1st NATIONAL BANK ST. LUCIA LIMITED

Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean dollars)

1st NATIONAL BANK ST. LUCIA LIMITED

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of 1st National Bank St. Lucia Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of 1st National Bank St. Lucia Limited ("the Bank"), which comprise the statement of financial position as at December 31, 2019, the statements of income, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Saint Lucia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Shareholders of 1st National Bank St. Lucia Limited

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report 2019 but does not include the financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report 2019, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Shareholders of 1st National Bank St. Lucia Limited

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

Chartered Accountants
Castries, Saint Lucia
May 29, 2020

1ST NATIONAL BANK ST. LUCIA LIMITED

Statement of Financial Position

December 31, 2019

(Expressed in Eastern Caribbean dollars)

	Notes	2019	2018
Assets		$	$
Cash and balances with Central Bank	7	64,840,476	57,859,437
Due from other banks	8	33,841,222	28,003,720
Treasury bills	9	31,311,935	36,422,936
Loans and advances to customers	10	553,069,683	502,107,145
Investment securities	12	112,055,254	115,691,583
Defined benefit asset	21	2,721,000	2,743,000
Property and equipment	13	12,895,793	13,069,542
Right-of-use assets	14	7,301,319	-
Intangible assets	15	477,475	614,282
Other assets	17	5,277,870	8,055,755
Total assets		823,792,027	764,567,400
Liabilities			
Due to customers	18	695,999,847	645,176,129
Other liabilities	19	16,914,982	23,368,014
Lease liabilities	14	7,637,606	-
Current income tax payable		1,151,484	2,744,757
Provisions	20	144,028	39,131
Deferred income tax liability	22	638,434	309,399
Total liabilities		722,486,381	671,637,430
Equity:			
Capital and reserves:			
Share capital	23	20,000,000	20,000,000
Reserves	24	22,861,104	21,450,049
Retained earnings		58,444,542	51,479,921
Total equity		101,305,646	92,929,970
Total liabilities and equity		823,792,027	764,567,400

See accompanying notes to the financial statements.

Approved by the Board of Directors:

Nigel A. Fulgence **President**

Geraldine Lendor-Gabriel **Director**

1ST NATIONAL BANK ST. LUCIA LIMITED

Statement of Income

For the year ended December 31, 2019

(Expressed in Eastern Caribbean dollars)

	Notes	2019	2018
		$	$
Interest and similar income	25	39,959,751	38,341,195
Interest expense and similar charges	25	(12,669,620)	(10,997,073)
Net interest income		27,290,131	27,344,122
Other operating income	26	14,456,684	13,103,946
Net interest and other operating income		41,746,815	40,448,068
Other expenses	27	(23,689,435)	(21,881,810)
Impairment losses on financial assets	30	(4,371,811)	(4,723,925)
Profit before income tax		13,685,569	13,842,333
Income tax expense	31	(4,047,216)	(3,913,403)
Profit for the year		9,638,353	9,928,930
Earnings per share			
(expressed in EC$ per share)			
Basic and diluted	32	1.49	1.56

See accompanying notes to the financial statements.

1ST NATIONAL BANK ST. LUCIA LIMITED

Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2019

(Expressed in Eastern Caribbean dollars)

	2019	2018
	$	$
Profit for the year	9,638,353	9,928,930
Other comprehensive income:		
Items that will never be reclassified to profit or loss:		
Re-measurement of defined benefit asset (Note 21)	(277,000)	(51,000)
Revaluation adjustment on land and buildings	-	(2,274,832)
Net fair value gains on equity investments at FVOCI	879,627	-
Items that are or may be reclassified subsequently to profit or loss:		
Net fair value gains/(losses) on debt investments at FVOCI	239,042	(1,159,554)
Other comprehensive income (loss) for the year	841,669	(3,485,386)
Total comprehensive income for the year	10,480,022	6,443,544

See accompanying notes to the financial statements.

1ST NATIONAL BANK ST. LUCIA LIMITED

Statement of Changes in Equity

For the year ended December 31, 2019

(Expressed in Eastern Caribbean dollars)

	Share capital	Statutory reserve	Revaluation reserve	Revaluation reserve on FVOCI investments	Other reserves	Retained earnings	Total equity
	$	**$**	**$**	**$**	**$**	**$**	**$**
Balance at December 31, 2018	20,000,000	10,666,264	1,427,166	(214,191)	9,570,810	51,479,921	92,929,970
Total comprehensive income							
Profit for the year	-	-	-	-	-	9,638,353	9,638,353
Other comprehensive income							
Fair value gain on FVOCI investment securities	-	-	-	1,118,669	-		1,118,669
Re-measurement of defined benefit asset (Note 21)	-	-	-	-	-	(277,000)	(277,000)
Total other comprehensive income	-	-	-	1,118,669	-	(277,000)	841,669
Total comprehensive income	-	-	-	1,118,669	-	9,361,353	10,480,022
Net transfer from retained earnings (Note 24)	-	1,927,670	52,497	-	3,000,000	(4,980,167)	-
Reserve for loan loss provision (Note 24)	-	-	-	-	(3,221,005)	3,221,005	-
Reserve for interest recognized on non-performing loans (Note 24)	-	-	-	-	(1,466,776)	1,466,776	-
Profit share 2018	-	-	-	-	-	(511,233)	(511,233)
Transactions with owners							
Dividends to shareholders (Note 33)	-	-	-	-	-	(1,593,113)	(1,593,113)
Balance at December 31, 2019	20,000,000	12,593,934	1,479,663	904,478	7,883,029	58,444,542	101,305,646

See accompanying notes to the financial statements.

(Expressed in Eastern Caribbean dollars)

	Share capital	Statutory reserve	Revaluation reserve	Revaluation reserve on FVOCI investments	Other reserves	Retained earnings	Total equity
	$	**$**	**$**	**$**	**$**	**$**	**$**
Balance at December 31, 2017	20,000,000	8,680,478	3,708,673	945,363	3,217,260	48,160,670	84,712,444
Impact of adopting IFRS 9 at January 1, 2018	-	-	-	-	-	3,402,984	3,402,984
Restated balance at January 1, 2018	20,000,000	8,680,478	3,708,673	945,363	3,217,260	51,563,654	88,115,428
Total comprehensive income							
Profit for the year	-	-	-	-	-	9,928,930	9,928,930
Other comprehensive income							
Fair value loss on debt investment securities	-	-	-	(1,159,554)	-	-	(1,159,554)
Revaluation of land and buildings	-	-	(2,274,832)	-	-	-	(2,274,832)
Re-measurement of defined benefit asset (Note 21)	-	-	-	-	-	(51,000)	(51,000)
Total other comprehensive income	-	-	(2,274,832)	(1,159,554)	-	(51,000)	(3,485,386)
Total comprehensive income	-	-	(2,274,832)	(1,159,554)	-	9,877,930	6,443,544
Net transfer from retained earnings (Note 24)	-	1,985,786	(6,675)	-	-	(1,979,111)	-
Reserve for loan loss provision (Note 24)	-	-	-	-	5,007,668	(5,007,668)	-
Reserve for interest recognized on non-performing loans (Note 24)	-	-	-	-	1,345,882	(1,345,882)	-
Profit share 2017	-	-	-	-	-	(354,512)	(354,512)
Transactions with owners							
Dividends to shareholders (Note 33)	-	-	-	-	-	(1,274,490)	(1,274,490)
Balance at December 31, 2018	20,000,000	10,666,264	1,427,166	(214,191)	9,570,810	51,479,921	92,929,970

See accompanying notes to the financial statements.

1ST NATIONAL BANK ST. LUCIA LIMITED

Statement of Cash Flows

For the year ended December 31, 2019

(Expressed in Eastern Caribbean dollars)

	Notes	2019	2018
Cash flows from operating activities		$	$
Profit for the year		9,638,353	9,928,930
Adjustments for:			
Depreciation and amortization	13,15	1,450,533	1,171,632
Depreciation on right-of-use assets	14	907,000	-
Loss on disposal of property and equipment	26	27,807	79,985
Loss on disposal of investment	26	390,214	-
Impairment losses on financial assets	30	4,371,811	4,723,925
Defined benefit income	21	(56,000)	(52,000)
Dividend income	26	(193,893)	(162,243)
Tax expense		4,047,216	3,913,403
Interest and similar income		(39,959,751)	(38,341,195)
Interest expense and similar charges		12,669,620	10,997,073
Cash flows before changes in operating assets and liabilities		(6,707,090)	(7,740,490)
Change in mandatory reserve deposits with Central Bank		(400,695)	17,199,591
Change in loans and advances to customers		(56,764,409)	(116,418,587)
Change in other assets		2,777,885	(166,954)
Change in due to customers		50,680,820	64,479,432
Change in other liabilities		(6,503,895)	17,995,023
Cash used in operations		(16,917,384)	(24,651,985)
Interest and similar income received		41,915,120	35,369,503
Interest expense and similar charges paid		(12,526,723)	(11,257,121)
Profit sharing and bonuses paid		(511,233)	(354,512)
Defined benefit contributions paid		(199,000)	(196,000)
Income taxes paid		(5,311,455)	(1,151,469)
Net cash generated from/(used in) operating activities		6,449,325	(2,241,584)
Cash flows from investing activities			
Purchase of treasury bills		(2,795,925)	(25,488,359)
Proceeds from sale of treasury bills		7,760,512	20,497,274
Purchase of investment securities		(16,776,818)	(30,986,890)
Proceeds from sale of investment securities		20,867,605	13,430,365
Dividends received		193,893	162,243
Proceeds from sale of property and equipment		4,207	1,350
Acquisition of property and equipment	13	(1,171,992)	(3,592,639)
Acquisition of intangible assets	15	-	(233,029)
Net cash generated from/(used in) investing activities		8,081,482	(26,209,685)
Cash flows from financing activities			
Principal portion of lease liabilities	14	(570,713)	-
Dividends paid		(1,542,248)	(1,122,315)
Net cash used in financing activities		(2,112,961)	(1,122,315)
Net increase/(decrease) in cash and cash equivalents		12,417,846	(29,573,584)
Cash and cash equivalents at 1 January		47,647,462	77,221,046
Cash and cash equivalents at 31 December	16	60,065,308	47,647,462

See accompanying notes to the financial statements.

(Expressed in Eastern Caribbean dollars)

1. Reporting entity

1st National Bank St. Lucia Limited, ("the Bank") was incorporated in Saint Lucia in December 1937 and continued under the Companies Act of 1996. It commenced trading in January 1938 and provides commercial and retail banking services, including the acceptance of deposits, granting of loans and advances, credit and debit cards, foreign exchange services, and online and mobile banking services.

The Bank is subject to the provisions of the Banking Act of Saint Lucia No. 3 of 2015 and the Companies Act, Cap 13.01 of the revised laws of St. Lucia. It is regulated by the Eastern Caribbean Central Bank (ECCB), the Financial Services Regulatory Authority and the Eastern Caribbean Securities Regulatory Commission.

The Bank serves the public from six branches and one Bureau De Change all located in Saint Lucia. The registered office and principal place of business of the Bank is #21 Bridge Street, Castries, Saint Lucia.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors and authorized for issue on May 29, 2020.

(b) Basis of preparation

These financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position that are measured at fair value:

- Debt investments measured at fair value through other comprehensive income
- Equity investments designated at fair value through other comprehensive income
- Land and buildings measured at revalued amounts
- Net defined benefit asset, which is measured at the fair value of plan assets less the present value of the defined benefit obligation, as explained in Note 21.

(c) Functional and presentation currency

These financial statements are presented in Eastern Caribbean dollars, which is the Bank's functional currency. All amounts have been rounded to the nearest dollar, unless otherwise indicated.

(d) Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of, assets, liabilities, and the income and expenses. Actual results may differ from those estimates.

2. Basis of preparation (cont'd)

(d) Use of judgements and estimates (cont'd)

Estimates, and underlying assumptions, are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgements

For the purpose of these financial statements which are prepared in accordance with IFRS, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the agreed principles set out in IFRS. Judgements made by management in the application of IFRS that have a significant effect on the amounts recognized in these financial statements are set out below:

– *Classification of financial assets*
Notes 2 (e), 3 (e)(ii) and 12: Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

– *Expected credit losses*
Notes 2 (e), 3 (e)(v) and 11: Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

– *Income taxes*
Notes 3 (k) and 31: Significant judgment is required in determining the provision for income taxes including any liabilities for tax audit issues. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

– *Leases - Determining the lease term of contracts with renewal and termination options*
Notes 2 (e), 3(p) and 14: The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

The Bank included the renewal period as part of the lease term for all leases of property relevant to the branches, Bureau De Change and administrative building.

Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

2. Basis of preparation (cont'd)

(d) Use of judgements and estimates (cont'd)

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in these financial statements are set out below:

– *Leases - Determining the incremental borrowing rate*
Notes 2 (e), 3(p) and 14: The present value of the lease payments of the leased properties is determined using the discount rate representing the Bank's incremental borrowing rate. This rate represents the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Significant judgement was applied to determine the incremental borrowing rate.

– *Impairment of financial assets*
Notes 2 (e) and 3 (e)(v): Determining inputs into the ECL measurement model, including incorporation of forward-looking information.

