Bank of Saint Lucia Limited

Financial Statements

For the year ended 31 December 2018
(Expressed in Eastern Caribbean Dollars)

Bank of Saint Lucia Limited

Index to the Financial Statements
For the year ended 31 December 2018

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER OF BANK OF SAINT LUCIA LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank of Saint Lucia Limited ("the Bank"), which comprise the statement of financial position as at December 31, 2018, the statements of 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, 2018, 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 SHAREHOLDER OF BANK OF SAINT LUCIA LIMITED

Other Matter

The financial statements of Bank of Saint Lucia Limited for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those financial statements on March 22, 2018.

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.

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.

INDEPENDENT AUDITORS' REPORT (CONT'D)

TO THE SHAREHOLDER OF BANK OF SAINT LUCIA LIMITED

Auditors' Responsibilities for the Audit of the Financial Statements, continued

- 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
March 21, 2019

Bank of Saint Lucia Limited

Statement of Financial Position

As at 31 December 2018

(expressed in Eastern Caribbean dollars)

	Notes	2018 $	2017 $
Assets			
Cash and balances with Central Bank	5	**223,982,801**	347,950,065
Deposits with other banks	6	**159,564,633**	96,111,567
Deposits with non-bank financial institutions	7	**33,436,996**	5,412,488
Treasury bills	8	**17,409,437**	23,131,699
Financial assets held for trading	9	**18,622,966**	19,641,853
Investment securities	12	**668,963,580**	525,518,983
Financial instruments-pledged assets	13	**8,189,148**	10,710,269
Due from related parties	14	**82,015,212**	82,418,108
Loans and receivables - loans and advances to customers	10	**849,214,664**	874,051,040
Property and equipment	15	**46,452,536**	46,978,181
Other assets	16	**56,196,176**	55,208,882
Investment in associates	18	**4,800,000**	4,800,000
Investment properties	19	**31,954,500**	37,454,500
Retirement benefit asset	20	**10,445,137**	13,614,949
Income tax recoverable		**3,777,327**	5,458,514
Deferred tax asset	21	**3,999,622**	819,894
Total assets		**2,219,024,735**	2,149,280,992
Liabilities			
Deposits from banks	22	**55,844,642**	43,297,719
Due to customers	23	**1,824,329,511**	1,805,267,133
Repurchase agreements	13	**7,952,878**	13,702,747
Borrowings	24	**71,519,093**	79,181,457
Dividends payable		**581,000**	290,500
Preference shares	25	**4,150,000**	4,150,000
Other liabilities	26	**35,930,214**	29,201,111
Total liabilities		**2,000,307,338**	1,975,090,667
Equity			
Share capital	27	**265,102,745**	265,102,745
Reserves	28	**191,633,284**	162,787,969
Revaluation surplus		**13,855,322**	13,855,322
Unrealised (loss)/gain on investments		**(5,139,264)**	1,437,172
Accumulated deficit		**(246,734,690)**	(268,992,883)
Total equity		**218,717,397**	174,190,325
Total liabilities and equity		**2,219,024,735**	2,149,280,992

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

Approved by the Board of Directors on March 21, 2019

Director

Director

Bank of Saint Lucia Limited

Statement of Changes in Equity

For the year ended 31 December 2018

(expressed in Eastern Caribbean dollars)

	Share Capital (Note 27) $	**Reserves** (Note 28) $	**Revaluation Surplus** $	**Unrealised Gain/ (Loss) on Available for sale investments** $	**Unrealised Gain/(Loss) on Fair Value through OCI securities** $	**Accumulated Deficit** $	**Total** $
Balance at 1 January 2017	198,718,745	149,583,770	13,855,322	(1,006,930)	-	(284,711,799)	76,439,108
Total comprehensive income for the year	-	-	-	2,444,102	-	28,923,115	31,367,217
Additional share issue	66,384,000	-	-	-	-	-	66,384,000
Transfers to reserves	-	13,204,199	-	-	-	(13,204,199)	-
Balance at 31 December 2017	265,102,745	162,787,969	13,855,322	1,437,172	-	(268,992,883)	174,190,325
Balance at 1 January 2018	**265,102,745**	**162,787,969**	**13,855,322**	**1,437,172**	**-**	**(268,992,883)**	**174,190,325**
Changes on initial application of IFRS 9	**-**	**16,599,267**	**-**	**(1,437,172)**	**2,701,694**	**(1,335,158)**	**16,528,631**
Restated balance at 1 January 2018	**265,102,745**	**179,387,236**	**13,855,322**	**-**	**2,701,694**	**(270,328,041)**	**190,718,956**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(7,840,958)**	**35,839,400**	**27,998,442**
Transfers to reserves	**-**	**12,246,048**	**-**	**-**	**-**	**(12,246,048)**	**-**
Balance at 31 December 2018	**265,102,745**	**191,633,284**	**13,855,322**	**-**	**(5,139,264)**	**(246,734,690)**	**218,717,397**

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

Bank of Saint Lucia Limited

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

(expressed in Eastern Caribbean dollars)

	Notes	2018 $	2017 $
Interest income	30	**84,012,242**	80,247,459
Interest expense	30	**(27,918,582)**	(32,144,962)
Net interest income		**56,093,660**	48,102,497
Fee and commission income	31	**32,682,559**	31,372,943
Dividend income	32	**538,034**	475,445
Net foreign exchange trading income	33	**10,279,335**	11,469,224
Other income	34	**15,178,870**	10,808,999
Other (losses)/gains	35	**(1,229,804)**	2,978,306
Impairment losses on loans and advances	11	**(8,675,280)**	(15,696,102)
Impairment losses on investments	12	**(244,737)**	(318,339)
Operating expenses	36	**(64,303,301)**	(62,519,254)
Profit before income tax and preference shares		**40,319,336**	26,673,719
Dividends on preference shares	25	**(290,500)**	(290,500)
Profit before income tax		**40,028,836**	26,383,219
Income tax (expense)/ recovery	38	**(354,531)**	2,019,357
Profit for the year		**39,674,305**	28,402,576

Bank of Saint Lucia Limited

Statement of Profit or Loss and Other Comprehensive Income…*continued*

For the year ended 31 December 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Profit for the year	**39,674,305**	28,402,576
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Debt instruments at FVOCI reserve:		
Unrealised (loss)/gains on FVOCI instruments	**(7,652,946)**	2,845,243
Realised gains transferred to profit or loss	**(188,012)**	(401,141)
	(7,840,958)	2,444,102
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Re-measurement (loss)/gains on defined benefit pension scheme	**(5,478,392)**	743,628
Income tax effect	**1,643,487**	(223,089)
	(3,834,905)	520,539
Total other comprehensive (loss)/income	**(11,675,863)**	2,964,641
Total comprehensive income for the year	**27,998,442**	31,367,217

