7	32.1	96.0	191.8
	95.9	77.2	190.5	363.6

The table below reflects outstanding loans by industry classifications.

At March 31	2016 $m	2015 $m
Utilities	**5.8**	7.4
Government	**5.7**	3.1
Agriculture	**48.5**	45.3
Marine Products	**13.1**	13.4
Forestry	**0.2**	0.4
Manufacturing	**2.1**	2.2
Tourism	**29.9**	40.3
Building and construction	**38.5**	44.7
Real estate	**98.7**	101.8
Financial institutions	**0.1**	0.1
Distribution	**30.5**	31.8
Professional services	**4.1**	3.9
Transportation	**5.0**	5.0
Entertainment	**0.1**	1.0
Mining and exploration	**7.8**	7.9
Credit card	**8.4**	8.4
Other consumer loans	**43.1**	46.9
Total Loans	**341.6**	363.6

The Group categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Group analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a monthly basis. The Group uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are those loans that are over three and up to six months in arrears or overdraft accounts where interest charges have not been covered by deposits for three to less than six months.

Doubtful: Loans classified as doubtful are those loans that are over six and up to twelve months in arrears or overdraft accounts where interest charges have not been covered by deposits for six to less than twelve months.

Loss: Loans classified as loss are those loans that are over twelve months in arrears or overdraft accounts where interest charges have not been covered by deposits for twelve months or more.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass related loans.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

At March 31, 2016	Pass $m	Sub - standard $m	Doubtful $m	Loss $m	Total $m
Residential mortgage	32.9	2.0	3.2	2.5	40.6
Credit card	8.6	–	–	0.1	8.7
Other consumer	40.8	0.2	0.5	1.3	42.8
Commercial - real estate	35.1	19.1	0.8	14.3	69.3
Commercial - other	120.9	3.5	20.8	35.0	180.2
	238.3	24.8	25.3	53.2	341.6

At March 31, 2015	Pass $m	Sub - standard $m	Doubtful $m	Loss $m	Total $m
Residential mortgage	40.8	2.3	0.3	3.5	46.9
Credit card	8.2	–	0.1	0.1	8.4
Other consumer	43.7	0.3	1.0	1.9	46.9
Commercial - real estate	55.7	0.2	0.1	13.6	69.6
Commercial - other	130.5	1.6	0.5	59.2	191.8
	278.9	4.4	2.0	78.3	363.6

Individually impaired loans with allocated allowances were as follows:

At March 31	**2016 $m**	2015 $m
Non-accrual loans as at year end	**103.3**	84.6
Less: impairment allowance on loans to customers	**(52.9)**	(43.1)
At the end of the year	**50.4**	41.5

The Group considers all non-accrual loans as individually classified impaired loans.

The following table presents the recorded investment in non-accrual by class of loans:

At March 31	**2016 $m**	2015 $m
Residential mortgage	**0.5**	10.9
Credit card	**0.2**	0.2
Other consumer	**2.0**	3.2
Commercial - real estate	**33.0**	13.9
Commercial - other	**67.6**	56.4
	103.3	84.6

The interest income which would have been recorded during the year ended March 31, 2016 had all non-accrual loans been current in accordance with their terms was approximately $26.3 million (2015 - $10.1 million).

All non-accrual loans are considered as individually impaired loans.

As a result of the nature of these financial instruments, the estimated fair market value of the loan portfolio is considered by the Group to approximate its carrying value. Loan loss provisioning is based on management's estimate of the recoverability of non-performing loans after allowing for the estimated net realizable value of collateral held.

At March 31, 2016, the Group had total loans outstanding to certain officers and employees of $8.3 million (2015 - $8.3 million) at preferential rates of interest varying between 0.0 percent and 12.0 percent per annum, repayable over varying periods not exceeding 25 years. At March 31, 2016, these loans included nil (2015 - nil) classified within commercial - other loans. The transfer value loss on these loans had not been considered material and therefore had not been included in these financial statements.

Changes in the allowance for loan losses were as follows:

Year ended March 31	**2016 $m**	2015 $m
At beginning of year	**43.1**	31.1
Impairment allowance charged during the year	**18.5**	17.8
Charge-offs	**(8.7)**	(5.8)
Net movement in year	**9.8**	12.0
At end of year	**52.9**	43.1

Recoveries from loan losses have been immaterial to date.

Note 13 – Property, plant and equipment - net

At March 31	2016 $m	2015 $m
Cost:		
Land	1.5	1.5
Premises	15.5	14.8
Furniture and fixtures and other equipment	5.1	4.9
Computer and office equipment	5.5	5.5
Motor vehicles	2.1	1.9
Total cost	29.7	28.6
Less: total accumulated depreciation	(13.4)	(12.2)
	16.3	16.4

Total capital expenditures for the year ended March 31, 2016 was $1.5 million (2015 - $2.2 million). Total depreciation expense for the year ended March 31, 2016 was $1.7 million (2015 - $1.8 million).

For the purpose of impairment testing for the year ended March 31, 2016, the Group's management has combined all the subsidiaries into one reporting unit. As a result, no impairment was determined as at March 31, 2016.