– *Impairment of financial assets*
Note 3 (e)(v): Key assumptions used in estimating recoverable cash flows. To the extent that the net present value of estimated cash flows differs by +/-5%, the portfolio provision would be estimated to be $1,762,992 /$1,929,326 [lower/higher].

– *Measurement of defined benefit obligations*
Notes 3 (j) and 21: The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of key actuarial assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

– *Determination of fair values*
Note 3 (e)(iv) and 5: The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3(e)(v). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

2. Basis of preparation (cont'd)

(d) Use of judgements and estimates (cont'd)

Assumptions and estimation uncertainties *(cont'd)*

– *Determination of fair values (cont'd)*
When measuring the fair value of an asset or a liability, the Bank uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: Quoted market price (unadjusted) in an active market for identical assets and liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the same fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(e) Adoption of new accounting standards or amendments to standards

The Bank adopted the following standards from January 1, 2019.

IFRS 16 *Leases*

IFRS 16 *Leases* supersedes IAS 17 *Leases*, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a Single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. At the date of initial application, there were no lease contracts with a lease term of 12 months or less that do not contain a purchase option ('short-term leases'), and there were no lease contracts for which the underlying asset is of low value ('low-value assets').

2. Basis of preparation *(cont'd)*

(e) *Adoption of new accounting standards or amendments to standards (cont'd)*

IFRS 16 *Leases* *(cont'd)*

The effect of adoption IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	$
Assets	
Right-of-use assets	8,208,319
Liabilities	
Lease liabilities	8,208,319
Total adjustment on equity:	
Retained earnings	-

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	2,672,761
Weighted average incremental borrowing rate as at 1 January 2019	8.86%
Discounted operating lease commitments at 1 January 2019	2,176,943
Add: Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	6,031,376
Less: Commitments relating to short-term leases or low value assets	-
Lease liabilities as at 1 January 2019	**8,208,319**

The Bank has lease contracts for leased property. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Bank; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under trade and other receivables and trade and other payables, respectively.

2. Basis of preparation (cont'd)

(e) Adoption of new accounting standards or amendments to standards (cont'd)

IFRS 16 *Leases (cont'd)*

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Bank.

Leases previously classified as finance leases

The Bank did not have lease contracts previously classified as finance leases.

Leases previously accounted for as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

IFRIC 23 *Uncertainty over Income Tax Treatments*

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profits (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

There was no impact on the Bank's financial statements from the adoption of this interpretation.

Amendments to IFRS 9 Financial Instruments

Amendments to IFRS 9 Financial Instruments relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

The Company anticipates that these standards and amendments will be adopted in the initial period when they become mandatorily effective. The impact of these are currently being assessed by the Company.

There was no impact on the Bank's financial statements from the adoption of this amendment.

2. Basis of preparation (cont'd)

(f) New standards, and interpretations of and amendments to existing standards that are not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2019 and earlier application is permitted; however, the Bank has not early adopted these new or amended standards in preparing these financial statements.

None of these is expected to have a significant impact on the Bank's financial statements.

3. Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these financial statements unless otherwise stated.

(a) Functional and presentation currency

These financial statements are presented in Eastern Caribbean dollars, which is the Bank's functional currency, except when otherwise indicated. All amounts presented in Eastern Caribbean dollars have been rounded to the nearest dollar.

(b) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the values were determined.

(c) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and non-restricted balances with the Central Bank and deposits with other banks.

(d) Sale and repurchase agreements

Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to financial institutions or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. They are measured at amortized cost using the effective interest rate.

(e) Financial instruments

(i) *Non-derivative financial assets and financial liabilities – Recognition, initial measurement and derecognition*

The Bank initially recognizes loans and advances, deposits and debt securities on the date they are originated. All other financial assets and financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(i) Non-derivative financial assets and financial liabilities – Recognition, initial measurement and derecognition (cont'd)

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control, over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as "Assets pledged as collateral", if the transferee has the right to sell or re-pledge them.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities.

The Bank derecognizes a financial liability when its contractual obligations are discharged, or cancelled, or when they expire.

(ii) Classification and measurement

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.

Financial assets are measured at initial recognition at fair value and are classified and subsequently measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at initial recognition at fair value and is classified and subsequently measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(ii) *Classification and measurement (cont'd)*

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other equity investments are classified as measured at FVTPL. In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition. However, for financial assets held at initial application, the business model assessment is based on facts and circumstances at that date. Also, IFRS 9 permits new elective designations at FVTPL or FVOCI to be made on the date of initial application and permits or requires revocation of previous FVTPL elections at the date of initial application depending on the facts and circumstances at that date.

Business model assessment

IFRS 9 requires that financial assets are classified on the basis of the Bank's business model for managing such assets unless it makes an irrevocable election to designate the asset at fair value through profit or loss. The business model refers to how financial assets are managed in order to generate cash flows. The Bank determines its business model at the level that best reflects how it manages its portfolios of financial assets to achieve its business objectives. Judgment is used in determining the Bank's business models that is supported by relevant, objective evidence including:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How performance of the business model and the financial assets held within the model are evaluated and reported to key management personnel;
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);
- The frequency and significance of past sales activity, the reason for those sales as well as expectations about future sales; and
- The significant risks affecting the performance of the business model for example, market risk and credit risk and the activities undertaken to manage those risks.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(ii) Classification and measurement (cont'd)

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The business model assessment is forward looking in that if cash flows are realized in a manner that is different from expectations the classification of the remaining assets in the business model is not changed but instead that information is used to assess new instruments acquired.

Applicability to the Bank

The Bank's business models fall into two main categories, which are indicative of the key strategies used to generate returns as follows:

- Hold to collect contractual cash flows (HTC) - the objective of this business model is to hold assets in order to collect contractual cash flows. Under this model, the Bank holds loans and investment securities to collect contractual principal and interest cash flows. Sales are expected to be insignificant or infrequent; and
- Hold to collect contractual cash flows and to sell (HTCS) - the objective of this business model is to both collect contractual cash flows and to sell. Under this model the Bank holds investment securities to manage everyday liquidity needs and sales are significant in value.

Assessment of whether contractual cash flows are solely payments of principal and interest - SPPI assessment
For classification purposes the Bank first reviews the terms of the instruments to determine whether they give rise on specified dates to cash flows that meet the SPPI test.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(ii) Classification and measurement (cont'd)

Under IFRS 9 – Applicability to the Bank

Due from banks, treasury bills, loans and advances to financial institutions and loans and advances to customers

The Bank measured due from banks, treasury bills, loans and advances to financial institutions, loans and advances to customers and investment securities at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets are measured at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payment so principal and interest on the principal amount outstanding.

Loans and advances and debt instruments recognized initially at fair value are subsequently measured in accordance with the classification of financial assets policy of the Bank. The Bank's loan portfolio is carried at amortized cost using the effective interest method which represents the gross carrying amount less allowance for credit losses.

Investment Securities

Investment securities are initially recorded at fair value and subsequently measured according to their respective classification. The Bank has no financial instruments that are measured at FVTPL.

Debt securities carried at amortized cost are measured using the effective interest method and are presented net of any allowance for credit losses, calculated in accordance with our policy for expected credit losses (ECL), as described below. Interest income, including the amortization of premiums and discounts are recorded in profit or loss.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(ii) Classification and measurement (cont'd)

Under IFRS 9 – Applicability to the Bank (cont'd)

Impairment gains or losses recognized on amortized cost securities are recorded in the allowance for impairment. When a debt instrument measured at amortized is sold, the difference between the sales proceeds and the amortized cost of the security at the time of sale is recorded as other gains, in profit or loss.

Debt securities carried at FVOCI are measured at fair value with unrealized gains and losses from changes in fair value recognized in other comprehensive income (OCI). The loss allowance is recorded in OCI and does not reduce the carrying amount of the assets in the statement of financial position. When a debt instrument measured at FVOCI is sold the cumulative gain or loss previously recorded in equity is reclassified to profit or loss.

All equity securities are measured at fair value. On initial recognition the Bank may make an irrevocable election to present in OCI gains and losses from changes in fair value of certain equity instruments. When insufficient information is available to measure fair value, then the instrument is measured at cost when it represents the best estimate of fair value. When an equity instrument classified at FVOCI is sold the cumulative gain or loss recorded in OCI is not recycled to profit or loss. Dividends from securities measured at FVOCI are recognized in profit or loss.

A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The Bank has not designated any financial instruments as FVTPL on initial recognition.

Financial liabilities

At initial recognition financial liabilities are measured at fair value plus or minus, in the case of financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. Financial liabilities other than loan commitments, financial guarantees and derivatives are subsequently measured at amortized cost.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions similar to the Bank's trading activities.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(iii) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization, using the effective interest method, of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(iv) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Bank's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price, and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price, and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability not based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(v) Impairment

The Bank recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognized on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1 financial instruments'.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *Undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *Financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(v) Impairment (cont'd)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(v) Impairment (cont'd)

Presentation of allowance for ECL
Loss allowances for ECL are presented in the statement of financial position as follows:

- *Financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
- *Loan commitments and financial guarantee contracts:* generally, as a provision;
- *Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *Debt instruments measured at FVOCI:* no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-off
Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Under IFRS 9 – Applicability to the Bank

Impairment of Financial Assets
For loans carried at amortized cost, impairment losses are recognized at each reporting date in accordance with the three-stage impairment model outlined below.

An impairment allowance is established for all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. Assets subject to impairment assessment include certain loans, debt securities, interest-bearing deposits with banks, customers' liability under acceptances, accounts and accrued interest receivable.

Impairment on loans is presented in 'Allowance for Impairment'. Impairment allowance on debt securities measured at FVOCI is presented in other components of equity. Other financial assets carried at amortized cost are presented net of impairment in the statement of financial position.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(v) Impairment (cont'd)

Under IFRS 9 – Applicability to the Bank (cont'd)

Off-balance sheet items subject to impairment assessment include undrawn loan commitments. The impairment is included in the provision for impairment losses to the extent that it does not exceed the related loan balance and therefore included in other liabilities as provisions.

The impairment allowance is measured at each reporting date and is based on the three-stage impairment model for expected credit losses.

Calculation of expected credit losses

The Bank uses the explicit probability of default method when calculating expected credit losses. The expected credit loss allowance (ECL) is based on credit losses that are expected to arise over the life of the asset, referred to as the lifetime ECL, unless there has not been a significant increase in credit risk since origination, in which case a 12-month expected credit loss (12-month ECL) is measured.

The lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument. Lifetime expected credit losses are calculated based on a weighted average of the expected losses with the weightings being based on the respective probabilities of default. PDs and LGDs are therefore calculated over the life of the instrument.

The 12-month ECL represents a financial asset's expected losses that are expected to arise from default events that are possible within the 12-month period following origination of the instrument or from each reporting date for those assets in stage 1. It is calculated by multiplying the probability of default occurring in the next 12 months by the lifetime ECLs that would result from that default, regardless of when those losses occur.

The Bank's policy for determining whether there is a significant increase in credit risk is outlined below.

The ECL is calculated on an individual account basis but for purposes of determining probability of default and exposure at default, financial assets are grouped according to common characteristics.

Impairment is assessed at each reporting period. IFRS 9 establishes a three-stage impairment model based on whether there has been a significant increase in credit risk of a financial asset since its initial recognition. The three stages then determine the amount of impairment to be recognized as expected credit losses (ECL) at each reporting date as well as the amount of interest revenue to be recorded.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(v) Impairment (cont'd)

Under IFRS 9 – Applicability to the Bank (cont'd

Calculation of expected credit losses *(cont'd)*

The Bank makes a determination as to whether there has been a significant increase in credit risk since initial recognition by considering the deterioration in internal rating and payment delinquencies. For purposes of calculating ECL the Bank classifies its financial assets into Stages. The stages for loans and advances align with the Bank's internal ratings system. Facilities with an internal rating of 1 are aligned to Stage 1. Facilities with an internal rating of 2 are classified as Stage 2 and facilities with an internal rating of 3-5 are classified as Stage 3.

Stages 1 and 2 comprise performing financial assets while Stage 3 comprises non-performing assets as follows:

Performing financial assets

- Stage 1 – For instruments in this stage, credit risk has not increased significantly since initial recognition. A 12-month ECL is recognized and interest income is recognized on the gross carrying amount of the financial instrument. Financial assets in this stage are operating in accordance with the contractual terms and conditions since initial recognition. These assets align with the Bank's internal rating of 1.

- Stage 2 – For instruments in this stage, credit risk has increased significantly since initial recognition. Lifetime ECL is recognized and interest income is recognized on the gross carrying amount of the financial instrument. This stage also includes financial assets reclassified from Stage 3 whose credit risk has improved. Financial assets in this stage align with the Bank's internal rating of 2.

Credit-impaired financial assets

- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance is recognized equal to credit losses expected over the remaining lifetime of the asset. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount. Financial assets in this stage align with the Bank's internal ratings of 3 – 5.