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

Bank of Saint Lucia Limited
Statement of Cash Flows
For the year ended 31 December 2018
(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Cash flows from operating activities		
Profit for the year	**39,674,305**	28,402,576
Adjustments for:		
Interest income from investments, treasury bills and deposits with banks	**(23,375,636)**	(19,073,592)
Impairment losses on loans and advances	**8,675,280**	15,696,102
Impairment losses on investments	**244,737**	318,339
Fair value gain on investment property	**-**	(812,745)
Loss on disposal of investment property	**500,000**	-
Depreciation	**4,499,901**	4,508,279
Retirement benefit contributions	**(2,919,710)**	(3,053,950)
Retirement benefit expense	**611,130**	809,198
Unrealised loss on investments held for trading	**795,629**	24,556
Gain on disposal of investments	**(65,826)**	(2,154,993)
Amortised premium on investments	**361,826**	(519,385)
Gain on disposal of property and equipment	**(131,505)**	(51,632)
Dividends on preference shares	**290,500**	290,500
Income tax expense/(recovery)	**354,531**	(2,019,357)
Cash flows before changes in operating assets and liabilities	**29,515,162**	22,363,896
Changes in:		
Mandatory deposits with Central Bank	**1,327,678**	(16,824,076)
Loans and advances to customers	**32,801,577**	8,880,190
Pledged assets	**2,494,191**	10,508,932
Financial assets held for trading	**936,929**	(1,064,289)
Other assets	**(987,294)**	10,296,040
Treasury bills	**954,249**	1,109,132
Due to customers	**19,062,378**	56,581,024
Deposits from banks	**12,546,923**	(11,214,079)
Deposits with banks	**(54,608,399)**	-
Deposits with non-bank financial institutions	**(10,120,122)**	-
Repurchase agreements	**(5,749,869)**	(136,163)
Due from related parties	**402,896**	1,719,577
Other liabilities	**6,687,886**	(941,066)
Net cash from operating activities	**35,264,185**	81,279,118
Income tax paid	**(209,584)**	-
Interest received	**22,271,884**	17,960,358
Net cash from operating activities	**57,326,485**	99,239,476

Bank of Saint Lucia Limited

Statement of Cash Flows *...continued*

For the year ended 31 December 2018

(expressed in Eastern Caribbean dollars)

	Notes	2018 $	2017 $
Cash flows from investing activities			
Purchase of investment securities		**(300,103,511)**	(230,328,617)
Net proceeds from disposal and redemption of investment securities		**148,721,235**	169,126,515
Purchase of investment properties		**-**	(65,257)
Purchase of property and equipment		**(3,974,256)**	(2,741,386)
Proceeds from disposal of investment property		**5,000,000**	-
Proceeds from disposal of property and equipment		**131,505**	50,300
Net cash used in investing activities		**(150,225,027)**	(63,958,445)
Cash flows from financing activities			
Proceeds from share issue		**-**	66,384,000
Dividends paid		**-**	(581,240)
Repayment of borrowings		**(7,662,363)**	(14,447,955)
Cash (used in)/generated from financing activities		**(7,662,363)**	51,354,805
Net (decrease)/increase in cash and cash equivalents		**(100,560,905)**	86,635,836
Cash and cash equivalents at 1 January 2018		**350,524,596**	263,888,760
Cash and cash equivalents at 31 December 2018	39	**249,963,691**	350,524,596

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

1 General information

Bank of Saint Lucia Limited (the Bank) was incorporated in Saint Lucia on 30 June 2001. The Bank provides retail, corporate banking and investment banking services. The Bank is domiciled in St. Lucia and is a wholly owned subsidiary of East Caribbean Financial Holding Company Limited (the "Parent Company), a limited liability company incorporated and domiciled in Saint Lucia.

In October 2016 the East Caribbean Financial Holding Company limited (ECFH) was amalgamated with Bank of Saint Lucia Limited and ECFH Global Investment Solutions in accordance with the provisions of the Companies Act CAP 13.01, Revised Laws of Saint Lucia and continued as Bank of Saint Lucia Limited. Another company with the same name East Caribbean Financial Holding Company Limited was then reincorporated under the same act to hold the shares of Bank of Saint Lucia Limited, Bank of Saint Lucia International Limited and Bank of St. Vincent & the Grenadines. The amalgamation was between entities under common control and was accounted for as a pooling of interest.

The Bank is subject to the Companies Act, 1996 and the provisions of the Banking Act of Saint Lucia, 2015.

The Bank's principal place of business and registered office is located at No.1 Bridge Street, Castries, Saint Lucia.

2 Summary of significant accounting policies

Statement of compliance
Bank of Saint Lucia Limited's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as at 31 December 2018 (the reporting date).

Basis of preparation
The financial statements have been prepared under the historical cost convention, except for the following material items that are measured at fair value in the Statement of Financial Position:

- Financial assets measured at fair value through profit or loss
- Financial assets designated at fair value through profit or loss
- Available-for-sale investment securities (applicable prior to 1 January 2018)
- Equity instruments designated at fair value through other comprehensive income (effective from 1 January 2018)
- Debt instruments measured at fair value through other comprehensive income (effective from 1 January 2018)

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

2 Summary of significant accounting policies*...continued*

Basis of preparation*...continued*

(a) Changes in accounting policies and disclosures

The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Of these new standards and amendments applied for the first time in 2018, only IFRS 9 had a material impact on the annual financial statements of the Bank. The nature and the impact of each new standard or amendment are described below:

- **IFRS 9 *Financial Instruments***

  In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that replaced IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted. The bank did not early adopt IFRS 9. As permitted by the standard, the Bank elected not to restate comparative figures and any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in accumulated deficit and other reserves of the current period.

  The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

  In addition, the Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

  The key changes to the Bank's accounting policies resulting from the adoption of IFRS 9 are summarised below.

  Changes to classification and measurement of financial assets and financial liabilities
  IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the statement of comprehensive income.

  The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

2 Summary of significant accounting policies*...continued*

Basis of preparation*...continued*

(a) Changes in accounting policies and disclosures*...continued*

Impairment of financial assets
The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing the "incurred loss" model under IAS 39 with a forward looking "expected credit loss" model. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 40.