As at March 31, 2016 the Group's buildings, vehicles, ATMs and other equipment were insured for $22.0 million. (2015 - $21.1million)

As at March 31, 2016 historical cost of fully depreciated fixed assets amounted to $7.4 million (2015 - $5.4 million). They are recognized in the statement of financial position at zero residual value.

Note 14 – Government of Belize receivable

At March 31	2016 $m	2015 $m
Amounts receivable from GOB - 2007 loan note arbitration award (i) and (ii)	45.0	39.2
Less: Impairment allowance	(19.8)	(21.2)
	25.2	18.0

Movements in impairment allowance on due from Government of Belize.

At March 31	2016 $m	2015 $m
At beginning of the year	(21.2)	(10.2)
Reduction (charge) during the year	1.4	(11.0)
At the end of the year	(19.8)	(21.2)

(i) In August 2009 Caribbean Investment Holdings Limited and BBL successfully obtained an arbitral award against the GOB of approximately $22.1 million in respect of damages for breaches of undertakings by the GOB, plus costs (the "Award"). The Award, amongst other things, took account of a prior receivable from the GOB concerning the overpayment of business tax by the Bank.

The Award was made following an arbitration which took place under the London Court of International Arbitration ("LCIA") Rules. It was commenced by Caribbean Investment and BBL which claimed damages for the breach of undertakings by the GOB in a Settlement Deed, as amended, which inter alia purported to afford certain tax treatment to BBL. Caribbean Investment and BBL sought enforcement of the Award in the Belize Supreme Court and, in December 2010, the Supreme Court determined that the Award may be enforced in Belize. The GOB appealed this decision to the Court of Appeal and, in August 2012, the Court of Appeal handed down its judgment. In this judgment the majority of the Court upheld the GOB's appeal on the basis that Part IV of the Belize Arbitration Act, pursuant to which BBL had sought to enforce the Award, was void. However, there was a strong dissenting judgment by Justice of Appeal Mendes. BBL appealed this decision and, on July 26, 2013, the Caribbean Court of Justice ("CCJ") ruled that the Arbitration Act was constitutional; however, the CCJ also declined to enforce the Award on grounds of public policy.

In order to increase the enforcement options open to Caribbean Investment and BBL, they applied to the English High Court for an order that the Award be enforceable in the same manner as a judgement or order of an English court to the same effect. That order was granted and judgement was entered against the GOB by the English High Court on February 26, 2013.

On July 1, 2014, Caribbean Investment and BBL commenced court proceedings in the US to confirm the Award or alternatively to recognize and enforce the UK judgement. On January 30, 2015 the GOB filed a motion to dismiss the petition to confirm the Award and the complaint to enforce the UK judgment as well as a preliminary response to the petition to confirm the Award.

Caribbean Investment and BBL filed their opposition to the motion to dismiss and their reply to the GOB's response on March 2, 2015. The GOB filed its reply on April 1, 2015. On June 24, 2015 the United States District Court for the District of Columbia confirmed the Award and entered judgement in favour of Caribbean Investment and BBL against the GOB for the monetary portion of the Award. It also ordered that the monetary portion of the Award be converted to United States dollars, applying the conversion rate as of the date the Award was issued plus interest at the annual rate of 3.38% compounded annually between August 20, 2009 and June 24, 2015.

On July 01, 2015, the Court confirmed that the total amount payable to Caribbean Investment and BBL by the GOB pursuant to the judgment to be $27,429,996. The GOB appealed the decision of the US Court of Appeals. On May 13, 2016 the US Court of Appeals affirmed the decision of the US District Court and the judgment in favour of Caribbean Investment and BBL. Management understands from US legal counsel that GOB may apply for an "en banc" review of the decision or may apply to the US Supreme Court for an appeal. Management has received no indications from GOB to date that it will pursue any of these routes.

(ii) On March 23, 2007, a loan note was issued to BBL by GOB under the terms of a settlement deed entered into by BBL and GOB on the same date ("2007 Loan Note"). The 2007 Loan Note had been entered into by the GOB in order to satisfy the GOB's liability under a 2004 guarantee for debts and liabilities owed to BBL by Universal Health Services.

While BBL had initially recorded the receivable owed by GOB under the 2007 Loan Note, the CBB directed BBL to remove this receivable from BBL's accounts; this exclusion resulted in the auditor issuing a qualified opinion on BBL's financial statements for the fiscal year ended March 31, 2012.

Management's opinion that it was probable that BBL would recover the receivable was based at the time on the progress of the various legal proceedings it had pursued in the recovery of the 2007 Loan Note that had been issued by the GOB to BBL. BBL at the time of the preparation of the financial statements for March 31, 2012, was claiming the sums due under the Loan Note in an LCIA arbitration (the "Arbitration").

On January 15, 2013 the arbitral tribunal made its Final Award in the Arbitration in favour of BBL. It declared that the 2007 Loan Note was valid and binding and ordered the GOB to pay BBL the sum of $18,447,754 plus interest and costs.

In order to increase the enforcement options open to BBL, BBL applied to the English High Court for an order that the Final Award be enforceable in the same manner as a judgment or order of an English court to the same effect. That order was granted on February 20, 2013 and it was served on the GOB on May 15, 2013.