Assessment of significant increase in credit risk and credit -impaired financial assets

The transition from recognizing 12-month expected credit losses (i.e. stage 1) to lifetime expected credit losses (i.e. stage 2) is based on the notion of a significant increase in credit risk over the remaining life of the instrument in comparison with the credit risk on initial recognition. The focus is on the changes in the credit risk and not the changes in the amount of the expected credit losses.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(v) Impairment (cont'd)

Under IFRS 9 – Applicability to the Bank (cont'd)

***Calculation of expected credit losses** (cont'd)*
The determination of whether there has been a significant increase in credit risk is therefore critical to the staging process. Factors to consider include:

- Changes in market or general economic conditions;
- Expectation of potential breaches;
- Expected delays in payment;
- Deterioration in credit ratings; or
- Significant changes in operating results or financial position of the borrower.

In making the determination of whether there has been a significant increase in credit risk, the Bank considers deterioration in its internal ratings as well as payment delinquencies. A significant increase in credit risk will exist when repayments are 30 days in arrears and/or when there has been a deterioration in the internal rating assigned.

Credit-impaired financial assets are those for which one or more detrimental effects on the estimated future cash flows have already occurred. This is similar to the point at which an incurred loss would have been recognized under IAS 39.

These instruments are in stage 3 and lifetime expected credit losses are recognized. Indicators that an asset is credit-impaired include observable data about the following:

- Actual breach of contract, e.g. delinquency in payments
- Probability that the borrower will enter bankruptcy

Definition of default
The definition of default is integral to the ECL model. The Bank's definition of default is consistent with its internal risk management process and includes a qualitative creditworthiness criterion as well as a quantitative past due criterion. For loans and advances, default occurs when the borrower is more than 90 days past due on any obligation with the Bank and/or if the Bank considers that the borrower is unlikely to make their repayment in full without the Bank foreclosing on the loan facility. The Bank also uses its internal rating system to determine default. All loans and advances with a rating of 3 – 5 are considered to be in default. For credit card balances, default occurs when payments are 90 days past due. The definition of default is applied consistently from one year to another and to all loans and advances unless it can be demonstrated that circumstances have changed such that a new definition is appropriate.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(v) Impairment (cont'd)

Under IFRS 9 – Applicability to the Bank (cont'd)

Calculation of expected credit losses *(cont'd)*

Definition of default (cont'd)
For investment securities, the Bank considers default to take place when there has been significant deterioration in the rating of the underlying security and payment of principal and interest is over 90 days in arrears.

ECL Calculation Methodology
For loans and advances, the Bank calculates ECL in a manner that reflects an unbiased and probability-weighted amount that is determined by evaluation of a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The Bank applies a discounted probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant time horizon. The cash shortfall is the difference between the cash flows that are due according to the terms of the agreement and the cash flows it expects to collect over the relevant time period.

The Bank calculates the probability-weighted average of expected credit losses over different scenarios. Each scenario specifies forecasts of different economic conditions and these economic conditions are used to adjust default probabilities to incorporate this forward-looking information.

The forward-looking information is incorporated through the use of regression formulae that translate the input economic information and uses this information to forecast default rates and non-performing loan ratios. The macroeconomic information used by the Bank are:

- Gross Domestic Product (local GDP)
- Inflation
- Global GDP (for international investments)

Three variables are integral to the calculation of the ECL - the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD). The product of these variables is adjusted for forward-looking information and discounted at the instrument's original interest rate to arrive at the calculation of ECL.

Probability of default - measures likelihood of default over a given period of time. In arriving at the probability of default the Bank first categorizes facilities according to common characteristics and uses migration analysis to measure the percentage of loans as they move across the relevant stages. From this analysis marginal PDs for successive years are generated using a multiplication matrix. In the case of investment securities, the Bank utilized information from credit loss tables that are generated by reputable external agencies.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(v) Impairment (cont'd)

Under IFRS 9 – Applicability to the Bank (cont'd)

***Calculation of expected credit losses** (cont'd)*

Exposure at default - this is an estimate of the exposure at a default date that takes place in the future, taking into consideration repayments of principal or interest and interest charged. In arriving at EAD estimates, the Bank employs cash flow analyses.

Loss given default - this is an estimate of the cash shortfall the Bank expects when a facility defaults at a point in time. For secured facilities the Bank considers the amount that may be realized from the sale of the collateral net of costs to sell. In the case of investment securities, the Bank utilized information from credit loss tables that are generated by reputable external agencies.

Loan Commitments

Loan commitments arise when an entity enters into a contract to provide a loan facility to another party. For loan commitments, credit loss estimates consider the portion of the commitment that is expected to be drawn over the relevant time period.

At the end of each reporting period, 12-month expected credit losses are initially provided for such commitments. Where there has been a significant increase in credit risk of a default occurring on the loan to which the commitment relates, lifetime expected credit losses are recognized.

For loan commitments, ECL is calculated as the difference between:

- The contractual cash flows for amounts that are repayable if the holder of the loan commitment draws on the loan; and
- The cash flows that the Bank expects to receive if the loan is drawn down.

The discount rate used is the effective interest rate for the primary facility. In instances where there has been no draw downs on the loan facility, the loss allowance is recognized and presented as a provision.

Judgement

Judgement is required in making assumptions and estimations when calculating the ECL. This includes the movement of financial instruments between stages and the application of forward-looking information. The underlying assumptions and estimates may result in changes to the amounts recorded from period to period and can significantly impact the results of operations.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(vi) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(vi) Modifications of financial assets and financial liabilities (cont'd)

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(f) Property and equipment

(i) Recognition and measurement

Land and buildings, which comprise mainly branches and offices, are shown at fair value, based on valuations done by external independent valuers every 5 years, less subsequent depreciation for buildings. Any accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

All other assets are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. The cost of self-constructed assets includes:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the asset to a working condition for its intended use;
- in instances when the Bank has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalized borrowing costs.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within other income in profit or loss.

(Expressed in Eastern Caribbean dollars)

3. Significant accounting policies *(cont'd)*

(f) Property and equipment (cont'd)

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Bank. All other related expenditures are charged to profit or loss during the period in which they are incurred.

(iii) Depreciation

Depreciation for buildings is calculated to write off their costs less their estimated residual values using the straight-line method over their estimated useful lives, and the reducing balance method for all other property and equipment as follows:

Buildings	2%
Furniture and fixtures	10%
Equipment	15% - 25%
Leasehold improvements	20%
Motor vehicles	20%

Depreciation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Land is not depreciated.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

(g) Intangible assets

Intangible assets comprise separately identifiable intangible items arising from computer software licenses and other intangible assets. Intangible assets are recognized at cost less accumulated amortization and any accumulated impairment losses. Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 4 years. Intangible assets with an indefinite useful life are not amortized. Generally, the identified intangible assets of the Bank have a definite useful life.

At each reporting date intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analyzed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount. The Bank chooses to use the cost model for the measurement after recognition. Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired, the intangible asset is analyzed to assess whether their carrying amount is fully recoverable.

3. Significant accounting policies *(cont'd)*

Computer software licenses

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software to use. These costs are amortized on the basis of the expected useful lives.

Software has a maximum expected useful life of 4 years (25% per annum).

(h) Guarantees and letters of credit

Guarantees and letters of credit comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most guarantees and letters of credit to be settled simultaneously with the reimbursement from the customers.

Financial guarantees are initially recognized 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 recognized. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees recognized 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 recognized on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in profit or loss within other operating expenses.

(i) Provisions

Provisions are recognized when:

- the Bank has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- and the amount has been reliably estimated.

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

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

(j) Employee benefits

(i) Pension obligation

The Bank operates a defined benefit plan for all employees. The assets of the plan are held separately from those of the Bank. The pension plan is funded through payments from employees and the Bank, taking account of the recommendations of independent qualified actuaries. The Bank's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

3. Significant accounting policies *(cont'd)*

(j) Employee benefits (cont'd)

(i) Pension obligation (cont'd)

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognized immediately in OCI. The Bank determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability/(asset), taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in personnel expenses in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Bank recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(ii) Profit-sharing and bonus plans

The Bank recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Bank's shareholders after certain adjustments. The Bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(k) Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

a) <u>Current tax</u>

Current tax comprises the expected tax payable or recoverable on the taxable profit or loss for the year and any adjustments to the tax payable or recoverable in respect of previous years. The amount of the current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and liabilities are offset only if certain criteria are met.

3. Significant accounting policies *(cont'd)*

(k) Income tax (cont'd)

b) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The principal temporary differences arise from depreciation of property and equipment. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit nor loss.

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the Bank's business plans and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(l) Share capital

(i) Ordinary shares

Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Bank. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(ii) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the shareholders. Dividends for the year declared after the reporting date are disclosed in the notes to the financial statements.

3. Significant accounting policies *(cont'd)*

(m) Interest income and expense

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

Interest on loans and advances and fee income

Interest on loans is recognized in interest income using the effective interest method. The estimated future cash flows used in this calculation include those determined by the contractual term of the asset and all fees that are considered to be integral to the effective interest rate. Fees that are an integral part of the effective interest rate are treated as an adjustment to the effective interest rate.

Fees that relate to activities such as originating, restructuring or renegotiating loans are deferred and recognized as non-interest income over the expected term of such loans using the effective interest method. Where there is a reasonable expectation that a loan will be originated, commitment and standby fees are also recognized as fee income over the expected term of the resulting loans using the effective interest method.

(n) Fees and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Performance linked fees or fee components are recognized when the performance criteria are fulfilled.

(o) Dividend income

Dividends are recognized in profit or loss when the Bank's right to receive payment is established.

(p) Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) The Bank is the lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

3. Significant accounting policies *(cont'd)*

(p) Leases (cont'd)

(i) The Bank is the lessee (cont'd)

Right-of-use assets
The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right of use asset has been depreciated on a straight-line basis over the remaining lease term for each lease.

Lease liabilities
At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Short-term leases and leases of low-value assets
The Bank applies the short-term lease recognition exemption to its short-term leases of office floor lease and a few of the motor vehicle leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below $5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(ii) The Bank is the lessor
When assets are leased out under an operating lease, the assets are included in the statement of financial position based on the nature of the assets. Lease income is recognized over the term of the lease on the straight line basis.

(q) Impairment of non-financial assets
At each reporting date, the Bank reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss.

4. Financial risk management

The Bank has exposure to the following risks from financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk (including currency risk, interest rate and other price risk); and
- Operational risk

4.1 Risk management framework

The Bank's Board of Directors has overall responsibility for the establishment and oversight of its risk management framework. The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to retail banking, and operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management, through the finance department, monitors compliance with the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. Management identifies and evaluates financial risks in close co-operation with the Bank's operating units. The Board provides oversight for overall risk management, as well as written 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. It undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

4.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities in investment securities and other bills. Significant changes in the economy, or in the health of a particular industry segment that represents a

4. Financial risk management (cont'd)

4.2 Credit risk (cont'd)

4.2.1 Credit risk measurement

concentration in the Bank's portfolio, could result in losses that are different from those provided for at the reporting date. There is also credit risk in off-balance sheet financial instruments such as loan commitments. Credit risk is managed and controlled by management which reports to the Board of Directors.

(a) Loans and advances

Eastern Caribbean Central Bank's prudential guidelines are embedded in the Bank's daily operational management. The operational measurements can be compared with impairment allowances required under IAS 39, which are based on losses that have been incurred at the reporting date (the "incurred loss model").

The Bank assesses the probability of default of individual counterparties using the Eastern Caribbean Central Bank prudential guidelines. Clients 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.

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

This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

(b) Debt securities and other bills

For debt securities and other bills, external ratings such as CariCRIS or their equivalents are used by management for management of the credit risk exposures.

4.2.2 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 to the industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits.

(Expressed in Eastern Caribbean dollars)

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.2 Risk limit control and mitigation policies *(cont'd)*

Covering on-balance sheet and off-balance sheet exposures, and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

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 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:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured, while revolving individual credit facilities are generally unsecured. In addition, in order to minimize the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed 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) 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 authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions) are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations 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.

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.3 Impairment and provisioning policies

The impairment provision shown in the statement of financial position at the reporting date is derived from each of the five internal rating grades. The table below shows the percentage of the Bank's on-balance sheet items relating to loans and advances and the associated impairment provision for 2018 and expected credit loss (ECL) for 2019 for each of the Bank's internal rating categories:

	2019		2018	
	Loans and advances	**ECL provision**	**Loans and advances**	**ECL provision**
Bank's rating			(%)	(%)
Stage 1 - Pass	85.5%	15.5%	82.2	12.9
Stage 2 - Special mention	7.4%	25.0%	7.6	29.0
Stage 3 - Sub-standard, doubtful, loss	7.1%	59.5%	10.2	58.1

The internal rating tool assists management to determine whether objective evidence of impairment exists, based on the following factors set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

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

Credit risk exposures relating to on-balance sheet assets are as follows:

	Maximum exposure	
	2019	**2018**
	$	$
Due from other banks	33,841,222	28,003,720
Treasury bills	31,311,935	36,422,936
Loans and advances to financial institutions		-
Loans and advances to customers:		
- Overdrafts	17,000,745	10,980,992
- Demand loans	343,780,091	316,103,997
- Promissory notes	7,956,117	8,294,196
- Mortgages	182,083,957	164,564,856
- Credit cards	2,248,773	2,163,104
Investment securities:		
- Debt instrument at FVOCI	31,829,694	33,238,509
- Debt instrument at amortized cost	71,458,805	77,247,306
Other assets	2,474,687	5,554,989
	723,986,026	682,574,605
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	643,008	688,008
Loan commitments and other credit related facilities	62,427,167	45,937,540
	63,070,175	46,625,548
At December 31	787,056,201	729,200,153

The above table represents a worst case scenario of credit risk exposure to the Bank at December 31, 2019 and 2018, 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.