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively except as described below:

- Comparative periods have not been restated. Differences in carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognized in accumulated deficit and reserves as at 1 January 2018. As such, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application – 1 January 2018.
  - The determination of business model within which a financial asset is held
  - The designation and revocation of previous designations of certain financial assets.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

- If a debt security had low credit risk at the date of initial application of IFRS 9, the Bank assumes that the credit risk on the asset had not increased significantly since its initial recognition.

- **IFRS 15 *Revenue from Contracts with Customers***
  On 1 January 2018, the Bank adopted IFRS 15 *Revenue from Contracts with Customers* as issued in May 2014. IFRS 15 defines principles for recognising revenue and is applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases continues to fall outside the scope of IFRS 15 and is regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

  Revenue under IFRS 15 must be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

  The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank.

2 Summary of significant accounting policies*...continued*

Basis of preparation*...continued*

(a) Changes in accounting policies and disclosures*…continued*

The Bank's other revenue stream not regulated by IFRS 9 and 16 relate to service and management fees under a management contract with related companies.

- **IFRS 2 Classification and Measurement of Share-based Payment Transactions** Amendments to IFRS 2 (effective 1 January 2018).
  These amendments are in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:
  - The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
  - The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
  - The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

- **Amendments to IFRS 1 and IAS 29**

  The amendments relate to the measurement of investments associates or joint ventures. The amendment allows qualifying companies to elect to measure such investments through profit or loss on an investment by investment basis. A non-investment entity may elect to retain the fair value accounting applied by an investment entity. These changes are to be applied retrospectively for accounting periods beginning on or after 1 January 2018.

(b) Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

- **IFRS 16 Leases**
  The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their statement of financial positions as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of comprehensive income.

- IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

  The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

2 Summary of significant accounting policies*...continued*

Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

Fair value measurement
The Bank measures financial instruments such as investment securities and non- financial instruments such as investment properties, at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised in the following notes:

Disclosures for valuation methods, significant estimates and assumptions	Notes 2 and 3
Quantitative disclosures of fair value measurement hierarchy	Note 3
Financial instruments (including those carried at amortised cost)	Note 12, 9
Land and buildings	Note 15
Investment properties	Note 19

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

A fair value of a non- financial asset takes into account a market participants ability to generate economic benefits by using the assets in its highest and best use or by selling to another participant that would use the asset in its highest and best use.

The bank determines the policies and procedures for both recurring and non-recurring fair value measurement.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Cash and cash equivalents
For the purposes of the cash flow statement, 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, treasury bills, deposits with other banks, deposits with non-bank financial institutions and other short-term securities.

Investment in associates
Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associate is accounted for at cost.

2 Summary of significant accounting policies*...continued*

Financial assets

Recognition and initial measurement
The Bank initially recognises loans and advances, deposits, debt securities on the date they are originated. Financial assets are measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

Classification
Financial assets – Policy applicable from 1 January 2018
Under IFRS 9, financial assets are classified into one of the following measurement:
- Amortised cost,
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL) – this includes equity instruments elected at FVTPL and securities designated at FVTPL.

IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

On initial recognition, financial assets are classified by the Bank as follows:

Debt instrument
Debt instruments, including loans and debt securities, are classified into one of the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL);

Investments in debt instruments are measured at amortised cost if it meets both of the following conditions and is not designated as 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 (SPPI) on the outstanding principal balance

Business model assessment
Business model assessment involves determining how financial assets are managed in order to generate cash flows. The Bank's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.

2 Summary of significant accounting policies*...continued*

Financial assets*...continued*

Classification*...continued*

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objectives. The model is not assessed on an instrument-by-instrument basis, but rather at a portfolio level and based on factors such as:

- How the performance of the financial assets held within that business model are evaluated and reported to the Bank's management personnel.
- The risks that affect the performance of the assets held within a business model (and, in particular, the way those risks are managed.
- How compensation is determined for the Bank's business lines' management that manages the assets managers of the Bank are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- The expected frequency, value and timing of sales activity.
- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching duration of the financial assets to the duration of the financial liabilities that are funding those assets or realising cash flows through the sale of assets.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment of contractual cash flows
As a second step of its classification process the Bank assesses the contractual terms of financial assets to identify whether they meet the solely payments of principal and interest (SPPI) test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount). 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 as well as profit margin.

Debt instruments measured at amortised cost
Debt instruments are measured at amortised cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortised cost. Interest income on these instruments is recognized in interest income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortised cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

2 Summary of significant accounting policies*...continued*

Financial assets*...continued*

Classification*...continued*

Impairment on debt instruments measured at amortised cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortised cost are presented net of the allowance for credit losses (ACL) in the statement of financial position**.**

Debt instruments measured at Fair Value through Other Comprehensive Income
Investments in debt instruments are measured at fair value through other comprehensive income where they meet the following two conditions and they have not been designated at FVTPL:

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

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest revenue and foreign exchange gains and losses are recognised in profit and loss. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement. .

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss (ECL) approach. The ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the statement of financial position, which remains at its fair value.

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

i) Are held for trading purposes;

ii) Are held as part of a portfolio managed on a fair value basis; or

iii) Whose cash flows do not represent payments that are solely payments of principal and interest.

These instruments are measured at fair value in the Statement of Financial Position, with transaction costs recognized immediately in profit or loss. Realized and unrealized gains and losses are recognized in the statement of comprehensive income**.**

2 Summary of significant accounting policies*...continued*

Financial assets*...continued*

Classification*...continued*

Equity instruments
Equity instruments are classified into one of the following measurement categories:

- Fair value through profit or loss (FVTPL) ; or
- Elected at fair value through other comprehensive income (FVOCI).

Equity instruments measured at FVTPL

Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase, with transaction costs recognized immediately in the statement of comprehensive income. Subsequent to initial recognition the changes in fair value are recognized in the statement of Income. Equity instruments at FVTPL are primarily assets held for trading. The Bank also holds a portfolio of equity instruments that are not held for trading but the performance is required to be assessed annually for distribution to the account holders. These assets though not held for trading are measured as FVTPL.

Equity instruments measured at FVOCI (designated)

At initial recognition, there is an irrevocable option for the Bank to classify non-trading equity instruments at FVOCI. This election is used for certain equity investments for strategic or longer term investment purposes. This election is made on an instrument-by-instrument basis and is not available to equity instruments that are held for trading purposes.

Gains and losses on these instruments including when derecognized/sold are recorded in OCI and are not subsequently reclassified to profit or loss. As such, there is no specific impairment requirement. Dividends received are recorded in profit or loss. Any transaction costs incurred upon purchase of the security are added to the cost basis of the security and are not reclassified to statement of comprehensive income on sale of the security.