Award Enforcement proceedings were commenced against GOB in the Belize Supreme Court in 2013. On February 17, 2015, the Belize Supreme Court refused to enforce the Final Award on the grounds that enforcement would be contrary to public policy. BBL has appealed this decision to the Belize Court of Appeal.

The gravamen of the appeal is that the trial judge erred: (i) in deciding that the validity and legality of the 2007 Loan Note needed to be considered notwithstanding the binding decision of the Privy Council and the Arbitration Tribunal, and (ii) in concluding that the Final Award is unenforceable because the Executive lacked capacity to bind the Government to the expenditure created by the 2007 Loan Note without legislative approval. The case was heard by the Belize Court of Appeal on June 16, 2016. Belize counsel has advised that BBL's appeal is strong and that there is a high likelihood of success before the appellate courts. A decision is expected in October 2016.

BBL filed a petition to enforce the Final Award in federal court in the US on April 18, 2014. The GOB filed both a motion to dismiss and a response to the petition to confirm the Final Award on August 8, 2014. BBL then filed its opposition to the motion to dismiss and its reply to the GOB's response on October 17, 2014. The GOB filed its reply in support of its motion to dismiss on January 5, 2015. GOB had applied for a stay pending the outcome of similar litigation. However, the stay was denied on January 29, 2016. On June 8, 2016 the US District Court confirmed the Final Award and entered judgement in favour of the Bank against the GOB for the monetary portion of the Award. It also ordered that the monetary portion of the Award be converted to United States dollars, applying the conversion rate as of the date the Award was issued plus interest at the annual rate of 17% compounded annually between September 8, 2012 and June 8, 2016.

On July 12, 2016, the United States District Court ordered that judgment be entered in favour of The Belize Bank Limited against the Government of Belize in the amount of $19,086,210 plus $16,099,216 in prejudgment interest totalling $35,185,427.16. GOB has now indicated it will appeal the decision of the US District Court.

Note 15 – Other assets

At March 31	2016 $m	2015 $m
Accrued interest receivable	1.1	1.8
Other assets	16.4	6.4
	17.5	8.2

Note 16 – Deposits

At March 31	2016 $m	2015 $m
Term deposits	232.0	254.5
Demand deposits	169.4	249.2
Savings deposits	74.1	73.6
	475.5	577.3

The maturity distribution of certificates of deposit of $0.1 million or more was as follows:

At March 31	2016 $m	2015 $m
3 months or less	45.6	70.6
Over 3 and to 6 months	39.2	35.6
Over 6 and to 12 months	83.6	85.8
Over 12 months	18.4	12.8
Deposits less than $0.1 million	45.2	49.7
	232.0	254.5

Included in certificates of deposit at March 31, 2016 were $6.4 million (2015 - $16.0 million) of certificates of deposit denominated in US dollars and nil (2015 - $0.9 million) denominated in UK pounds sterling. Included in demand deposits at March 31, 2016 were $28.2 million (2015 - $110.7 million) of demand deposits denominated in US dollars and $0.6 million (2015 - $3.0 million) denominated in UK pounds sterling.

As a result of the short-term maturity of these financial instruments, their carrying value is considered by the Group to approximately equal their fair market value.

Note 17 – Provisions

Provisions are recognized for present obligations arising as a result of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, which can be reliably estimated.

At March 31	2016 $m	2015 $m
At the beginning of the year	–	–
Additions	0.4	–
Amounts utilised	–	–
Unused amounts reversed	–	–
At the end of the year	0.4	–

Note 18 – Commitments, contingencies and regulatory matters

(i) The Group's loans due from customers primarily result from its core business and reflect a broad customer base, although there are certain concentrations by economic activity. Credit limit, ongoing credit evaluations and account monitoring procedures are utilized to minimize the risk of loss. Substantially the Group's entire loan portfolio is fully collateralized. As a consequence, concentrations of credit risk are considered to be limited.

The Group has foreign exchange risk which arises from accepting foreign currency deposits, primarily with respect to UK pound sterling. To manage its foreign exchange risk related to UK pounds sterling deposits, the Group closely monitors the performance of UK pounds sterling and relies on its treasury management to eliminate any UK pounds sterling exposure at short notice if necessary.

(ii) The Group is a party to financial instruments with off-balance-sheet risks in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. The Group grants short-term credit facilities to customers for periods of up to twelve months generally to meet customers' working capital requirements. These facilities are repayable on demand and are subject to review at any time. In practice, such reviews are carried out at periodic intervals agreed with the customer. Outstanding commitments to extend credit at March 31, 2016 amounted to $21.4 million (2015 - $21.4 million).

Since many of the commitments are expected to expire without being drawn upon in full, and because of the fluctuating aspect of the facilities, the total commitment amounts do not necessarily represent future cash requirements. The Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral required by the Group for the extension of credit is based on the Group's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties and assets.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. The terms of such guarantees do not normally exceed more than one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The terms and conditions reflected in letters of credit and guarantees provided by the Group, in so far as they may impact the fair market value of these instruments, are market sensitive and are not materially different from those that would have been negotiated at March 31, 2016. The Group holds similar collateral to that held for the short-term facilities described above and such commitments are generally fully collateralized. Outstanding standby letters of credit and financial guarantees written at March 31, 2016 amounted to $1.5 million (2015 - $1.7 million).