Loans and advances to customers comprise 76% of the total maximum exposure (2018 - 73%); investments in debt securities comprise 14% (2018 - 17%).

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.4 Maximum exposure to credit risk before collateral held or other credit enhancements *(cont'd)*

Notwithstanding the current dynamics of the economy, management is fairly confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank based on the following:

- 93% (2018 - 87%) of the loans and advances portfolio is categorized in the top two grades of the internal rating system;
- 90% (2018 - 86%) of the portfolio is backed by collateral in the form of mortgage debentures, legal mortgages, life and comprehensive insurances, bills of sale, cash and guarantees;
- 74% (2018 - 73%) of the total loans and advances portfolio is considered to be neither past due nor impaired;
- The Bank continues to grant loans and advances in accordance with its lending policies and guidelines; and
- 10% (2018 - 12%) of investments are rated above A-; no investments were rated CariA (2018 - 0%); 37% (2018 - 36%) are rated above B- and below BBB+; 35% (2018 - 34%) are above CariBBB and below CariA. Many issuers are not rated but only 18% (2018 - 17%) of investments in the portfolio are not rated and none (2018 - 2%) are selective default.

4.2.5 Loans and advances

Loans and advances are summarized as follows:

	2019	**2018**
	$	$
Loans and advances to customers		
Neither past due nor impaired	433,047,662	381,541,200
Past due but not impaired	97,254,572	91,744,124
Impaired	40,519,863	52,723,920
Gross	570,822,097	526,009,244
Less: allowance for impairment (Notes 10 and 11)	(17,752,414)	(23,902,099)
Net	553,069,683	502,107,145

(Expressed in Eastern Caribbean dollars)

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.5 Loans and advances *(cont'd)*

(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.

December 31, 2019	**Overdrafts**	**Credit Cards**	**Demand loans**	**Promissory notes**	**Mortgages**	**Total loans and advances to customers**
Loans and advances to customers	**$**	**$**	**$**	**$**	**$**	**$**
Grades						
1. Stage 1 - pass	16,048,101	1,875,045	270,173,233	5,969,170	129,475,273	423,540,822
2. Stage 2 - special mention	1,273,389	-	6,852,318	-	1,381,133	9,506,840
Total	17,321,490	1,875,045	277,025,551	5,969,170	130,856,406	433,047,662

December 31, 2018	**Overdrafts**	**Credit Cards**	**Demand loans**	**Promissory notes**	**Mortgages**	**Total loans and advances to customers**
Loans and advances to customers	**$**	**$**	**$**	**$**	**$**	**$**
Grades						
1. Stage 1 - pass	10,093,619	1,666,924	246,963,145	7,026,980	101,601,847	367,352,515
2. Stage 2 - special mention	295,621	-	7,008,016	12,100	6,872,948	14,188,685
Total	10,389,240	1,666,924	253,971,161	7,039,080	108,474,795	381,541,200

(Expressed in Eastern Caribbean dollars)

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.5 Loans and advances *(cont'd)*

(a) Loans and advances neither past due nor impaired (cont'd)

Loans and advances to financial institutions

Loans and advances to financial institutions were graded as Pass as at December 31, 2019 and December 31, 2018.

(b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amount of loans and advances by class to customers net of unearned interest that were past due but not impaired were as follows:

December 31, 2019	**Credit cards**	**Demand loans**	**Promissory notes**	**Mortgages**	**Total loans and advances to customers**
	$	$	$	$	$
Past due up to 30 days	455,505	50,397,885	1,673,055	29,900,808	82,427,253
Past due 30-60 days	124,121	2,610,568	293,012	5,008,310	8,036,011
Past due 61-90 days	92,951	4,302,172	132,976	2,263,209	6,791,308
Total	672,577	57,310,625	2,099,043	37,172,327	97,254,572
Fair value of collateral	-	145,755,059	16,018,619	394,499,354	556,273,032

December 31, 2018	**Credit cards**	**Demand loans**	**Promissory notes**	**Mortgages**	**Total loans and advances to customers**
	$	$	$	$	$
Past due up to 30 days	511,917	48,013,915	1,061,795	28,907,905	78,495,532
Past due 30-60 days	290,077	1,196,556	241,942	3,292,241	5,020,816
Past due 61-90 days	97,078	5,432,963	195,669	2,502,066	8,227,776
Total	899,072	54,643,434	1,499,406	34,702,212	91,744,124
Fair value of collateral	-	122,282,535	1,886,894	86,653,710	210,823,139

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.5 Loans and advances *(cont'd)*

(c) Loans and advances individually impaired
The table below shows the gross amount of individually impaired loans and advances to customers by grades before taking into consideration the cash flows from collateral held.

	2019	2018
Individual impaired loans	$	$
1. Stage 3 - Sub-standard, doubtful, loss	40,519,863	52,723,920
Total	40,519,863	52,723,920
Fair value collateral	80,790,013	97,908,236

(d) Loans and advances renegotiated
Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired as at December 31, 2019 amounted to $3,745,701 (2018 - $6,964,579).

4.2.6 Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at December 31, 2019 and 2018, based on Caricris or their equivalent:

	Investment securities			
At December 31, 2019	**Treasury bills**	**Debt Instruments at FVOCI**	**Debt Instruments at Amortized Cost**	**Total**
	$	$	$	$
A- to A+	-	13,592,197	-	13,592,197
BBB- to BBB+	-	18,237,497	19,530,879	37,768,376
BB- to BB+	-	-	-	-
B- to B+	4,990,019	-	6,974,077	11,964,096
CariBBB+	-	-	4,488,587	4,488,587
CariBBB	11,538,567	-	30,729,627	42,268,194
SD (selective default)	-	-	-	-
Unrated	14,783,349	-	9,735,635	24,518,984
Total	31,311,935	31,829,694	71,458,805	134,600,434

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.6 Debt securities, treasury bills and other eligible bills *(cont'd)*

	Investment securities			
At December 31, 2018	**Treasury bills**	**Debt Instruments at FVOCI**	**Debt Instruments at Amortized Cost**	**Total**
	$	$	$	$
A- to A+	-	17,644,775	-	17,644,775
BBB- to BBB+	-	15,593,734	22,340,548	37,934,282
BB- to BB+	6,984,129	-	7,680,366	14,664,495
CariBBB+	-	-	6,565,343	6,565,343
CariBBB	11,695,354	-	31,179,680	42,875,034
SD (selective default)	2,984,488	-	-	2,984,488
Unrated	14,758,965	-	9,481,369	24,240,334
Total	36,422,936	33,238,509	77,247,306	146,908,751

4.2.7 Repossessed collateral

During 2019, the Bank obtained assets by taking possession of collateral held as security, as follows:

	Carrying amount
Nature of assets	$
Vehicles	99,569

Repossessed vehicles are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.8 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The Bank operates primarily in Saint Lucia and the exposure to credit risk is concentrated there.

(b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of counterparties.

	Financial institutions	**Manufacturing**	**Tourism**	**Government**	**Professional and other services**	**Personal**	**Other industries**	**Total**
	$	$	$	$	$	$	$	$
Due from other banks	33,841,222	-	-	-	-	-	-	33,841,222
Treasury bills	-	-	-	31,311,935	-	-	-	31,311,935
Loans and advances to customers:								
- Overdraft	8	1,056,544	1,732,434	172,015	5,261,483	867,258	7,911,003	17,000,745
- Credit cards	-	-	-	-	-	1,574,141	674,632	2,248,773
- Demand loans	-	25,035,719	2,141,196	57,256,673	29,636,780	114,197,860	115,511,863	343,780,091
- Promissory notes	-	60,294	-	-	51,893	7,769,966	73,964	7,956,117
- Mortgages	1,645,179	589,734	1,540,085	-	7,145,287	134,583,945	36,579,727	182,083,957
Investment securities:								
- Debt instruments at FVOCI	15,519,966	-	-	5,667,975	-	-	10,641,753	31,829,694
- Debt instruments at amortized cost	30,112,305	-	-	41,243,401	-	-	103,099	71,458,805
Other assets	2,474,687	-	-	-	-	-	-	2,474,687
As at December 31, 2019	83,593,367	26,742,291	5,413,715	135,651,999	42,095,443	258,993,170	171,496,041	723,986,026
Credit commitments	-	10,590,754	-	-	16,370,200	24,218,234	11,890,987	63,070,175

(Expressed in Eastern Caribbean dollars)

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.8 Concentration of risks of financial assets with credit risk exposure *(cont'd)*

(b) Industry sectors (cont'd)

	Financial institutions	Manufacturing	Tourism	Government	Professional and other services	Personal	Other industries	Total
	$	$	$	$	$	$	$	$
Due from other banks	28,003,720	-	-	-	-	-	-	28,003,720
Treasury bills	-	-	-	36,422,936	-	-	-	36,422,936
Loans and advances to customers:								
- Overdraft	849	683,377	1,292,116	-	2,563,030	856,847	5,584,773	10,980,992
- Credit cards	-	-	-	-	-	1,514,173	648,931	2,163,104
- Demand loans	1,135,742	16,048,252	2,099,089	61,139,942	28,269,476	101,034,195	106,377,301	316,103,997
- Promissory notes	-	-	-	-	21,609	8,220,763	51,824	8,294,196
- Mortgages	1,804,638	611,969	1,674,258	-	6,865,861	105,906,899	47,701,231	164,564,856
Investment securities:								
- Debt instruments at FVOCI	11,515,328	-	-	5,459,919	-	-	16,263,262	33,238,509
- Debt instruments at amortized cost	38,035,864	-	-	39,109,295	-	-	102,147	77,247,306
Other assets	5,554,989	-	-	-	-	-	-	5,554,989
As at December 31, 2018	86,051,130	17,343,598	5,065,463	142,132,092	37,719,976	217,532,877	176,729,469	682,574,605
Credit commitments	-	381,207	207,463	2,797,138	18,330,286	15,718,125	9,191,329	46,625,548

4. Financial risk management *(cont'd)*

4.3 Market risk

Market risk is the risk that changes in market prices - e.g. equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) - will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the bank's solvency while optimizing the return on risk.

The Bank's exposures to market risks primarily arise from the interest rate management of the Bank's retail and commercial banking assets and liabilities and equity risks arising from the Bank's available-for-sale investments.

4.3.1 Other price risk

The Bank is exposed to equity securities price risk because of investments held by the Bank and classified in the statement of financial position as equity instruments at fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Bank diversifies its portfolio.

At December 31, 2019, if equity securities prices had been 5% higher/lower with all other variables held constant, comprehensive income for the year would have been $129,888 higher/lower (2018 -$145,359 higher/lower) as a result of a reasonably possible increase/decrease in fair value of available-for-sale equity securities at the reporting date.

4.3.2 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 of Directors sets limits on the level of exposure by currency, and in total, which are monitored daily.

The Bank's exposure to currency risk is minimal since most of its 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$2.70 = US$1.00 since 1976. The rate of exchange of EC$1 for relevant major currencies was as follows:

	USD	**BBD**	**CAD**	**EUR**	**GBP**
	$	$	$	$	$
At December 31, 2019	2.7000	1.3517	2.0694	3.0267	3.5474
At December 31, 2018	2.7000	1.3517	1.9834	3.0937	3.4490

The following table summarizes the Bank's exposure to foreign currency exchange rate risk at December 31, 2019 and 2018. Included in the table, are the Bank's financial instruments at carrying amount, categorized by currency.