Recognition/derecognition
A financial asset is recognised in the Statement of Financial Position when the Bank becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and receivables are recognised when cash is advanced (or settled) to the borrowers.

Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

The Bank derecognises a financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

2 Summary of significant accounting policies*...continued*

Financial assets*...continued*

Classification*…continued*

Financial liabilities
The Bank classifies its financial liabilities, other than financial guarantees and loan commitments as measured at amortised cost.

Impairment of financial assets
Policy applicable from January 1, 2018
Scope
The adoption of IFRS 9 has fundamentally changed the Bank's impairment model by replacing IAS 39's incurred loss approach with a forward-looking three-stage expected credit loss (ECL) approach. The expected credit loss model is applicable to the following categories of financial assets:

- Amortised cost financial assets
- Debt instruments measured at fair value through other comprehensive income;
- Off-balance sheet loan commitments; and
- Financial guarantee contracts.

Equity instruments are not subject to impairment under IFRS 9.

Expected credit loss impairment model
The three-stage ECL allowance model is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase or deterioration in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The three stage approach is as follows:

<u>Stage 1: 12-months ECL</u>
The Bank collectively assesses ECLs on exposures where there has not been a significant increase in credit risk since initial recognition and that were not credit impaired upon origination. For these exposures, the Bank recognises as a collective provision the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

<u>Stage 2: Lifetime ECL – not credit impaired</u>
The Bank collectively assesses ECLs on exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired. For these exposures, the Bank recognises as a collective provision a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset).

2 Summary of significant accounting policies*...continued*

Financial assets*...continued*

Impairment of financial assets*...continued*

Stage 3: Lifetime ECL – credit impaired
The Bank identifies, both collectively and individually, ECLs on those exposures that are assessed as credit impaired based on whether one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount. If the asset is no longer credit impaired, then the calculation of the interest income reverts to the gross basis.

Measurement of Expected Credit Losses (ECL)
ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Bank 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 discounted by the effective interest rate.
- Undrawn loan commitments the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life and calculates the ECL 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.
- Financial guarantee contracts as the expected payments to reimburse the holder less any amounts the Bank expects to recover.
- Revolving facilities including credit cards and overdraft facilities

The inputs used to estimate the expected credit losses are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

2 Summary of significant accounting policies*...continued*

Financial assets*...continued*

Impairment of financial assets*…continued*

Forward looking information

The standard requires the incorporation of forwarding looking information in the estimation of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward looking-looking information requires significant judgement...

Macroeconomic factors

The standard also requires incorporation of macroeconomic factors in models for ECLs. In its models, the Bank conducted an assessment of a broad range of forward-looking economic information as possible inputs, such as: GDP growth, unemployment rates, and Central-Bank interest rates. The results of the assessment however failed to reveal meaningful relationships between the Bank's historical losses and the economic inputs and as such economic inputs were not utilised in the models used for calculating ECLs.

The standard recognises that the inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgment. The Bank therefore in an effort to make adjustments for management overlays, adjusted the stage two loans for the likelihood of migration to stage three and the severity or the extent of the provisions required when these loans migrate to stage three.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers both quantitative and qualitative information and analysis based on the Bank's historical experience and credit risk assessment. The bank considers as a backstop that significant increase in credit risk occurs when an asset is more than 30 days past due.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months.

Expected life

Instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life. For certain revolving facilities such as credit cards and overdrafts, the expected credit life is estimated based on the period over which the Bank's exposure to credit losses is not mitigated by our normal credit risk management actions.

2 Summary of significant accounting policies*...continued*

Financial assets*...continued*

Impairment of financial assets*...continued*

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;
- Undrawn loan commitments and financial guarantees generally as a provision in other liabilities;
- Debt instruments measured at fair value through OCI: the ECLs are not recognized in the statement of financial position because the carrying amounts of these assets remain their fair values. However, the loss allowance is disclosed and is recognised in the fair value reserve in equity with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to profit or loss upon derecognition of the assets.

Modified financial assets

During the normal course of business financial assets may be restructured or modified or an existing financial asset replaced with a new one. When this occurs for reasons other than those which could be considered indicators of impairment, the Bank assesses whether the restructured or renegotiated financial asset is significantly different from the original one by comparing the present value of the restructured cash flows discounted at the original instruments interest rate. If the restructured terms are significantly different the bank derecognises the original financial asset and recognises a new one at fair value with any difference recognized in profit or loss.

If the cash flows of the modified asset are not substantially different, the modification does not result in derecognition of the financial asset. The Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying value as a modification gain or loss in profit or loss.

In assessing whether the modified terms are “substantially” different from the original terms, the following factors are considered:

- Introduction of significant new terms
- Significant change in loan’s interest rate
- Significant extension in loan’s term
- Significant change in credit risk from inclusion of collateral or other credit enhancements

2 Summary of significant accounting policies*...continued*

Financial assets*...continued*

Impairment of financial assets*...continued*

Definition of default

The Bank considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- significant financial difficulty of the borrower;
- default or delinquency in interest or principal payments;
- high probability of the borrower entering a phase of bankruptcy or a financial reorganization;
- measurable decrease in the estimated future cash flows from the loan or the underlying assets that secure the loan.
- The restructuring of a loan or advance by the Bank on terms that the bank would not consider otherwise

The Bank considers that default has occurred and classifies the financial asset as credit impaired when it is more than 90 days past due.

Write-offs

The write-off of a financial asset is a derecognition event. Loans and the related impairment losses are written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, they are generally written off after receipt of any proceeds from the realization of collateral. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off maybe earlier.

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2 Summary of significant accounting policies*...continued*

Financial assets*...continued*

Classification and measurement, derecognition and impairment of financial instruments effective prior to 1 January 2018

Financial assets
The Bank allocated financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determined the classification of its financial instruments at initial recognition:

(a) Financial assets at fair value through profit or loss
This category has two sub-categories; financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income'. The instruments are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, or those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale.

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

2 Summary of significant accounting policies*...continued*

Financial assets*...continued*

(c) Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity, other than: (a) those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank designates as available for sale; and (c) those that meet the definition of loans and receivables. These are initially recognised at fair value including direct and incremental transaction costs are measured subsequently at amortised cost, using the effective interest method less impairment. Interest on held-to-maturity investments is included in statement of comprehensive income. The losses arising from impairment are recognised in profit or loss as impairment losses on investments.

If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. The difference between the carrying value and fair value is recognised in equity.