The nature, terms and maximum potential amount of future payments BBL could be required to make under the stand-by letters of credit and guarantees are detailed as follows:

At March 31	2016 $m	2015 $m
Up to one year	1.5	1.7
Over one year	–	–
	1.5	1.7

(iii) The net operating lease rental charge for the years ended March 31, 2016 and 2015 included in the consolidated statements of income was $0.1 million and $0.2 million, respectively.

(iv) In the ordinary course of business, the Group is subject to pending and threatened legal actions and proceedings. As litigation develop that may have a material effect, the Group, in conjunction with outside counsel, evaluates the matter on an ongoing basis in light of potentially relevant factual and legal developments. These may include settlement discussions and rulings by courts, arbitrators or others.

Information Is provided below regarding the nature of a contingency and the amount of the claim related to this loss contingency. Based on current knowledge, management does not believe that loss contingencies arising from pending matters, including the matter described herein will have material effect on the financial position or liquidity of the Group. However, in light of the inherent uncertainties involved in such matters, an adverse outcome in one or more of such matters could be material to the Group's results or operations or cash flows for any particular reporting period.

Evergreen litigation

Claim No. 656 of 2014 was filed in the Supreme Court of Belize by Evergreen E-Pay Solutions Ltd. ("Evergreen") against the Belize Bank International Limited ("BBIL"). Evergreen is claiming an early termination fee of $2.3 million pursuant to an unexecuted draft Internet Payment Services Provider Agreement made between the parties, together with legal costs and interests.

The hearing of the Claim took place in July 2015 and on December 18, 2015. The Supreme Court of Belize delivered a judgement In Evergreen's favour against BBIL awarding Evergreen a total of $3.3 million in damages.

BBIL has by Civil Appeal No. 4 of 2016 appealed this decision to the Court of Appeal and the matter is expected to be heard later in 2016. Counsel to BBIL has advised that it is highly probable that BBIL will be successful in its appeal. BBIL has also applied to the Court of Appeal for a stay of execution of the Supreme Court of Belize's judgement pending the outcome of the appeal on the substantive case.

A complaint was also filed by Evergreen E-Pay Solutions Inc. (a different company to Evergreen) in the United States Southern District of Florida against Caribbean Investment Holdings Limited, Belize Bank Limited, BBIL, and other persons claiming $967,540 and other damages.

The Group engaged US counsel to defend this complaint which the Group considers to be frivolous, vexatious, and totally without merit. Following their engagement, US counsel advised the Group that it is highly probable that the Group will be successful in defending this claim.

This original claim was dismissed by the Court; although the Court permitted Evergreen E-Pay to file an Amended Complaint which they did on August 16, 2016. On September 14, 2016, BBIL and the other defendants located in Belize filed a Motion to dismiss the Amended Complaint for lack of personal jurisdiction. US Counsel has advised that it is highly probable that the Motion filed by the Belize defendants will be successful. A date for the hearing of the Motion has not yet been received, but the matter is expected to be heard this year.

(v) As explained in note 14, Caribbean Investment and BBL are engaged in legal proceedings in which they are pursuing certain claims against the GOB. The information required by ASC 450 Contingencies is not disclosed because Caribbean Investment believes that to do so would materially prejudice the proceedings. Caribbean Investment and BBL, having received the advice of external advisers, expects to recover a significant part of the amounts recorded as part of other assets in note 14. Certain provisions have therefore been made to reflect the possibility of under-recovery of the full amount. Legal costs are expensed as incurred.

(vi) In the ordinary course of business, the Company's subsidiaries are subject to regulatory examinations, information gathering requests and enquiries. As a regulatory matter develops that may have a material effect, the Company and the relevant subsidiaries, in conjunction with outside counsel, evaluate the matter on an ongoing basis in light of potentially relevant factual and legal developments. These may include settlement discussions and rulings by courts, arbitrators or others. Based on current knowledge and discussions with independent legal counsel, management does not believe that the outcome of any regulatory matter that is unresolved at March 31, 2016 would have a material adverse effect on the financial position or liquidity of the Company or its subsidiaries as of March 31, 2016.

(vii) BBL and BBIL, as fully authorized banking entities, are subject to detailed regulatory requirements in Belize. These requirements are principally set by the Central Bank of Belize. As of March 31, 2016 and for the year then ended, BBL and BBIL substantially met all of its obligations and requirements under such regulations. These regulations may, in the future, change or be amended. At such time, BBL and BBIL will make all endeavours to follow, as soon as reasonably practicable, all such revised regulations.

(viii) The Labor Act states that where an employee has been continuously employed for a period of five to ten years and his employment is terminated by the employer, the employee is entitled to be paid a severance pay equal to one week's wages for each complete year of service. However, if the employee resigns, is terminated due to gross misconduct, or dies prior to the completion of ten years, then the Group is not liable to pay severance. The Group has estimated the contingent liability related to such severance payment for employees with more than five but less than ten years to be $251 thousand (2015 - $239 thousand).