(Expressed in Eastern Caribbean dollars)

4. Financial risk management *(cont'd)*

4.3 Market risk *(cont'd)*

4.3.2 Foreign exchange risk *(cont'd)*

Concentration of currency risk - on and off balance sheet financial instruments

	ECD	CAD	EURO	USD	GBP	TTD	BD	Total
As at December 31, 2019								
Financial assets								
Cash and balances with Central Bank	62,514,606	143,370	424,278	1,486,080	138,657	-	133,485	64,840,476
Due from other banks	8,429,067	145,623	1,201,910	23,285,745	302,343	97,501	379,033	33,841,222
Treasury bills	31,311,935	-	-	-	-	-	-	31,311,935
Loans and advances to customers	553,069,683	-	-	-	-	-	-	553,069,683
Investment securities								
- Debt instruments at FVOCI				31,829,694	-	-	-	31,829,694
- Debt instruments at amortized cost	68,209,917	-	-	3,248,888	-	-	-	71,458,805
Other assets	2,474,687	-	-	-	-	-	-	2,474,687
Total financial assets	726,009,895	288,993	1,626,188	59,850,407	441,000	97,501	512,518	788,826,502
Financial liabilities								
Due to customers	687,354,955	-	712	8,644,180	-	-	-	695,999,847
Other liabilities	16,914,982	-	-	-	-	-	-	16,914,982
Lease liabilities	7,491,598			146,008	-	-	-	7,637,606
Total financial liabilities	711,761,535	-	712	8,790,188	-	-	-	720,552,435
Net on-balance sheet positions	14,248,360	288,993	1,625,476	51,060,219	441,000	97,501	512,518	68,274,067
Credit commitments	63,070,175	-	-	-	-	-	-	63,070,175

(Expressed in Eastern Caribbean dollars)

4. Financial risk management *(cont'd)*

4.3 Market risk *(cont'd)*

4.3.2 Foreign exchange risk *(cont'd)*

Concentration of currency risk - on and off balance sheet financial instruments *(cont'd)*

	ECD	CAD	EURO	USD	GBP	TTD	BD	Total
As at December 31, 2018								
Financial assets								
Cash and balances with Central Bank	54,244,936	198,823	546,080	2,514,666	171,803	-	183,129	57,859,437
Due from other banks	13,286,182	385,219	386,806	12,226,907	1,190,071	172,098	356,437	28,003,720
Treasury bills	36,422,936	-	-	-	-	-	-	36,422,936
Loans and advances to customers	502,107,145	-	-	-	-	-	-	502,107,145
Investment securities								
- Debt instruments at FVOCI	-	-	-	33,238,509	-	-	-	33,238,509
- Debt instruments at amortized cost	73,960,495	-	-	3,286,811	-	-	-	77,247,306
Other assets	5,554,989	-	-	-	-	-	-	5,554,989
Total financial assets	685,576,683	584,042	932,886	51,266,893	1,361,874	172,098	539,566	740,434,042
Financial liabilities								
Due to customers	637,953,869	-	960	7,221,300	-	-	-	645,176,129
Other liabilities	23,368,014	-	-	-	-	-	-	23,368,014
Total financial liabilities	661,321,883	-	960	7,221,300	-	-	-	668,544,143
Net on-balance sheet positions	24,254,800	584,042	931,926	44,045,593	1,361,874	172,098	539,566	71,889,899
Credit commitments	46,625,548	-	-	-	-	-	-	46,625,548

4. Financial risk management *(cont'd)*

4.3 Market risk *(cont'd)*

4.3.3 Interest rate risk *(cont'd)*

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 levels 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 that unexpected movements arise.

The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual repricing and maturity dates.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at December 31, 2019	$	$	$	$	$	$	$
Assets							
Cash and balances with Central Bank	-	-	-	-	-	64,840,476	64,840,476
Due from other banks	21,446,586	-	-	-	-	12,394,636	33,841,222
Treasury bills	13,287,718	4,317,095	13,707,122	-	-	-	31,311,935
Loans and advances to customers	22,042,342	457,749	4,651,802	58,630,577	467,287,213	-	553,069,683
Investment securities:							
- Debt instruments at FVOCI	31,829,694	-	-	-	-	-	31,829,694
- Debt instruments at amortized cost	3,767,897	2,922,378	42,141,419	11,734,222	10,892,889	-	71,458,805
Other assets	-	-	-	-	-	2,474,687	2,474,687
Total financial assets	92,374,237	7,697,222	60,500,343	70,364,799	478,180,102	79,709,799	788,826,502
Liabilities							
Due to customers	455,724,196	19,416,724	149,862,520	426,047	-	70,570,360	695,999,847
Other liabilities	-	-	-	-	-	16,914,982	16,914,982
Lease liabilities	54,044	164,312	377,158	2857,760	4,184,332	-	7,637,606
Total financial liabilities	455,778,240	19,581,036	150,239,678	3,283,807	4,184,332	87,485,342	720,552,435
Total interest repricing gap	(363,404,003)	(11,883,814)	(89,739,335)	67,080,992	473,995,770	(7,775,543)	68,274,067

(Expressed in Eastern Caribbean dollars)

4. Financial risk management (cont'd)

4.3 Market risk (cont'd)

4.3.3 Interest rate risk (cont'd)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at December 31, 2018	$	$	$	$	$	$	$
Assets							
Cash and balances with Central Bank	-	-	-	-	-	57,859,437	57,859,437
Due from other banks	18,608,122	-	-	-	-	9,395,598	28,003,720
Treasury bills	13,333,346	11,067,396	12,022,194	-	-	-	36,422,936
Loans and advances to customers	18,291,602	815,588	4,940,597	52,538,190	425,521,168	-	502,107,145
Investment securities							
- Debt instruments at FVOCI	33,238,509	-	-	-	-	-	33,238,509
- Debt instruments at amortized cost	3,789,156	9,112,330	34,705,845	19,992,032	9,647,943	-	77,247,306
Other assets	-	-	-	-	-	5,554,989	5,554,989
Total financial assets	87,260,735	20,995,314	51,668,636	72,530,222	435,169,111	72,810,024	740,434,042
Liabilities							
Due to customers	437,211,879	13,147,472	122,371,089	215,217	-	72,230,472	645,176,129
Other liabilities	-	-	-	-	-	23,368,014	23,368,014
Total financial liabilities	437,211,879	13,147,472	122,371,089	215,217	-	95,598,486	668,544,143
Total interest repricing gap	(349,951,144)	7,847,842	(70,702,453)	72,315,005	435,169,111	(22,788,462)	71,889,899

4. Financial risk management *(cont'd)*

4.3 Market risk *(cont'd)*

4.3.3 Interest rate risk *(cont'd)*

The Bank's fair value interest rate risk arises from debt securities classified as available-for-sale debt. At December 31, 2019, if market interest rates had been 100 basis points higher/lower with all variables held constant, comprehensive income for the year would have been $2,233,154 higher/$1,072,331 lower. At December 31, 2018, if the same scenario was applied debt securities available for sale, comprehensive income would be $1,717,947 higher and $66,863 lower as a result of the decrease/increase in fair value of available-for-sale debt securities.

Cash flow interest rate risk arises from loans and advances to customers at variable rates. At December 31, 2019, if variable interest rates had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been $3,710,738 higher/lower (2018 - $3,303,918).

4.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

4.4.1 Liquidity risk management process

The Board of Directors establishes the strategy and policy for the management of liquidity risk. The Bank's liquidity is managed by the Finance Department. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. While a significant proportion of the Bank's liabilities fall within the current category, the Bank maintains approximately 26% (2018 - 31%) of assets to manage any payment obligations as history has shown that the assets maintained to manage these outflows is adequate.

The key elements of the liquidity management process are as follows:

- Daily and weekly monitoring to ensure that requirements are met. This includes the replenishment of funds as they mature or as borrowed by customers. The Bank ensures that sufficient funds are held in the one to thirty day maturity bucket to satisfy liquidity requirements.
- Maintaining a portfolio of marketable assets that can easily be liquidated, as protection against any unforeseen liquidity problems. Additionally, the investment portfolio is fairly diversified by currency, geography, provider, product and term.
- Weekly monitoring of the statement of financial position liquidity ratios against internal and regulatory requirements.
- Managing the concentration and profile of debt maturities.
- Reviewing sources of liquidity regularly to maintain a wide diversification by currency, geography, provider, product and term.

(Expressed in Eastern Caribbean dollars)

4. Financial risk management *(cont'd)*

4.4 Liquidity risk *(cont'd)*

4.4.2 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows; the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing
As at December 31, 2019	$	$	$	$	$	$
Financial liabilities						
Due to customers	526,006,292	15,701,951	152,529,917	425,771	-	694,663,931
Other liabilities	16,914,982	-	-	-	-	16,914,982
Lease liabilities	109,842	329,526	801,951	5,377,439	5,240,571	11,859,329
Total financial liabilities						
(Contractual maturity dates)	543,031,116	16,031,477	153,331,868	5,803,210	5,240,571	723,438,242
Assets held for managing liquidity risk						
(Contractual maturity dates)	155,582,412	7,663,443	60,267,010	70,094,942	478,180,102	771,787,909

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing
As at December 31, 2018	$	$	$	$	$	$
Financial liabilities						
Due to customers	509,762,030	13,385,954	124,726,412	220,542	-	648,094,938
Other liabilities	23,368,014	-	-	-	-	23,368,014
Total financial liabilities						
(Contractual maturity dates)	533,130,044	13,385,954	124,726,412	220,542	-	671,462,952
Assets held for managing liquidity risk						
(Contractual maturity dates)	162,571,524	20,995,314	51,668,636	72,530,222	436,690,044	744,455,740

4. Financial risk management (cont'd)

4.4 Liquidity risk (cont'd)

4.4.3 Assets held for managing liquidity risk

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, Central Bank balances, items in the course of collection, and treasury and other eligible bills, loans and advances to financial institutions, and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

4.4.4 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 35), are summarized in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 35) are also included below based on the earliest contractual maturity date.

	1 year	1-5 years	Over 5 years	Total
As at December 31, 2019	$	$	$	$
Loan commitments	61,801,764	610,862	14,541	62,427,167
Guarantees, acceptances and other financial facilities	643,008	-	-	643,008
Total	62,444,772	610,862	14,541	63,070,175
As at December 31, 2018				
Loan commitments	45,521,020	268,532	147,988	45,937,540
Guarantees, acceptances and other financial facilities	688,008	-	-	688,008
Total	46,209,028	268,532	147,988	46,625,548

4.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market, and liquidity risks - e.g. those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

(Expressed in Eastern Caribbean dollars)

4. Financial risk management *(cont'd)*

4.5 Operational risk *(cont'd)*

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the bank's reputation with overall cost effectiveness and innovation. In all cases, Bank policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has oversight of the operational risk management strategy and processes of the Bank, delegated to the credit risk committee and the managing director. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transaction;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is cost-effective.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by Internal Audit, which reports direct to the Audit Committee.

5. Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk. The following methods and assumptions were used to estimate the fair value of financial instruments.

The fair values of cash resources, other assets and liabilities, cheques and other items in transit and due to other banks are assumed to approximate their carrying values due to their short term nature.

5. Fair values of financial assets and liabilities *(cont'd)*

(i) Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair values of loans and advances represent the discounted amount of estimated future cash flow expected to be received. Expected cash flows are discounted at current market rate to determine fair value.

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models such as discounted cash flow techniques. Input into the valuation techniques includes the expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral-dependent impaired loans, the fair value is measured based on the underlying collateral. Input into the models may include data from third party brokers and information obtained from other market participants, which includes observed primary and secondary transactions. To improve the accuracy of the valuation estimates, loans are grouped into portfolios with similar characteristics such as the quality of collateral, repayment and delinquency rates.

(ii) Investment securities

Investment securities include only interest-bearing assets held to maturity; assets classified as available-for-sale are measured at fair value except for unlisted available-for-sale equity securities which are carried at cost less impairment. The fair value of equity securities carried at cost less impairment is not disclosed as it cannot be reliably estimated (Note 13). The fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

After January 1, 2019, the investment securities were reclassified per IFRS 9. The categories are explained in Note 3.

(iii) Due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. Deposits payable on a fixed date are at rates which reflect market conditions and are assumed to have fair values which approximate carrying values.

(iv) Lease liabilities

The fair value of lease liabilities has been estimated using current observable interest rate data, a Level 2 input.

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value:

(Expressed in Eastern Caribbean dollars)

5. Fair values of financial assets and liabilities *(cont'd)*

	Carrying amount		Fair value	
	2019	2018	2019	2018
	$	$	$	$
Financial assets				
Due from other banks	33,841,222	28,003,720	33,841,222	28,003,720
Loans and advances to customers:				
- Overdrafts	17,000,745	10,980,992	17,000,745	10,980,992
- Demand loans	343,780,091	316,103,997	332,236,583	312,846,970
- Promissory notes	7,956,117	8,294,196	8,915,519	9,699,007
- Mortgages	182,083,957	164,564,856	172,248,278	163,263,212
- Credit cards	2,248,773	2,163,104	2,248,773	2,163,104
Investment securities:				
- Treasury bills	31,311,935	36,422,936	31,311,935	36,422,936
- Debt instruments at amortized cost	71,458,805	77,247,306	66,002,378	74,629,356
Financial liabilities				
Due to customers:				
- Time deposits	186,147,141	153,044,073	186,178,566	150,830,197
- Savings accounts	420,875,965	388,434,952	420,875,965	388,434,952
- Demand accounts	88,976,741	103,697,104	88,976,741	103,697,104

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

These two types of inputs have created the following fair value hierarchy:

- Level 1 - Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. This level includes listed equity securities and debt instruments on exchanges.

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

5. Fair values of financial assets and liabilities *(cont'd)*

Fair value hierarchy (cont'd)

- Level 3 - Inputs that are unobservable (not based on observable market data). This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between instruments.