(d) Available-for-sale financial assets
Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to- maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. Management makes judgements at each reporting date to determine whether available-for-sale investments are impaired. These investments are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the other comprehensive income is recognised in profit or loss. Interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established. Where fair value cannot be determined cost is used to value investments.

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

Financial assets are derecognised when the rights to the cash flows from the asset has expired or when it has transferred substantially all the risks and rewards of ownership.

2 Summary of significant accounting policies*...continued*

Impairment of financial assets

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

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

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

The estimated period between a losses occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Loans and advances that have been assessed individually and found not to be impaired and all individually performing loans and advances are assessed collectively in groups of assets with similar risk characteristics to determine whether provisions should be made due to incurred loss events which are not yet evident. The collective assessment takes account of data from the loan portfolio such as credit quality, levels of arrears, credit utilisation, and loan to collateral ratios, concentrations of risks and economic data country risk and the performance of different groups.

<u>Assets carried at amortised cost</u>

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

2 Summary of significant accounting policies*...continued*

Impairment of financial assets*...continued*

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for the loan impairment in profit or loss.

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

Assets classified as available-for-sale
The Bank makes judgments at each reporting date of determine whether available-for-sale investments are impaired. These investments are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

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

Renegotiated loans
During the normal course of business financial assets carried at amortised cost may be restructured with the mutual agreement of the "Bank" and the counterparty. When this occurs for reasons other than those which could be considered indicators of impairment, the Bank assesses whether the restructured or renegotiated financial asset is significantly different from the original one by comparing the present value of the restructured cash flows discounted at the original instruments interest rate. If the restructured terms are significantly different the bank derecognises the original financial asset and recognises a new one at fair value with any difference recognized in profit or loss.

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

2 Summary of significant accounting policies*...continued*

Sale and repurchase agreements

Securities sold subject to linked repurchase agreements (repos) are retained in the financial statements as investments securities and the counterparty liability is included in repurchase agreement on the statement of Financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of the repurchase agreement using the effective interest method.

Write offs

The Bank wrote off a loan or an investment debt security either partially or in full and related allowance for impairment losses when the Bank's Recoveries Department determined that there was no realistic prospect of recovery.

Property and equipment

Land and building comprise mainly branches and offices occupied by the Bank. Land and buildings are shown at their fair value less subsequent depreciation for buildings.

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

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged against other comprehensive income, all other decreases are charged to profit or loss.

Land is not depreciated. Depreciation on other assets is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings	2%
Leasehold improvements	10%
Office furniture and equipment	10%-15%
Computer equipment	33 1/3%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. 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 cost to sell and value in use

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2 Summary of significant accounting policies*...continued*

Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, are classified as investment properties. Investment property comprises freehold land and buildings which are leased out under operating leases. Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost was incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair value of investment properties are included in the Company's statement of comprehensive income in the year in which they arise.

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Investment property is carried at fair value, representing open market value determined annually by external professionally qualified valuers. Fair value is adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Investment property is reviewed annually by independent external evaluators.

Investment property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.

Impairment of other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

2 Summary of significant accounting policies*...continued*

Income tax

Current tax
Income tax payable/(receivable) is calculated on the basis of the applicable tax law in St. Lucia and is recognised as an expense/(income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income.

Where the Bank has tax losses that can be relieved against a tax liability for a previous year, it recognises those losses as an asset, because the tax relief is recoverable by refund of tax previously paid. This asset is offset against an existing current tax balance. Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the statement of financial position.

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

The principal temporary differences arise from depreciation of property and equipment and tax losses. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting, nor taxable profit or loss.

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

Financial liabilities
The Bank's holding in financial liabilities is at amortised cost. Financial liabilities are derecognised when extinguished.

Financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue for which the fair value option is not applied.

Borrowings
Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

2 Summary of significant accounting policies*...continued*

Provisions
Provisions are recognised when the bank has a present of legal or constructive obligation as a result of a past event, it is more likely that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee benefits

Pension obligations
Certain of the Bank’s employees are covered by the defined benefit plan of the Bank. The contributions to the plan are allocated to the group companies based on employee membership in the plan. Contributions paid on behalf of employees of the Bank are charged to profit or loss in the period in which the contributions are paid.

The Bank operates a defined benefit plan. The scheme is funded through payments to trustee-administered funds, determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The pension obligation valuations are undertaken annually. The asset recognised in the statement of financial position of the Bank in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets, are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur.

Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in the Bank’s statement of comprehensive income on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Bank recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.
The Bank recognises the following changes in the net defined benefit obligation under
‘operating expenses’ in profit or loss :

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

2 Summary of significant accounting policies*...continued*

Employee benefits*...continued*

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

Guarantees, letters of credit and undrawn loan commitments

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. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers.

The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Any increase in the liability relating to guarantees is reported in profit or loss within other operating expenses.

Loan commitments are firm commitments to provide credit under the pre-specified terms and conditions. For loan commitments, from 1 January 2018, the Bank recognises loss allowance and before 1 January 2018 the Bank did not recognise a loss allowance for undrawn loan commitments.

Fiduciary activities

The Bank commonly acts as trustee and in other fiduciary capacities that result in the holding and placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, from the proceeds.

Reserves

The Bank allocates reserves in accordance with the Banking Act of Saint Lucia of 2015.

Dividend on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends for the year that are declared after the reporting date are dealt with in the subsequent events note.

Redeemable preference shares

Preference shares which are mandatorily redeemable on a specific date are classified as liabilities. The dividend on these preference shares are recognised in profit or loss.

2 Summary of significant accounting policies*...continued*

Interest income and expense
Interest income and expense are recognised in profit or loss for all financial instruments measured at amortised cost using the effective interest method.

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

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

Fee and commission income
Fees and commissions are generally recognised on an accruals basis when the service has been provided.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of a business, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time apportioned basis.

Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for financial planning and custody services that are continuously provided over an extended period of time.

Dividend income
Dividend income from available-for-sale equities is recognised when the right to receive payment is established.

Rental income
Rental income from operating leases is recognised on a straight-line basis over the lease term.

2 Summary of significant accounting policies*…continued*

Foreign currency translation

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

Transactions and balances
Foreign currency transactions that are transactions denominated, or that require settlement in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rates as at the reporting date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income. Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in the other comprehensive income.

Financial instruments

Financial instruments carried on the statement of financial position include cash and bank balances, investment securities, loans and advances to customers, deposits with other banks, and deposits from banks, due to customers and borrowed funds. The particular recognition methods adopted are disclosed in the individual policy statement associated with each item.