Note 19 – Share capital

At March 31	2016 $m	2015 $m
Authorized		
Ordinary shares:		
200,000,000 shares of no par value	2.0	2.0
Preference shares:		
14,000,000 shares of $1.00 each	14.0	14.0
Total authorized	16.0	16.0
Issued and outstanding		
Ordinary shares:		
103,642,984 shares of no par value (2015 - 103,642,984)	0.6	0.6

During the two years ended March 31, 2016, there has been no movement in issued and outstanding shares.

Treasury Shares

There has been no movement in treasury shares, held at cost, since April 1, 2013 as follows:

	Number	$m
At April 1, 2013	3,740,889	21.7
At March 31, 2014	3,740,889	21.7
At March 31, 2015	3,740,889	21.7
At March 31, 2016	3,740,889	21.7

Share Options

Caribbean Investment has granted employee share options which are issued under its share option plan which reserves ordinary shares for issuance to the Company's executives, officers and key employees. The options have been granted under the Long-Term Incentive Plans (the "Incentive Plans"). The Incentive Plans are administrated by a committee of the board of directors of Caribbean Investment. Options are generally granted to purchase Caribbean Investment ordinary shares at prices which equate to or are above the market price of the ordinary shares on the date the option is granted. Conditions of vesting are determined at the time of grant but options are generally vested and become exercisable for a period of between three and ten years from the date of grant and all have a maximum term of ten years.

	Number of share options	Weighted average exercise price
Outstanding at April 1, 2013	7,250,000	$1.95
Outstanding at March 31, 2014	7,250,000	$1.95
Outstanding at March 31, 2015	7,250,000	$1.95
Outstanding at March 31, 2016	7,250,000	$1.95

At March 31, 2016, no outstanding options were exercisable.

In August 2008, Caribbean Investment granted options over 7,000,000 ordinary shares at an exercise price of $6.50 per share which vest and are exercisable in three equal instalments on August 1, 2012, August 1, 2013 and August 1, 2014. These options are exercisable until August 1, 2018.

In May 2009, Caribbean Investment granted options over a further 250,000 ordinary shares at the exercise price of $6.50 per share which vest and are exercisable in three instalments on June 1, 2013, June 1, 2014 and June 1, 2015. These options are exercisable until June 1, 2020.

The exercise price of these options was adjusted to $1.95 following the demerger of Waterloo Investment Holdings Limited from the Group in 2011.

ASC 718-10, Stock compensation, allows companies to measure compensation cost in connection with share option plans and schemes using a fair value based method. Using the fair value based method consistent with the provisions of ASC 718-10, the Group took a charge of nil in the consolidated statement of comprehensive income during the year ended March 31, 2016 (2015 - $0.5 million).

The fair value of each option grant in 2008 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

Expected stock price volatility	30 percent
Risk free interest rate	3.7 percent
Expected dividend yield	Nil percent
Expected life of option	7.0 years

In April 2007, Caribbean Investment issued 7,692,308 warrants to subscribe for new ordinary shares of the Company at an exercise price of $6.50 per new ordinary share, until March 23, 2013. These Warrants have lapsed in accordance with their terms. In November 2007, Caribbean Investment issued a further 11,094,442 warrants to subscribe for new ordinary shares of the Company at an exercise price of $6.50 per new ordinary share, until August 2, 2014. The exercise price of these warrants was adjusted to $1.95 following the demerger of Waterloo Investment Holdings Limited from the Group in 2011. These Warrants have lapsed in accordance with their terms.

Note 20 – Regulatory Capital Requirements

The regulatory capital guidelines measure capital in relation to the credit and market risks of both off- and on-balance sheet items by applying various risk weighting. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on individual banks' financial position, results of operations, or liquidity. The following table sets forth the capital requirements and the actual ratios of BBL and BBIL.

	Minimum Required	**Actual 2016**	Actual 2015
The Belize Bank Limited	9.0%	**15.1%**	15.9%
Belize Bank International Limited	10.0%	**43.4%**	18.3%

Note 21 – Pensions and other plans

The Group operates various defined contribution pension plans in Belize which cover a number of salaried employees. In general, the plans provide benefits at normal retirement age based on a participant's individual accumulated fund including any additional voluntary contributions. The Group's pension contribution expense for the years ended March 31, 2016 and 2015 amounted to $157,851 and $132,143 respectively.

Note 22 – Related party transactions

Related parties include associated companies, key management personnel, the Board of Directors ("Directors"), and entities which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by key management personnel and Directors.

Lord Ashcroft, KCMG, PC is a controlling shareholder in Caribbean Investment and Waterloo Investment Holdings Limited ("WIHL").

Consultancy services

During the year ended March 31, 2016 and the year ended March 31, 2015 the Group provided administrative services to WIHL. The aggregate fees paid by WIHL to the Group amounted to $1.0 million (2015 - $1.2 million). The amount owed by WIHL to Caribbean Investment at March 31, 2016 was $0.2 million (2015 - $3.6 million). The balance is non-interest bearing and unsecured.