5.1 Assets measured at fair value

	Level 1 $	**Level 2** $	**Level 3** $	**Total** $
December 31, 2019				
Investment securities				
- Debt instruments at FVOCI	31,829,694	-	-	31,829,694
- Equity instruments at FVOCI	-	2,621,575	6,145,180	8,766,755
Total assets	31,829,694	2,621,575	6,145,180	40,596,449
December 31, 2018				
Investment securities				
- Debt instruments at FVOCI	33,238,509	-	-	33,238,509
- Equity instruments at FVOCI	-	2,932,180	2,273,588	5,205,768
Total assets	33,238,509	2,932,180	2,273,588	38,444,277

5. Fair values of financial assets and liabilities *(cont'd)*

5.2 Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value, and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amounts**
	$	$	$	$	$
December 31, 2019					
Financial assets					
Cash and balances with Central Bank	-	64,840,476	-	64,840,476	64,840,476
Treasury bills	-	31,311,935	-	31,311,935	31,311,935
Due from other banks	-	33,841,222	-	33,841,222	33,841,222
Loans and advances to customers	-	532,649,898	-	532,649,898	553,069,683
Debt instruments at amortized cost	-	66,002,378	-	66,002,378	71,458,805
Financial liabilities					
Deposits from customers	-	696,031,272	-	696,031,272	695,999,847
Other liabilities	-	16,914,982	-	16,914,982	16,914,982
Lease liabilities	-	7,637,606	-	7,637,606	7,637,606
	-	1,449,229,769	-	1,449,229,769	1,475,074,556

	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amounts**
	$	$	$	$	$
December 31, 2018					
Financial assets					
Cash and balances with Central Bank	-	57,859,437	-	57,859,437	57,859,437
Treasury bills	-	36,422,936	-	36,422,936	36,422,936
Due from other banks	-	28,003,720	-	28,003,720	28,003,720
Loans and advances to customers	-	498,953,285	-	498,953,285	502,107,145
Debt instruments at amortized cost	-	74,629,356	-	74,629,356	77,247,306
Financial liabilities					
Deposits from customers	-	642,962,252	-	642,962,252	645,176,129
Other liabilities	-	23,368,014	-	23,368,014	23,368,014
	-	1,362,199,000	-	1,362,199,000	1,370,184,687

6. Capital management

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

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Eastern Caribbean Central Bank ("the Central Bank") for supervisory purposes. The required information is filed with the Central Bank on a quarterly basis.

The Central Bank requires every bank within its regulatory jurisdiction to: (a) hold the minimum level of paid up capital of $20,000,000, and (b) maintain a ratio of total regulatory capital to the risk-weighted assets (the "Basel ratio") at or above the minimum indicated in the prudential guidelines.

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

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings.
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealized gains arising on the fair valuation of equity instruments held as available for sale.

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

6. Capital management *(cont'd)*

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the years ended December 31, 2019 and 2018. During those two years, the Bank complied with all of the externally imposed capital requirements.

	2019	**2018**
Tier 1 capital	$	$
Share capital	20,000,000	20,000,000
Statutory reserve	12,593,934	10,666,264
Retained earnings	58,444,542	51,479,921
Total qualifying Tier 1 capital	91,038,476	82,146,185
Tier 2 capital		
Other reserves	7,883,029	9,570,810
Revaluation reserve – FVOCI investments	904,478	(214,191)
Revaluation reserve – property and equipment	1,479,663	1,427,166
Total qualifying Tier 2 capital	10,267,170	10,783,785
Total regulatory capital	101,305,646	92,929,970
Risk-weighted assets:		
On-balance sheet	481,464,495	487,745,900
Off-balance sheet	12,614,000	9,388,000
Total risk-weighted assets	494,078,495	497,133,900
Capital adequacy ratio - required	8%	8%
Capital adequacy ratio - actual	18%	17%
Basel ratio – required	8%	8%
Basel ratio - actual	21%	19%

The capital adequacy ratio is calculated as total qualifying Tier 1 capital divided by total risk-weighted assets. The Basel ratio is calculated as total regulatory capital divided by total risk-weighted assets. It is in compliance with the Banking Act.

(Expressed in Eastern Caribbean dollars)

7. Cash and balances with Central Bank

	2019	2018
	$	$
Cash in hand	16,397,979	14,277,365
Balances with Central Bank other than mandatory reserve deposits	9,826,107	5,366,377
Included in cash and cash equivalents (Note 16)	26,224,086	19,643,742
Mandatory reserve deposits with Central Bank	38,616,390	38,215,695
	64,840,476	57,859,437

The Bank is required to maintain in cash and deposits with the Central Bank, reserve balances in relation to the deposit liabilities of the institution.

Mandatory reserve deposits are not available for use in the Bank's day-to-day operations. The balances with the Central Bank are non-interest bearing.

8. Due from other banks

	2019	2018
	$	$
Items in the course of collection from other banks	1,437,268	3,784,173
Placements with other banks	32,403,954	24,219,547
Included in cash and cash equivalents (Note 16)	33,841,222	28,003,720

The weighted average effective interest rate in respect of interest bearing deposits at December 31, 2019 was 1.34% (2018 – 1.3%).

9. Treasury bills

	2019	2018
	$	$
Treasury bills (Note 12)	31,311,935	36,422,936

The Bank has invested in treasury bills issued by the Government of Saint Lucia. The weighted average effective interest rate of the treasury bills in 2019 was 3.58% (2018 – 3.61%). All treasury bills have fixed interest rates, and they mature within one year of the end of the financial year.

The December 31, 2019 balance includes ECL of $178,728 (2018: $68,316).

(Expressed in Eastern Caribbean dollars)

10. Loans and advances to customers

	2019	**2018**
	$	$
Overdrafts	19,111,764	13,796,014
Demand loans	353,812,382	329,812,450
Promissory notes	10,770,422	11,428,663
Mortgages	188,591,932	172,749,497
Credit cards	2,556,163	2,635,005
	574,842,663	530,421,629
Less: Deferred fees	(2,224,455)	(2,058,076)
Less: Interest earned not collected	(1,796,111)	(2,354,309)
	570,822,097	526,009,244
Less: Impairment allowance on loans and advances (Note 11)	(17,752,414)	(23,902,099)
	553,069,683	502,107,145
Current	24,448,281	24,047,785
Non-current	528,621,402	478,059,360
	553,069,683	502,107,145

The weighted average effective interest rate on productive loans measured at amortized cost at December 31, 2019 was 6.64% (2018 – 6.93%) and the rate on productive overdrafts measured at amortized cost was 10.25% (2018 - 10.34%).

(Expressed in Eastern Caribbean dollars)

11. Provision for impairment of loans and advances

Reconciliation of the allowance account for losses on loans and advances by class is as follows:

	Overdraft	Credit Cards	Demand Loans	Promissory Notes	Mortgage	Total
	$		$	$	$	$
Balance at December 31, 2018	2,815,022	471,900	12,160,544	799,260	7,655,373	23,902,099
Provision for ECL (Note 30)	(695,327)	(164,509)	148,869	198,391	4,559,794	4,047,218
Loans written off during the year	-	-	(3,585,623)	(31,739)	(6,579,541)	(10,196,903)
At December 31, 2019	2,119,695	307,391	8,723,790	965,912	5,635,626	17,752,414
Balance at December 31, 2017	254,023	-	14,440,290	532,053	9,029,381	24,255,747
Effect of adopting IFRS 9 at January 1, 2019	1,110,581	806,717	(2,929,043)	12,880	(2,799,266)	(3,798,131)
Provision for ECL (Note 30)	1,450,418	(334,817)	876,483	254,327	2,620,621	4,867,032
Loans written off during the year	-	-	(227,186)	-	(1,195,363)	(1,422,549)
At December 31, 2018	2,815,022	471,900	12,160,544	799,260	7,655,373	23,902,099

The total impairment provision for loans and advances to customers is $17,752,414 (2018 - $23,902,099).

A breakdown of the staging of advances and the related ECLs for loans and advances is illustrated below:

	Demand	Mortgages	Promissory Notes	Overdrafts	Credit Cards	Total
	$	$	$	$	$	$
December 31, 2019						
Net loans before provision	352,294,813	187,928,071	8,931,286	19,111,764	2,556,163	570,822,097
Stage 1: 12-month ECL	(1,026,780)	(369,368)	(129,472)	(378,454)	(201,028)	(2,105,102)
Stage 2: Lifetime ECL	(1,919,727)	(1,935,598)	(133,723)	(410,501)	(97,923)	(4,497,472)
Stage 3: Credit Impaired	(5,777,283)	(3,330,660)	(702,717)	(1,330,740)	(8,440)	(11,149,840)
Financial Assets - Lifetime ECL	343,571,023	182,292,445	7,965,374	16,992,069	2,248,772	553,069,683

(Expressed in Eastern Caribbean dollars)

11. Provision for impairment of loans and advances (cont'd)

A breakdown of the staging of advances and the related ECLs for loans and advances is illustrated below *(cont'd)*

	Demand	Mortgages	Promissory Notes	Overdrafts	Credit Cards	Total
	$	$	$	$	$	$
Stage 1: 12 month ECL						
ECL allowance as at:						
January 1, 2019 under IFRS 9	1,347,553	278,744	228,002	966,693	248,512	3,069,504
Credit loss movements, new						
Loans, repayments, etc.	(320,773)	90,624	(98,530)	(588,239)	(47,484)	(964,402)
As at December 31, 2019	1,026,780	369,368	129,472	378,454	201,028	2,105,102
Stage 2: Lifetime ECL						
ECL allowance as at:	3,520,652	2,920,408	175,850	179,372	154,381	6,950,663
January 1, 2019 under IFRS 9						
Credit loss movements, new						
Loans, repayments, etc.	(1,600,925)	(984,810)	(42,127)	231,129	(56,458)	(2,453,191)
As at December 31, 2019	1,919,727	1,935,598	133,723	410,501	97,923	4,497,472
Stage 3: Lifetime ECL						
ECL allowance as at:						
January 1, 2019 under IFRS 9	6,982,634	4,456,219	395,408	1,978,663	69,008	13,881,932
Credit loss movements, new Loans; repayments; etc.	2,380,272	5,453,982	339,048	(647,923)	(60,568)	7,464,811
Charge-offs and write-offs	(3,585,623)	(6,579,541)	(31,739)	-	-	(10,196,903)
As at December 31, 2019	5,777,283	3,330,660	702,717	1,330,740	8,440	11,149,840
Total	8,723,790	5,635,626	965,912	2,119,695	307,391	17,752,414

(Expressed in Eastern Caribbean dollars)

12. Investment securities

	2019	2018
Fair value through other comprehensive income (FVOCI)	$	$
Equity securities – Listed	2,621,575	2,932,180
Equity securities – Unlisted	6,145,180	2,273,588
	8,766,755	5,205,768
Debt securities - Listed	31,884,548	33,279,104
Allowance for impairment	(54,854)	(40,595)
	31,829,694	33,238,509
Total securities: FVOCI	40,596,449	38,444,277
Amortized cost		
Debt securities - Listed	45,596,408	48,756,995
Debt securities - Unlisted	26,255,185	28,788,073
Allowance for impairment	(392,788)	(297,762)
Total securities: amortized cost	71,458,805	77,247,306
Total investment securities	112,055,254	115,691,583
Current	89,428,143	86,051,608
Non-current	22,627,111	29,639,975
	112,055,254	115,691,583

Unlisted equity securities totaling $6,145,180 (2018: $2,273,588) are carried at fair values.

(Expressed in Eastern Caribbean dollars)

12. Investment securities (cont'd)

All debt securities have fixed interest rates.

The movements in investment securities financial assets during the year are as follows:

	Fair value through OCI	Amortized cost	Treasury Bills	Loans to Financial Institutions	Available-for-sale	Held-to-maturity
At December 31, 2018	38,444,277	77,247,306	36,422,936	-	-	-
Additions	10,604,931	6,007,175	2,759,923	-	-	-
Disposals (sale and redemption)	(9,166,955)	(11,700,650)	(7,760,512)	-	-	-
Loss from changes in fair value (debt and equity securities)	1,118,669	-	-	-	-	-
Loss on disposal	(390,214)	-	-	-	-	-
Allowance for expected credit losses	(14,259)	(95,026)	(110,412)	-	-	-
At December 31, 2019	40,596,449	71,458,805	31,311,935	-	-	-
At December 31, 2017	-	-	31,733,399	23,971,139	30,245,691	43,935,610
Impact of adopting IFRS 9 at January 1, 2018	27,087,728	70,869,636	(83,240)	(23,971,139)	(30,245,691)	(43,935,610)
Restated balance at January 1, 2018	27,087,728	70,869,636	31,650,159	-	-	-
Additions	13,608,511	18,665,144	13,255,127	-	-	-
Disposals (sale and redemption)	(1,094,195)	(12,336,170)	(8,497,274)	-	-	-
Loss from changes in fair value (debt FVOCI securities)	(1,159,554)	-	-	-	-	-
Loss on disposal	-	-	-	-	-	-
Allowance for expected credit losses	1,787	48,696	14,924	-	-	-
At December 31, 2018	38,444,277	77,247,306	36,422,936	-	-	-

12. Investment securities (cont'd)

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's credit rating system and year end stage classification for investments.

	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired Financial Assets Lifetime ECL	Total
	$	$	$	$
December 31, 2019				
Gross exposure	143,993,558	-	-	143,993,558
ECL	(626,370)	-	-	(626,370)
Net exposure	143,367,188	-	-	143,367,188
ECL allowance as at January 1, 2019 under IFRS 9	406,673	-	-	406,673
ECL on new instruments issued during the year	28,377	-	-	28,377
Other credit loss movements,		-	-	
Repayments and maturities	191,320	-	-	191,320
At December 31, 2019	626,370	-	-	626,370

The gross exposure and ECL balance as at December 31, 2019 above includes investment securities of $112,055,254 [ECL - $447,642] as included in Note 12 and treasury bills of $31,311,935 [ECL - $178,728] as included in Note 9.