3 Financial risk management

Strategy in using financial instruments

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 the financial business, and the 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 minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by the Management Committee under policies approved by the Board of Directors. The Bank's Management Committee identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and non-derivative financial instruments. In addition, the Internal Audit Department is responsible for the independent review of risk management and the control environment.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency and interest rate risks.

Credit risk

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

The Bank is also exposed to other credit risks arising from deposits with other banks and non-financial institutions, investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets.

<u>Loans and advances to customers</u>
The Bank takes on exposure to credit risk which, is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses based on an expected credit loss model using counter party probabilities of default across the various loan categories. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk.

<u>Debt securities and treasury bills</u>
For debt securities and treasury bills, external ratings such as Standard & Poor's and Caricris ratings or their equivalents are used by Bank Treasury for managing the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirements at the same time.

3 Financial risk management...*continued*

Credit risk...*continued*

Cash and balances with banks
Credit risk from balances with banks and financial institutions is managed by the Group in accordance with the Bank's policy. Counterparty credit limits are reviewed by the Bank's Risk Department on an annual basis, and may be updated throughout the year subject to approval of the Group's Investment Committee and where necessary, The Board of Directors. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments.

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

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.

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 fund 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.

The Bank's credit risk management policies include requirements relating to collateral valuation and management, including verification requirements and legal certainty. Valuations are updated periodically depending upon the nature of the collateral. Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its periodic review of loan accounts in arrears. Policies are in place to monitor the existence of undesirable concentration in the collateral supporting the Bank's credit exposure.

Longer-term finance and lending to corporate customers and individuals are generally secured. In addition, in order to minimise 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.

3 Financial risk management*...continued*

Credit risk*...continued*

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

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

Impairment of financial assets
The internal rating systems focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes using a three-stage expected credit loss approach. Stages 1 and 2 credit losses are made for assets that are not credit impaired and stage ECLs are for assets which are credit impaired.

Management determines whether objective evidence of impairment exists based on the following criteria 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

See accounting policy in note 2 for further details on impairment of financial assets.

3 Financial risk management*…continued*

Credit risk*...continued*

Maximum exposure to credit risk
Maximum credit risk exposures relating to the financial assets in the statement of financial position:

	Maximum exposure	
	2018	**2017**
	$	**$**
Balances with Central Bank	**190,349,020**	315,533,843
Deposits with other banks	**159,564,633**	96,111,567
Deposits with non-bank financial institutions	**33,436,996**	5,412,488
Treasury Bills	**17,409,437**	23,131,699
Loans and advances to customers:		
Overdrafts	**24,942,876**	29,291,085
Term loans	**185,142,601**	208,447,377
Large corporate loans	**281,976,154**	280,564,996
Mortgages	**357,153,033**	355,747,582
Financial Assets held for trading	**18,622,966**	19,641,853
Investment securities	**648,154,744**	512,537,679
Due from related parties	**82,015,212**	82,418,108
Financial instruments -pledged assets	**8,189,148**	10,710,269
Other assets	**53,520,599**	52,452,945
	2,060,477,419	1,992,001,491

Maximum exposure

Credit risk exposures relating to financial assets off-balance sheet:

	2018	**2017**
	$	**$**
Loan commitments	**115,441,564**	69,837,704
Guarantees and letters of credit	**21,098,089**	23,764,807
	136,539,653	93,602,511
	2,197,017,072	2,085,604,002

3 Financial risk management*...continued*

Credit risk*...continued*

Maximum exposure to credit risk*…continued*
The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2018 and 31 December 2017, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 41% (2017 – 43%) of the total maximum exposure is derived from loans and advances to customers and 32% (2017 – 25%) represents investments in debt securities.

Loans and advances
Loans and advances to customers are summarised as follows:

	Loans and advances and loan commitments for which the loss allowance is measured at:					
	Stage 1		**Stage 2**		**Stage3**	
	12-months expected credit loss not credit impaired		**Lifetime expected credit losses not credit impaired**		**Lifetime expected credit losses credit impaired**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**	**$**	**$**
Gross	**688,863,604**	-	**13,159,882**	-	**210,024,531**	969,666,295
Less allowance for impairment on loans and advances	**(5,110,049)**	-	**(1,040,846)**	-	**(56,682,457)**	(95,615,255)
Net	**683,753,555**	-	**12,119,036**	-	**153,342,074**	874,051,040

Further information on the allowance for impairment losses on loans and advances to customers is provided in Notes 10 and 11.

3 Financial risk management*...continued*

Credit risk*...continued*

Loans and advances*...continued*

Loans and advances to customers 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.

	Overdrafts $	Term Loans $	Mortgages $	Large Corporate Loans $	Total $
31-Dec-18	**22,183,074**	**133,499,632**	**285,295,034**	**164,648,185**	**605,625,925**
31-Dec-17	24,622,610	125,549,174	264,707,964	108,319,098	523,198,846

Loans and advances to customers 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. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Total $
At 31 December 2018				
Past due up to 30 days	**21,402,365**	**33,642,460**	**14,125,023**	**69,169,848**
Past due 30 - 60 days	**2,311,260**	**3,904,342**	**1,027,946**	**7,243,548**
Past due 60 - 90 days	**6,258,136**	**7,772,863**	**5,953,167**	**19,984,166**
At 31 December 2018	**29,971,761**	**45,319,665**	**21,106,136**	**96,397,562**
At 31 December 2017				
Past due up to 30 days	19,556,899	33,099,995	18,897,494	71,554,388
Past due 30 - 60 days	4,777,630	5,641,585	10,576,919	20,996,134
Past due 60 - 90 days	4,422,558	2,802,642	4,462,498	11,687,698
At 31 December 2017	28,757,087	41,544,222	33,936,911	104,238,220

3 Financial risk management*...continued*

Credit risk*...continued*

Loans and advances to customers individually impaired
The breakdown of the gross amount of individually impaired loans and advances by class are as follows:

	Overdrafts $	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Total $
31 December 2018	**7,890,227**	**31,492,175**	**35,332,727**	**135,309,402**	**210,024,531**
31 December 2017	9,655,219	70,933,310	61,151,044	200,489,656	342,229,229

Debt securities and treasury bills
The table below presents an analysis of debt securities and treasury bills by rating agency designation at 31 December 2018 and 2017, based on Standard & Poor's and Moody's ratings:

	Financial Assets Held For Trading $	Investment Securities $	Pledged Assets $	Treasury Bills $	Total $
At 31 December 2018					
AA- to A+	**-**	**190,260,382**	**-**	**-**	**190,260,382**
Lower than A+	**-**	**294,901,270**	**-**	**-**	**294,901,270**
Unrated	**18,622,966**	**163,518,847**	**8,189,148**	**17,409,437**	**207,740,398**
Total	**18,622,966**	**648,680,499**	**8,189,148**	**17,409,437**	**692,902,050**
At 31 December 2017					
AA- to A+	-	125,659,378	-	-	125,659,378
Lower than A+	-	248,654,889	-	-	248,654,889
Unrated	19,641,853	138,223,412	10,710,269	23,131,699	191,707,233
Total	19,641,853	512,537,679	10,710,269	23,131,699	566,021,500

Deposits with other banks and non-bank financial institutions are held with reputable financial institutions as such credit risk is deemed to be minimal.