Key management personnel and directors

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling our activities, directly or indirectly. They include senior members of the organization called the Executive Team. The Executive Team is comprised of the Executive Chairman and individuals that report directly to him, including the Chief Operations Officer, Chief Risk Officer and Chief Financial Officer and heads of certain business units.

For the accounting period the Group has concluded a number of transactions that were carried out as usual activity with related parties. These transactions included loans, deposits and trading financing.

Year ended March 31, 2016

Statement of financial position In US Dollars	Key management $m	Other related parties $m	**Total $m**
Loans to customers:			
Opening balance	0.6	7.9	**8.5**
Granted during the year	0.4	1.3	**1.7**
Repaid during the year	(0.7)	(6.9)	**(7.6)**
Closing balance	0.3	2.3	**2.6**
Less:			
Allowance for impairment	–	–	**–**
Net loans	0.3	2.3	**2.6**
Customer deposits			
Opening balance	0.1	2.8	**2.9**
Ceased to be related	–	–	**–**
Deposited during the year	1.6	10.9	**12.5**
Currency translation	–	–	**–**
Withdrawn during the year	(1.6)	(10.7)	**(12.3)**
Closing balance	0.1	3.0	**3.1**

Year ended March 31, 2015

Statement of financial position In US Dollars	Key management $m	Other related parties $m	**Total $m**
Loans to customers:			
Opening balance	0.6	5.7	**6.3**
Granted during the year	0.3	3.6	**3.9**
Repaid during the year	(0.3)	(1.4)	**(1.7)**
Closing balance	0.6	7.9	**8.5**
Less:			
Allowance for impairment	–	–	**–**
Net loans	0.6	7.9	**8.5**
Customer deposits:			
Opening balance	0.2	2.5	**2.7**
Ceased to be related	(0.1)	–	**(0.1)**
Deposited during the year	2.1	11.9	**14.0**
Currency translation	–	–	**–**
Withdrawn during the year	(2.1)	(11.6)	**(13.7)**
Closing balance	0.1	2.8	**2.9**

The aggregate remuneration of the directors of the Company for the year ended March 31, 2016 amounted to $0.9 million (2015 - $1.1 million).

Note 23 – Fair value of financial instruments

Fair value is the exchange price receivable for an asset or payable for transferring a liability in the most advantageous market for the asset or liability in an arms-length transaction between market participants on the measurement date using any of the following three levels of input:

Level 1 – Quoted prices for identical assets or liabilities in active markets that the Bank has the ability to access on the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or other inputs that can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect the Group's evaluation of the assumptions that market participants would use in pricing an asset or liability.

The amounts reported in the balance sheets for cash and due from banks and interest-bearing deposits approximate fair value due to the short term maturity of these instruments. The Group places its cash and cash equivalent deposits only with financial institutions with an acceptable internationally accepted credit rating.

The carrying amounts of securities are estimated to approximate fair value given the market-sensitive interest rates, maturity terms, and market price of these instruments.

The carrying amounts of loans receivable, net of valuation allowances, is estimated to approximate fair value based on their respective interest rates, risk-related rate spreads and collateral consideration. These facilities are generally payable on demand and are subject to review at the discretion of the Group.

The fair value of the Group's deposit liabilities approximates carrying values based on comparative rates offered by other banks for deposits of similar remaining maturities.

Accrued expenses and other liabilities reflect current market conditions.

With regards to financial instruments with off-balance sheet risk, it is not practicable to estimate the fair value of future financing commitments. However, the terms and conditions reflected in acceptances and commitments for financing assistance are market-sensitive and are not materially different from those that would have been negotiated as of March 31, 2016.

In the opinion of the Group's management, all other financial instruments reflect current market conditions and their fair value is not expected to differ materially from carrying amounts.

Note 24 – Risk and uncertainties

Financial risk management

Overview

The Board has ultimate responsibility for the establishment and oversight of the Group's risk management framework.

In view of the operational structure of the Group, the implementation and execution of the risk management framework rests with the operating entities which comprise the Group.

The Board monitors this through regular meetings with the key operational subsidiary personnel and through the receipt of regular and detailed reports from them.

Group Risk Unit

The Group has established a Group Risk Unit, a completely independent unit, separate from the business development aspect of both BBL and BBIL's operations, and has delegated the responsibility for the overall management of risk within BBL and BBIL to this unit.

The Group Risk Unit, headed by a Chief Risk Officer, provides central oversight of risk management across the Group to ensure that the full spectrum of risks facing the Group are properly identified, measured, monitored, and controlled to minimize adverse outcomes.

Policies, procedures, and management systems have been implemented by the Group capable of managing, assessing, and developing risk responses to mitigate risks, which are unacceptable or outside of its risk tolerances.

The Group Risk Unit reports to the BBL, BBIL and Caribbean Investment boards periodically with an independent assurance of the BBL and BBIL's overall risk positions, its view on emerging risks and mitigating alternatives.

Credit risk

Credit Risk is the risk of financial loss if a customer or counterparty fails to meet its contractual obligations. The objective of BBL's and BBIL's credit risk management function is to maximize their respective risk-adjusted rates of return by maintaining credit risk exposure within acceptable parameters.