(Expressed in Eastern Caribbean dollars)

13. Property and equipment

	Land and building	Furniture and Fixtures	Equipment	Motor Vehicles	Work in progress	Total
	$	$	$	$	$	$
Year ended December 31, 2019						
Opening net book amount	6,868,662	704,493	3,323,565	162,498	2,010,324	13,069,542
Additions	26,451	120,933	697,855	156,000	172,171	1,173,410
Disposals	-	(27,553)	(231,604)	-	-	(259,157)
Transfers	1,045,662	219,151	804,876	-	(2,071,107)	(1,418)
Depreciation on disposals	-	18,880	208,262	-	-	227,142
Depreciation (Note 27)	(420,693)	(95,539)	(763,978)	(33,516)	-	(1,313,726)
Closing net book amount	7,520,082	940,365	4,038,976	284,982	111,388	12,895,793
At December 31, 2019						
Cost or valuation	10,634,136	1,893,439	10,972,179	441,000	111,388	24,052,142
Accumulated depreciation	(3,114,054)	(953,074)	(6,933,203)	(156,018)	-	(11,156,349)
Net book amount	7,520,082	940,365	4,038,976	284,982	111,388	12,895,793
Year ended December 31, 2018						
Opening net book amount	9,281,623	630,166	2,646,981	198,811	96,511	12,854,092
Additions	105,491	153,712	1,307,096	-	2,026,340	3,592,639
Revaluation adjustment	(2,829,142)	-	-	-	-	(2,829,142)
Disposals	-	(39,259)	(531,724)	-	-	(570,983)
Transfers	95,107	-	17,420		(112,527)	-
Depreciation on disposals	-	29,434	460,214	-	-	489,648
Revaluation Adjustment	554,310	-	-	-	-	554,310
Depreciation (Note 27)	(338,727)	(69,560)	(576,422)	(36,313)	-	(1,021,022)
Closing net book amount	6,868,662	704,493	3,323,565	162,498	2,010,324	13,069,542
At December 31, 2018						
Cost or valuation	9,562,023	1,580,908	9,701,052	285,000	2,010,324	23,139,307
Accumulated depreciation	(2,693,361)	(876,415)	(6,377,487)	(122,502)	-	(10,069,765)
Net book amount	6,868,662	704,493	3,323,565	162,498	2,010,324	13,069,542

(Expressed in Eastern Caribbean dollars)

13. Property and equipment (cont'd)

The historical cost of land and buildings are:

	2019	**2018**
	$	$
Cost	6,640,276	6,640,276
Accumulated depreciation based on historical cost	(3,606,232)	(3,531,991)
Depreciated historical cost	3,034,044	3,108,285

Valuation techniques	**Significant unobservable inputs**	**Inter-relationship between key unobservable inputs and fair value measurement**
Market based approach: The approach is based on the principle of substitution whereby the purchaser with perfect knowledge of the property market pays no more for the subject property than the cost of acquiring an existing comparable property, assuming no cost delay in making the substitution. The approach requires comparison of the subject property with others of inter alia similar design and utility, which were sold in the recent past. However, as no two properties are exactly alike, adjustment is made for the difference between property subject to valuation and comparable properties.	• Details of sales of comparable properties. • Conditions influencing the sale of the comparable properties. • Comparability adjustment.	The estimated fair value would increase/(decrease) if: • Sale value of comparable properties were higher/(lower) • Comparability adjustment were added/(deducted).

(Expressed in Eastern Caribbean dollars)

14. Leases liabilities

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the period:

	Right of Use Property $	Total $	Lease Liability $
As at 1 January 2019	8,208,319	8,208,319	8,208,319
Depreciation expense	(907,000)	(907,000)	-
Principal payments	-	-	(570,713)
As at 31 December 2019	7,301,319	7,301,319	7,637,606

The maturity analysis of lease liabilities is disclosed in Note 4.3.3.

15. Intangible assets

	Software $
Year ended December 31, 2019	
Opening net book amount	614,282
Additions for the year	-
Amortization (Note 27)	(136,807)
Closing net book amount	477,475
As at December 31, 2019	
Cost	3,329,721
Accumulated depreciation	(2,852,246)
Net book amount	477,475
Year ended December 31, 2018	
Opening net book amount	531,863
Additions for the year	233,029
Adjustment for cost written off	-
Adjustment for depreciation written off	-
Amortization (Note 27)	(150,610)
Closing net book amount	614,282
As at December 31, 2018	
Cost	3,329,721
Accumulated depreciation	(2,715,439)
Net book amount	614,282

(Expressed in Eastern Caribbean dollars)

16. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 3 months maturity:

	2019	2018
	$	$
Cash and balances with Central Bank (Note 7)	26,224,086	19,643,742
Due from other banks (Note 8)	33,841,222	28,003,720
	60,065,308	47,647,462

17. Other assets

	2019	2018
	$	$
Accounts receivable	2,474,687	5,554,989
Inventories of stationery and supplies	227,765	246,810
Deferred expenditure	606,164	521,911
Prepayments	1,969,254	1,732,045
	5,277,870	8,055,755

18. Due to customers

	2019	2018
	$	$
Time deposits	184,811,225	151,851,703
Savings accounts	420,875,958	388,434,945
Demand amounts	88,975,989	103,695,704
	694,663,172	643,982,352
Interest payable	1,336,675	1,193,777
	695,999,847	645,176,129
Current	695,574,076	644,960,912
Non-current	425,771	215,217
	695,999,847	645,176,129

All deposits bear fixed interest rates.

The weighted average effective interest rate of customers' deposits at December 31, 2019 was 1.93% (2018 - 1.86%).

19. Other liabilities

	2019	2018
	$	$
Manager's cheques outstanding	6,113,333	8,797,683
Accounts payable and accrued expenses	9,889,211	13,710,072
Dividends payable on ordinary shares	912,438	860,259
	16,914,982	23,368,014

20. Provisions

	2019	2018
	$	$
Provision for undrawn loan commitments	144,028	39,131
	144,028	39,131

The Bank is required to allocate a provision for expected credit losses related to loan commitments issued as a result of the implementation of IFRS 9.

21. Defined benefit asset

Net Asset in Statement of Financial Position

The amount recognized in the statement of financial position at the reporting date is determined as follows:

	2019	2018
	$	$
Present value of funded obligations	5,457,000	4,918,000
Fair value of plan assets	(8,178,000)	(7,661,000)
Net defined benefit asset	(2,721,000)	(2,743,000)

Movement in defined benefit obligations

	2019	2018
	$	$
Defined benefit obligation at start of year	4,918,000	4,445,000
Current service cost	145,000	135,000
Interest cost	338,000	309,000
Members' contributions	68,000	65,000
Experience adjustments	131,000	20,000
Actuarial Losses	32,000	-
Benefits paid	(175,000)	(56,000)
Defined benefit obligation at end of year	5,457,000	4,918,000

21. Defined benefit asset *(cont'd)*

The defined benefit obligation is allocated between the Plan's members as follows:

(i)	Active members	71%	82%
(ii)	Deferred members	9%	10%
(iii)	Pensioners	20%	8%

The weighted average duration of the defined benefit obligation at the end of the reporting period was 9.3 years (2018 - 10.4 years). 98% (2018 - 99%) of the benefits for active members are vested. 12% (2018 - 17%) of the defined benefit obligation for active members is conditional on future salary increases.

Movement in fair value of plan assets

	2019	**2018**
	$	$
Fair value of Plan Assets at start of year	7,661,000	6,991,000
Interest income	539,000	496,000
Return on Plan Assets, excluding interest income	(114,000)	(31,000)
Bank's contributions	199,000	196,000
Members' contributions	68,000	65,000
Benefits paid	(175,000)	(56,000)
Fair value of plan assets at end of year	8,178,000	7,661,000
Actual return on plan assets	425,000	465,000

Allocation of plan assets

	2019	**2018**
	$	$
Locally listed equities	720,000	850,000
Government issued bonds	7,474,000	5,522,000
Treasury Bills	-	1,134,000
Cash and cash equivalents	(16,000)	155,000
Fair value of plan assets at end of year	8,178,000	7,661,000

All asset values as at 31 December 2019 were provided by the Bank. Government bonds have been calculated on fair value basis.

The Plan's assets are invested in a strategy agreed with the Plan's Trustees, which is largely driven by the statutory constraints and asset availability. There are no asset-liability matching strategies used by the Plan.

Amounts Recognized in the Statement of Income

	2019	**2018**
	$	$
Current service cost	145,000	135,000
Net interest on net defined benefit asset	(201,000)	(187,000)
Net pension income (Note 29)	(56,000)	(52,000)

(Expressed in Eastern Caribbean dollars)

21. Defined benefit asset (*cont'd*)

Re-measurements recognized in Other Comprehensive Income

	2019	2018
	$	$
Experience losses	277,000	51,000

Reconciliation of opening and closing statement of financial position amounts

	2019	2018
	$	$
Net defined benefit asset at January 1	(2,743,000)	(2,546,000)
Unrecognized gain charged to retained earnings	-	-
Opening defined benefit asset	(2,743,000)	(2,546,000)
Net pension income	(56,000)	(52,000)
Re-measurements recognized in Other Comprehensive Income	277,000	51,000
Bank contributions paid	(199,000)	(196,000)
Net defined benefit asset at December 31	2,721,000	(2,743,000)

Summary of principal actuarial assumptions as at December 31

	2019	2018
	%	%
Discount rate	7	7
Future NIC earnings increases	2	2
Future Pension increases	0	0
Future salary increases	4	4

Assumptions regarding future mortality are based on published mortality tables. The life expectancies underlying the value of the defined benefit obligation as at December 31, 2019 and 2018 are as follows:

	2019	2018
Life expectancy at age 60 for current pensioner in years		
- **Male**	21.7	21.0
- **Female**	26.0	25.1
Life expectancy at age 60 for current members age 40 in years		
- **Male**	22.6	21.4
- **Female**	26.9	25.4

(Expressed in Eastern Caribbean dollars)

21. Defined benefit asset *(cont'd)*

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions used. The following table summarizes how the defined benefit obligation as at December 31, 2019 would have changed as a result of a change in assumptions used.

	1% p.a. decrease	**1% p.a. increase**
Discount rate	523,000	(434,000)
Future salary increases	(195,000)	241,000

An increase of 1 year in the assumed life expectancies shown above would have increased the defined benefit obligation at December 31, 2019 by $52,000 (2018 - $51,000).

Funding

The Bank meets the balance of the cost of funding the defined benefit pension plan and the Bank must pay contributions at least equal to those paid by members, which are fixed. The funding requirements are based on regular (at least every 4 years) actuarial valuations of the Plan and the assumptions used to determine the funding required may differ from those set out above. The Bank expects to pay $204,000 (2018 - $197,000) to the Pension Plan during 2020.

22. Deferred income tax liability

Deferred income taxes are calculated on temporary differences between amounts for financial reporting purposes and those for tax purposes, using a principal tax rate of 30%.

	2019	**2018**
	$	$
At beginning of year	(309,399)	(797,594)
(Charge)/ Recovery for the year (Note 31)	(329,035)	488,195
Deferred income tax liability at end of year	(638,434)	(309,399)

The deferred income tax liability comprises the following temporary differences:

	2019	**2018**
	$	$
Accelerated capital allowances	592,886	1,711,670
Defined benefit asset	(2,721,000)	(2,743,000)
	(2,128,114)	(1,031,330)
Deferred tax liability at income tax rate of 30%	(638,434)	(309,399)

23. Share capital

	2019 No. of Shares	2019 $	2018 No. of Shares	2018 $
Authorized:				
7,000,000 ordinary shares of no par value				
Issued and fully paid:				
At beginning of year	6,372,452	20,000,000	6,372,452	20,000,000
Stock dividend	177,013	-	-	-
	6,549,465	20,000,000	6,372,452	20,000,000
Transfer from retained earnings	-	-	-	-
At end of year	6,549,465	20,000,000	6,372,452	20,000,000

In accordance with the provisions of Section 44 (1)(a) of the Banking Act of Saint Lucia No. 3 of 2015, the Bank is required to hold a minimum level of paid up capital of $20,000,000. During 2017, in order to be in compliance with this requirement, the Bank temporarily transferred an amount of $12,028,546 from retained earnings to paid-up capital. $3,000,000 of this amount was issued as bonus shares on September 1, 2017, giving each existing shareholder one share for every five shares held.

Further to this, the Bank sought and received approval from shareholders at a Special Meeting dated December 17, 2016 to pursue an additional public offering (‘APO’) of 1,000,000 shares at $10.00 per share to augment its capital base. At the same time, shareholders also approved the transfer of $9,028,546 from paid up capital back to retained earnings upon the sale of these 1,000,000 shares.

During 2017, 372,492 shares, equating to capital of $3,724,920 were sold over the subscription period of September 4 to November 13, 2017. At the completion of that process, 627,508 shares remained unsubscribed. At a Special Meeting of Shareholders held on May 30, 2019, the Shareholders approved a stock dividend in the ratio of one share for every thirty-six shares held. 177,013 of these shares were issued as a result, leaving 450,495 shares remaining unsubscribed. A plan to address the balance of these shares has been agreed by the Board of Directors.