3 Financial risk management*...continued*

Credit risk*...continued*

Concentrations of risks of financial assets with credit exposure

(a) Geographical sectors
The Bank operates primarily in Saint Lucia.

(b) Industry sectors
The following table breaks down the Group's credit exposure at gross amounts without taking into account any collateral held or other credit support by the industry sectors of the Bank's counterparties.

3 Financial risk management *...continued*

Industry concentrations of risks of financial assets with credit exposure *...continued*

At 31 December 2018	Financial Institutions $	Manu-facturing $	Tourism $	Government $	Professional and Other Services $	Personal $	* Other Industries $	Total $
Financial assets								
Balances with Central Bank	190,349,020	-	-	-	-	-	-	190,349,020
Deposits with other banks	159,564,633	-	-	-	-	-	-	159,564,633
Deposits with non-bank financial Institutions	33,436,996	-	-	-	-	-	-	33,436,996
Treasury Bills	-	-	-	17,409,437	-	-	-	17,409,437
Loans and advances to customers net:								
Overdrafts	184,593	578,399	4,278,649	25,116	1,896,786	963,968	17,015,365	24,942,876
Term loans	149,186	1,774,684	5,191,833	204,229	14,925,858	141,696,317	21,200,494	185,142,601
Large corporate loans	1,123,802	1,730,157	52,997,542	68,390,073	51,873,751	10,482,303	95,378,526	281,976,154
Mortgage loans	-	-	-	-	-	357,153,033	-	357,153,033
Financial assets held for trading-debt securities	-	-	-	18,622,966	-	-	-	18,622,966
Investment securities	203,014,452	-	-	77,496,847	-	-	367,643,445	648,154,744
Due from related parties	82,015,212	-	-	-	-	-	-	82,015,212
Financial instruments - pledged assets	-	-	-	8,189,148	-	-	-	8,189,148
Other assets	-	-	-	-	-	-	53,520,599	53,520,599
At 31 December 2018	669,837,894	4,083,240	62,468,024	190,337,816	68,696,395	510,295,621	554,758,429	2,060,477,419
Guarantees and letters of credit	-	193,300	15,000	31,000	169,000	19,263,789	1,426,000	21,098,089
Loan commitments and other credit related obligations	68,092	4,047,552	2,620,946	30,000,000	1,620,331	407,730	76,676,913	115,441,564

* Other industries include construction and land development.

3 Financial risk management*...continued*

Industry concentrations of risks of financial assets with credit exposure*...continued*

At 31 December 2017	Financial Institutions $	Manu-facturing $	Tourism $	Government $	Professional and Other Services $	Personal $	* Other Industries $	Total $
Financial assets								
Balances with Central Bank	**315,533,843**	-	-	-	-	-	-	**315,533,843**
Deposits with other banks	**96,111,567**	-	-	-	-	-	-	**96,111,567**
Deposits with non-bank financial Institutions	**5,412,488**	-	-	-	-	-	-	**5,412,488**
Treasury Bills	-	-	-	**23,131,699**	-	-	-	**23,131,699**
Loans and advances to customers net:					-			
Overdrafts	**81,064**	**381,382**	**4,389,537**	**80,184**	**2,258,851**	**6,838,761**	**15,261,306**	**29,291,085**
Term loans	**186,912**	**2,029,297**	**2,718,134**	**53,631**	**18,018,394**	**161,163,422**	**24,277,587**	**208,447,377**
Large corporate loans	**2,231,467**	**3,206,390**	**61,493,865**	**41,144,908**	**56,807,706**	**9,847,249**	**105,833,411**	**280,564,996**
Mortgage loans	-	-	-	-	-	**355,747,582**	-	**355,747,582**
Financial assets held for trading-debt securities	-	-	-	**19,641,853**	-	-	-	**19,641,853**
Investment securities	**198,482,590**	-	-	**116,328,863**	-	-	**197,726,226**	**512,537,679**
Due from related parties	**82,418,108**	-		-	-	-	-	**82,418,108**
Financial instruments - pledged assets	-	-	-	**10,710,269**	-	-	-	**10,710,269**
Other assets	-	-	-	-	-	-	**52,452,945**	**52,452,945**
At 31 December 2017	**700,458,039**	**5,617,069**	**68,601,536**	**211,091,407**	**77,084,951**	**533,597,014**	**395,551,475**	**1,992,001,491**
Guarantees and letters of credit	-	**193,300**	**15,000**	**31,000**	**169,000**	**18,812,507**	**4,544,000**	**23,764,807**
Loan commitments and other credit related obligations	**1,049,389**	**4,596,132**	**2,396,541**	**30,000,894**	**936,330**	**420,935**	**30,437,483**	**69,837,704**

* Other industries include construction and land development.

3 Financial risk management*...continued*

Market risk
The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank exposures to market risks arise from its non-trading portfolios. Senior management of the bank monitors and manages market risk through the Asset Liability Committee which advises on financial risks and assigns risk limits for the bank.

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

Currency risk
The Bank takes on exposure to 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 for both overnight and intra-day positions, 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 1974. The following table summarises the Bank's exposure to foreign currency exchange rate risk at 31 December.