The BBL and BBIL boards have delegated overall responsibility for the management of their respective credit risk to the Group Risk Unit, which include:

(i) Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk rating and reporting, legal and documentary procedures, as well as compliance with regulatory and statutory requirements.

(ii) Establishing the authorization structure for the approval and renewal of credit facilities. The BBL and BBIL boards have delegated limits of authority to the Group Risk Committee (GRC) and the Group Risk Unit (GRU).

(iii) Reviewing and assessing credit risk. The Risk Unit assesses all credit exposures in excess of the established limits, prior to facilities being committed. Renewals and reviews are subject to the same review process.

(iv) Limiting concentrations of exposure to counterparties, industries, credit risk buckets (Borrower's Risk Rating), and market liquidity.

(v) Developing and maintaining BBL's and BBIL's risk rating system (Borrower's Risk Rating), categorizing exposures according to the degree of risk of financial loss faced and to focus the management on the inherent risks.

(vi) Provide advice, guidance, and specialist skills to business units to promote the best practices by BBL and BBIL in the management of credit risk.

Each business unit is responsible to implement BBL's and BBIL's credit policies and procedures, with credit approval authorities delegated from the Group Risk Unit. Each business unit is also responsible for the quality and performance of its credit portfolio and for monitoring all credit risks in its portfolio. BBL and BBIL use a risk rating system which groups retail, commercial, and corporate accounts into various risk categories (Borrower's Risk Rating) to facilitate the management of risk on both an individual account and portfolio basis. The evaluation of the risk and trend informs the credit decision and determines the intensity of the monitoring process. The current risk rating system consists of seven classifications reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk ratings lies with the final approving unit or committee. Risk ratings are subject to annual reviews.

BBL's and BBIL's credit control process promotes early detection of deterioration and prompt implementation of remedial action and where necessary, or as required once conditions set by the regulator are met, accounts are transferred from performing to non-performing status.

At March 31, 2016, BBL's maximum exposure to credit risk amounted to $470.1 million and that of BBIL's amounted to $58.8 million.

Credit concentration risk

BBL and BBIL are potentially subject to financial instrument concentration of credit risk through their cash equivalents and credit extensions. BBL and BBIL perform periodic evaluations of the relative credit standing of financial institutions they transact with and places their cash and cash equivalents only with financial institutions with a high credit rating.

BBL and BBIL have a credit risk concentrated in the tourism, real estate and agriculture industries but do not foresee a material credit risk associated with individual credit extensions in these industries beyond what has already been prudently recognised and provided for in the financial statements.

BBL and BBIL monitor their risk concentration associated with credit extensions on a continuous basis in an effort to mitigate their exposure.

At March 31, 2016, BBL's total loan portfolio amounted to $279.6 million. Of that total, 38 loans totalling $142.3 million were over $1.0 million in value. This concentration of $142.3 million represented approximately 51 percent of the total exposure of BBL.

At March 31, 2016, BBIL's total loan portfolio amounted to $53.3 million. Of that total, 17 loans totalling $39.8 million were over $1.0 million in value. This concentration of $41.9 million represented approximately 75 percent of the total exposure of BBIL.

Market risk

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices which includes interest rate risk and foreign currency risk.

BBL's and BBIL's market risk management seeks to limit the amount of possible losses on owned positions incurred by them within a fixed period due to currency fluctuations, changes of securities and interest rates by establishing a system of limits on transactions and conducting other procedures below.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Belize operates a fixed exchange rate, which is fixed at 2:1 with the US Dollar. BBL and BBIL do not engage in speculative foreign exchange activity, since their primary focus is to profitably supply customers' foreign exchange requirements, with the US dollar dominating trading. BBL, for example, estimates that a 5% appreciation of the US dollar against the Belize dollar would result in a gain to BBL of $11.1 million, while the same appreciation in the other currencies against the Belize dollar would on aggregate result in a gain of $0.1 million.

Liquidity risk

Liquidity risk is the risk arising from BBL's and BBIL's potential inability to meet all potential obligations when they come due or only being able to meet those obligations at an excessive cost.

BBL's and BBIL's liquidity management framework is designed to ensure that there are adequate reserves of cash and other liquid securities to satisfy current prospective commitments. BBL and BBIL manage liquidity risk by preserving a large base of core deposits from retail and institutional customers, and by maintaining a liquid pool of marketable securities. Contingent funding sources include but are not limited to domestic interbank credit and foreign correspondent bank short-term facilities.

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment because BBL and BBIL do not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

BBL and BBIL believe that despite the fact that a substantial portion of customer deposit accounts are on demand and less than one month, diversification of these deposits by number and type of client and the past experience of BBL and BBIL would indicate that deposits provide a long-term and stable source of funding.

In respect of BBL, Belize dollar deposits are substantially locked into the Belizean monetary system due to the Fixed Exchange Rate Regime currently in effect and the fact that there is also exchange control thereby reducing the risk of funds leaving the Belize bank deposit market.

The liquidity risk is further mitigated by the fact that the loan portfolio of both BBL and BBIL are primarily "on-demand" loans which the bank is legally entitled to call in the event that liquidity conditions tightened.