24. Reserves

	2019	2018
	$	$
Statutory reserve	12,593,934	10,666,264
Revaluation reserve - property and equipment	1,479,663	1,427,166
Revaluation reserve for interest on non-performing loans	3,096,366	4,563,142
Revaluation reserve for loan impairment	1,786,663	5,007,668
Revaluation reserve - investment securities	904,478	(214,191)
Resiliency reserve	3,000,000	-
	22,861,104	21,450,049

24. Reserves *(cont'd)*

Statutory reserve

	2019	2018
	$	$
Balance at beginning of year	10,666,264	8,680,478
Transfer from profit after taxation	1,927,670	1,985,786
Balance at end of year	12,593,934	10,666,264

Section 45 (1) of the Banking Act #3 of 2015, which was enacted in November 2015, requires all banks to maintain a reserve fund - *Every licensed financial institution shall maintain a reserve fund and shall, out of its net profits of each year, transfer to that fund a sum equal to not less than twenty per cent of profits whenever the amount of the reserve fund is less than a hundred per cent of the paid-up or, as the case may be, assigned capital of the licensed financial institution.*

Revaluation reserve - Property and equipment

	2019	2018
	$	$
Balance at beginning of year	1,427,166	3,708,673
Depreciation transfer	52,497	(6,675)
Decline in reserve due to revaluation of land and buildings	-	(2,274,832)
Balance at end of year	1,479,663	1,427,166

The revaluation reserve relates to the revaluation of property and equipment above its previous carrying amount. The Bank transfers a portion of the reserve to retained earnings annually as the asset is used by the Bank. The value of the transfer is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Any declines in value upon revaluation are initially applied to the existing reserve amount and any amounts in excess are taken to profit or loss.

Revaluation reserve for interest on non-performing loans

	2019	2018
	$	$
Balance at beginning of year	4,563,142	3,217,260
(Decrease)/increase in reserve for regulatory purposes	(1,466,776)	1,345,882
Balance at end of year	3,096,366	4,563,142

This reserve is created to set aside interest accrued on non-performing loans where certain conditions are met in accordance with International Financial Reporting Standards. The Eastern Caribbean Central Bank, however, does 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.

24. Reserves *(cont'd)*

Reserve for loan impairment

	2019	2018
	$	$
Balance at beginning of year	5,007,668	-
(Decrease) Increase in reserve for regulatory purposes	(3,221,005)	5,007,668
Balance at end of year	1,786,663	5,007,668

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 IFRS 9. The excess is therefore set aside in a reserve and is not available for distribution to the shareholders.

Revaluation reserve – FVOCI securities

	2019	2018
	$	$
Balance at beginning of year	(214,191)	945,363
Increase/(decrease) in market value of FVOCI	1,118,669	(1,159,554)
Balance at end of year	904,478	(214,191)

This reserve comprises the fair value reserve related to financial assets measured at FVOCI.

Resiliency reserve

	2019	2018
	$	$
Balance at beginning of year	-	-
Transfer from retained earnings	3,000,000	-
Balance at end of year	3,000,000	-

This reserve was established at a Special Meeting of Shareholders of Bank held on Thursday May 30th, 2019 for the eventualities associated with natural disasters and for the investments in necessary assets and key strategic initiatives which shall strengthen the Bank's response to internal and external shocks.

(Expressed in Eastern Caribbean dollars)

25. Net interest income

	2019	2018
	$	$
Interest and similar income		
Loans and advances	34,035,527	31,972,028
Deposits with banks	66,811	430,645
Investment securities	5,857,413	5,938,522
	39,959,751	38,341,195
Interest expense and similar charges		
Time deposits	3,092,047	2,663,665
Savings deposits	8,745,242	8,201,934
Demand deposits	135,344	131,474
Interest on lease liabilities	696,987	-
	12,669,620	10,997,073
Net interest income	27,290,131	27,344,122

26. Other operating income

	2019	2018
	$	$
Commission and other income	7,141,192	6,706,259
Foreign exchange gains	4,409,240	3,483,712
Bad debts recovered	3,022,893	2,727,809
Loss on disposal of property and equipment	(27,807)	(79,985)
Loss on disposal of investment	(390,214)	-
Fee income	107,487	103,908
Dividend income	193,893	162,243
	14,456,684	13,103,946

27. Other expenses

	2019	2018
	$	$
Administrative expenses (Note 28)	11,487,920	10,712,464
Staff costs (Note 29)	9,843,982	8,748,325
Depreciation and amortization (Notes 13 and 15)	1,450,533	1,171,632
Depreciation on right-of-use assets (Notes 14)	907,000	-
Operating lease rental (Note 2e)	-	1,249,389
	23,689,435	21,881,810

(Expressed in Eastern Caribbean dollars)

28. Administrative expenses

	2019	2018
	$	$
Card services expense	2,239,720	2,156,412
Computer expense	1,362,035	1,530,674
Other operating expenses	1,670,879	1,234,803
Postage, telephone and telexes	857,608	815,718
Security expenses	651,647	506,792
Utilities	618,761	606,404
Repairs and maintenance	522,995	502,870
Advertising	652,194	702,981
Other professional fees	1,023,355	757,972
Bank charges	690,252	793,657
Directors' fees and expenses	321,445	248,481
Stationery	231,299	235,972
Audit fees	229,500	203,424
Insurance	187,554	185,988
Bank license	200,000	200,000
Rates and taxes	28,676	30,316
Total administrative expenses	11,487,920	10,712,464

29. Staff costs

	2019	2018
	$	$
Salaries and wages	7,696,385	7,225,393
Other employee benefits	1,896,416	1,283,487
Social security costs	307,181	291,445
Pension income (Note 21)	(56,000)	(52,000)
	9,843,982	8,748,325

30. Impairment losses

	2019	2018
	$	**$**
Impairment losses from loans and advances (Note 11)	4,047,218	4,867,032
Impairment /(recovery of impairment) on investments (Note 12)	219,697	(65,407)
Impairment /(recovery of impairment) on undrawn loan commitments	104,896	(77,700)
	4,371,811	4,723,925

(Expressed in Eastern Caribbean dollars)

31. Income tax expense

	2019	2018
	$	$
Current tax	3,718,181	4,401,598
Deferred tax charge/ (recovery) (Note 22)	329,035	(488,195)
	4,047,216	3,913,403

Tax on the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 30% (2018 - 30%) as follows:

	2019	2018
	$	$
Profit before income tax	13,685,569	13,842,333
Tax calculated at the statutory tax rate of 30%	4,105671	4,152,700
Tax effect of exempt income	(2,029,882)	(1,888,764)
Tax effect of non-deductible expenses	1,971,031	2,617,174
Tax incentives	396	(967,707)
	4,047,216	3,913,403
Effective tax rate	29.6%	28.3%

32. Earnings per share

	2019	2018
	$	**$**
Weighted average no. of shares	6,475,750	6,372,452
Profit for the year	9,638,353	9,928,930
Earnings per share	1.49	1.56

Basic and diluted

Earnings per share of $1.49 (2018: $1.56) for the year ended December 31, 2019 is calculated by dividing the net profit for the year attributable to shareholders of $9,638,353 (2018: $9,928,930) by the weighted average number of ordinary shares in issue for the year of 6,475,750 (2018 - 6,372,452). The weighted average number of shares for the year is calculated as follows:

	2019	2018
Issued ordinary shares at beginning of year	6,372,452	6,372,452
Effect of shares issued during the year – stock dividend	103,298	-
Weighted average number of ordinary shares at end of year	6,475,750	6,372,452

33. Dividends

During the year, a total of $1,593,113 (2018 - $1,274,490) representing $0.25 (2018: $0.20) per share, was appropriated from retained earnings relating to dividends declared in respect of the year ended December 31, 2018. Additionally, a stock dividend was also distributed equivalent to one share for every thirty six shares held. As at December 31, 2019, $1,542,248 (2018 - $1,122,315) of this amount had been paid.

The dividend proposed in respect of the 2019 financial year end is a combination of a cash and share dividend. The Board approved a cash dividend of $0.10 for each unit of paid up share capital, or EC$654,947 and a distribution of shares in lieu of a cash dividend at a ratio of one share for every thirty seven shares held or 1:37. The financial statements for the year ended December 31, 2019 do not reflect this proposed cash dividend which, if ratified, will be accounted for in equity as an appropriation of retained earnings in the year ending December 31, 2020.

34. Related party balances and transactions

Related party definition

A related party is a person or entity that is related to the Bank.

(a) A person or a close member of that person's family is related to the Bank if that person:

- (i) has control or joint control over the Bank;
- (ii) has significant influence over the Bank; or
- (iii) is a member of the key management personnel of the Bank or of a parent of the Bank.

(b) An entity is related to the Bank if any of the following conditions applies:

- (i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.
- (vi) The entity is controlled, or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) (i) has significant influence over the Bank or is a member of the key management personnel of the Bank (or of a parent of the Bank).
- (viii) The entity, or any member of a group of which it is part, provides key management personnel services to the Bank or its parent.

34. Related party balances and transactions (cont'd)

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

The related party transactions, outstanding balances at the year-end and related expenses and income for the year are as follows:

Loans and advances to Directors and related entities

	2019	2018
	$	$
Loans outstanding at beginning of year	1,711,399	4,546,483
Net loans issued/(repaid) during the year	93,437	(2,835,084)
Loans outstanding at end of year	1,804,836	1,711,399
Interest income earned	97,014	90,067

Loans and advances to key management personnel

	2019	2018
	$	$
Loans outstanding at beginning of year	1,277,279	3,229,612
Net loans issued/(repaid) during the year	1,937,195	(1,952,333)
Loans outstanding at end of year	3,214,474	1,277,279
Interest income earned	174,056	158,317

The loans and advances to directors and other key management personnel are secured over property of the respective borrowers.

No specific allowance has been made for impairment losses on balances with directors or key management personnel and their immediate relatives at the reporting date (2018: nil).

Deposits from Directors and related entities

	2019	2018
	$	$
Deposits at beginning of year	7,717,166	7,545,516
Net deposits received during the year	2,448,992	171,650
Deposits outstanding at end of year	10,166,158	7,717,166
Interest expense on deposits	136,478	73,150

Deposits from key management personnel

	2019	2018
	$	$
Deposits at beginning of year	1,277,280	570,831
Net deposits (withdrawals)/received during the year	(51,393)	706,449
Deposits outstanding at end of year	1,225,887	1,277,280
Interest expense on deposits	26,268	29,367

34. Related party balances and transactions *(cont'd)*

Key management personnel compensation

Key management personnel are those persons that have authority and responsibility for directly or indirectly planning, directing and controlling the activities of the Bank.

	2019	2018
	$	$
Salaries and other short-term benefits	1,635,448	1,632,709
Post and other employment benefits	283,252	225,121
	1,918,700	1,857,830

At the end of the financial year, directors' holding of shares totaled 54,980 (2018 - 64,796) or 0.84% (2018 - 1.02%) of shares outstanding.

35. Contingent liabilities and commitments

Loan commitments, guarantees and other financial facilities

At December 31, 2019, the Bank had contractual off-balance sheet financial instruments in respect of (i) commitments to extend credit to customers, (ii) guarantees, and (iii) other facilities, as follows:

	2019	2018
	$	$
Undrawn loan commitments	62,427,167	45,937,540
Guarantees and standby letters of credit	643,008	688,008
	63,070,175	46,625,548

The Bank is currently in discussions with the Inland Revenue Department of Saint Lucia (IRD) on a matter related to previous tax filings. The outcome is subject to a final assessment by the IRD and cannot be determined at this stage. Accordingly, no provisions have been made in these financial statements for any likely liability which may arise.

Other Commitments

The Bank has entered into an agreement to purchase the Royal Bank of Canada owned operations in St. Lucia and St. Vincent. These transactions are subject to regulatory approval and other customary closing conditions and are expected to be finalized in the coming months.

36. Subsequent event

Since the start of January 2020, global financial markets have been monitoring and reacting to the novel coronavirus (COVID-19) and in late February and early March 2020 there was sharp reaction to the news that the virus had spread to many other countries. In Saint Lucia, cases of the virus were first reported in March 2020. Due to the on-going containment efforts, there are resulting concerns regarding the economic impact this may have on a global, regional and local scale given the significant disruption to business operations in particular for entities in highly exposed sectors.

The full extent of the impact of the COVID-19 outbreak on the financial performance of the Bank will depend on future developments, including the duration and spread of the outbreak, related advisories and restrictions and its impact on the financial markets and the overall economy, all of which are highly uncertain and cannot be predicted.

In order to address the expected disruption at a regional level, on March 20, 2020, a joint media release by the Eastern Caribbean Central Bank and the Eastern Caribbean Currency Union (ECCU) Bankers Association, announced that due to the unprecedented situation and the likely impact on individuals and businesses across the region, a support programme would be implemented by all member banks in the ECCU. The programme will facilitate a loan repayment moratorium for an initial period of up to six (6) months with a possible extension upon review. The Bank being a member of this Association will be participating in this initiative.

If the financial markets and/or the overall economy are impacted for an extended period, the Bank's future results may be materially adversely affected. The Bank continues to monitor this situation closely.