The following tables detail BBL's and BBIL's remaining contractual maturity of their non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on earliest date on which the banks can be required to pay. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the banks may be required to pay.

Belize Bank Limited

At March 31, 2016	On demand $m	Due within 3 months $m	3 months to 1 year $m	Over 1 year / no-maturity $m	Total $m
Customer accounts	220.2	73.2	133.6	17.6	444.6
Other liabilities and payables	8.2	–	–	–	8.2
Total liabilities	228.4	73.2	133.6	17.6	452.8
Credit related commitments	21.2	–	0.2	0.9	22.3
Assets held for managing liquidity risk	276.3	15.5	37.5	227.9	557.2

Belize Bank Limited

At March 31, 2015	On demand $m	Due within 3 months $m	3 months to 1 year $m	Over 1 year / no-maturity $m	Total $m
Customer accounts	308.0	97.7	129.7	13.8	549.2
Other liabilities and payables	7.8	–	–	–	7.8
Total liabilities	315.8	97.7	129.7	13.8	557.0
Credit related commitments	1.9	1.8	6.4	12.3	22.4
Assets held for managing liquidity risk	281.9	23.3	42.6	252.4	600.2

Belize Bank International Limited

At March 31, 2016	On demand $m	Due within 3 months $m	3 months to 1 year $m	Over 1 year / no-maturity $m	Total $m
Customer accounts	24.4	12.3	2.1	–	38.8
Provisions	0.4	–	–	–	0.4
Other liabilities and payables	20.1	–	–	–	20.1
Total liabilities	44.9	12.3	2.1	–	59.3
Credit related commitments	–	–	–	–	–
Assets held for managing liquidity risk	28.3	1.5	4.6	32.7	67.1

Belize Bank International Limited

At March 31, 2015	On demand $m	Due within 3 months $m	3 months to 1 year $m	Over 1 year / no-maturity $m	Total $m
Customer accounts	108.4	14.6	5.8	–	128.8
Provisions	–	–	–	–	–
Other liabilities and payables	0.5	–	–	–	0.5
Total liabilities	108.9	14.6	5.8	–	129.3
Credit related commitments	–	0.6	–	–	0.6
Assets held for managing liquidity risk	89.5	2.7	15.1	65.3	172.6

Interest rate risk

Interest rate risk arises from the possibility that changes in market interest rates will affect the future cash flows or fair values of financial instruments. BBL's and BBIL's objective in the management of interest rate risk is to reduce the sensitivity of its earnings and overall portfolio value to variations in interest rates. The strategy employed to achieve this involves active pricing of loan and deposit products, increasing market share of loans and funding and changing the mix of products in accordance with market trends.

BBL's and BBIL's Asset Liability Committee periodically monitors interest rate gaps to estimate potential impact of changes in net interest income.

At March 31, 2016, BBL had assets of $385.6 million which are interest rate sensitive.

At March 31, 2016, BBL had liabilities of $438.3 million which are interest rate sensitive.

At March 31, 2016, BBIL had assets of $45.9 million which are interest rate sensitive.

At March 31, 2016, BBIL had liabilities of $38.6 million which are interest rate sensitive.

Operational risk management

Operational risk is defined as the risk of losses arising as a result of failures in data processing systems or internal control systems and procedures for banking and other transactions, including losses arising as a result of mistakes or intentional violation by BBL's and BBIL's employees or other persons and force-majeure circumstances.

Control failures with respect to operational risks generally result in damage to BBL's and BBIL's reputation, generate litigation against BBL and cause financial losses.

Operational risk is managed in accordance with internal policies developed by BBL that establish the responsibilities of the governing bodies of BBL and BBIL (and subunits) and procedures for identification, evaluation, monitoring and control of operational risks at all level of BBL's and BBIL's business-processes.

To minimise exposure to operational risk BBL and BBIL use the following procedures:

(i) Segregation of responsibilities.

(ii) Appointment of separate departments to manage different aspects of operational risk.

(iii) Security of informational systems.

(iv) Regulation of business processes and the control over them.

(v) Examination of new products and services, including initial implementation of new services on a limited scope.

(vi) Regular training for personnel.

(vii) Gathering and analysing information about losses incurred by BBL due to operational risk.

(viii) Establishing reserves for operational losses – amounts transferred by mistake, accounts receivable, losses from fraudulent operations, etc.

To evaluate operational risk BBL and BBIL use the basic indicator approach. BBL and BBIL maintain their equity at a level sufficient to cover the risk using the gross profit of the last three years as an indicator.

Legal risk management

Legal risk is the risk of losses arising due to potential non-compliance with laws, rules, regulations, prescribed practices, or ethical standards in any jurisdiction in which BBL and BBIL operate.

To decrease legal risk, it is the policy of BBL and BBIL to comply with all requirements of the relevant supervising bodies including non-mandatory recommendations. BBL and BBIL employ a team of lawyers and have a system of coordinated internal and external policies which are set out in appropriate documentation.

Note 25 – Subsequent events

Subsequent events have been evaluated through September 26, 2016, which is the date the financial statements of the Group were available for issue. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

Corporate information

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