3 Financial risk management*...continued*

Currency risk*...continued*

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
At 31 December 2018								
Financial assets								
Cash and balances with Central Bank	217,055,053	5,602,725	152,223	655,452	234,749	282,599	-	223,982,801
Deposits with other banks	40,647,278	111,255,317	1,576,669	2,283,496	672,851	325,237	2,803,785	159,564,633
Deposits with non-bank financial institution	10,121,256	23,032,166	-	261,351	22,223	-	-	33,436,996
Treasury bills	17,409,437	-	-	-	-	-	-	17,409,437
Financial assets at FVTPL	18,622,966	-	-	-	-	-	-	18,622,966
Loans and receivables:								
loans and advances to customers	815,733,402	33,481,262	-	-	-	-	-	849,214,664
Investment securities:								
At amortised cost	175,930,419	4,211,235	-	-	-	-	-	180,141,654
FVOCI	117,472,411	359,635,458	-	-	-		-	477,107,869
FVTPL	6,240	11,680,173	-	-	-	27,644	-	11,714,057
Financial instruments - pledged assets	8,189,148	-	-	-	-	-	-	8,189,148
Due from related parties	82,015,212	-	-	-	-	-	-	82,015,212
Other assets	56,196,176	-	-	-	-	-	-	56,196,176
Total financial assets	1,559,398,998	548,898,336	1,728,892	3,200,299	929,823	635,480	2,803,785	2,117,595,613
Financial liabilities								
Deposits from banks	55,844,642	-	-	-	-	-	-	55,844,642
Due to customers	1,694,713,048	126,415,102	-	3,201,361	-	-	-	1,824,329,511
Repurchase agreements	4,710,705	3,242,173	-	-	-	-	-	7,952,878
Borrowings	51,231,507	20,287,586	-	-	-	-	-	71,519,093
Other liabilities	35,930,214	-	-	-	-	-	-	35,930,214
Total financial liabilities	1,842,430,116	149,944,861	-	3,201,361	-	-	-	1,995,576,338
Net assets/(liabilities)	(283,031,118)	398,953,475	1,728,892	(1,062)	929,823	635,480	2,803,785	122,019,275
Loan commitments, guarantees and letters of credit	136,539,653	-	-	-	-	-	-	136,539,653

3 Financial risk management *…continued*

Currency risk *…continued*

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
At 31 December 2017								
Financial assets								
Cash and balances with Central Bank	342,755,875	4,089,735	150,601	472,131	268,734	212,989	-	347,950,065
Deposits with other banks	56,870,671	20,549,378	1,759,986	14,561,888	753,946	210,643	1,405,055	96,111,567
Deposits with non-bank financial institution	-	5,388,885	-	-	23,603	-	-	5,412,488
Treasury bills	23,131,699	-	-	-	-	-	-	23,131,699
Financial assets held for trading	19,641,853	-	-	-	-	-	-	19,641,853
Loans and receivables:								
loans and advances to customers	836,408,008	37,643,032	-	-	-	-	-	874,051,040
Investment securities:								
Held-to-maturity	4,915,974	115,132,542	-	-	-	-	-	120,048,516
Available-for-sale	87,914,231	317,556,236	-	-	-	-	-	405,470,467
Financial instruments - pledged assets	10,710,269	-	-	-	-	-	-	10,710,269
Due from related parties	82,418,108	-	-	-	-	-	-	82,418,108
Other assets	52,452,945	-	-	-	-	-	-	52,452,945
Total financial assets	**1,517,219,633**	**500,359,808**	**1,910,587**	**15,034,019**	**1,046,283**	**423,632**	**1,405,055**	**2,037,399,017**
Financial liabilities								
Deposits from banks	43,297,719	-	-	-	-	-	-	43,297,719
Due to customers	1,662,249,257	133,708,403	-	9,309,473	-	-	-	1,805,267,133
Repurchase agreements	10,484,621	3,218,126	-	-	-	-	-	13,702,747
Borrowings	51,231,507	27,949,950	-	-	-	-	-	79,181,457
Other liabilities	29,201,111	-	-	-	-	-	-	29,201,111
Total financial liabilities	**1,796,464,215**	**164,876,479**	**-**	**9,309,473**	**-**	**-**	**-**	**1,970,650,167**
Net assets/(liabilities)	**(279,244,582)**	**335,483,329**	**1,910,587**	**5,724,546**	**1,046,283**	**423,632**	**1,405,055**	**66,748,850**
Loan commitments, guarantees and letters of credit	**93,602,511**	**-**	**-**	**-**	**-**	**-**	**-**	**93,602,511**

3 Financial risk management*...continued*

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing 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 or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

3 Financial risk management*...continued*

Interest rate risk*...continued*

Concentrations of financial assets and financial liabilities

	Up to 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Over 5 years $	Non-interest Bearing $	Total $
At 31 December 2018							
Financial assets							
Cash and balances with Central Bank	-	-	-	-	-	223,982,801	223,982,801
Deposits with other banks	14,825,732	32,851,893	66,555,820	-	-	45,331,188	159,564,633
Deposits with non-bank financial institution	5,437,623	13,609,734	10,121,256	-	-	4,268,383	33,436,996
Treasury Bills	1,750,357	15,659,080	-	-	-	-	17,409,437
Financial assets through P&L	-	-	2,256,708	10,931,857	5,434,401	-	18,622,966
Loans and receivables:							
-Loans and advances to customers	15,092,161	7,321,350	38,434,513	172,083,129	616,283,511	-	849,214,664
Investment securities:							
-FVOCI	5,120,608	16,317,148	94,935,928	262,586,396	98,147,789	-	477,107,869
-Amortised cost	3,876,899	3,309,038	21,652,307	92,788,872	58,514,538	-	180,141,654
Financial instruments - pledged assets	-	-	100,390	54,617	8,034,141	-	8,189,148
Due from related parties	-	-	-	-	-	82,015,212	82,015,212
Other assets	-	-	-	-	-	56,196,176	56,196,176
Total financial assets	46,103,380	89,068,243	234,056,922	538,444,871	786,414,380	411,793,760	2,105,881,556
Financial liabilities							
Deposits from banks	-	3,169,436	28,519,127	-	-	24,156,079	55,844,642
Due to customers	949,046,599	77,309,850	269,113,825	23,566,773	32,642,528	472,649,936	1,824,329,511
Repurchase agreements	-	-	7,952,878	-	-	-	7,952,878
Borrowings	2,127,968	1,231,507	5,695,045	26,795,707	35,668,866	-	71,519,093
Other liabilities	-	-	-	-	-	35,930,214	35,930,214
Total financial liabilities	951,174,567	81,710,793	311,280,875	50,362,480	68,311,394	532,736,229	1,995,576,338
Net interest repricing gap	(905,071,187)	7,357,450	(77,223,953)	488,082,391	718,102,986	(120,942,469)	110,305,218

3 Financial risk management...*continued*

Interest rate risk...*continued*

Concentrations of financial assets and financial liabilities…*continued*

	Up to 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Over 5 years $	Non-interest Bearing $	Total $
At 31 December 2017							
Financial assets							
Cash and balances with Central Bank	**-**	**-**	**-**	**-**	**-**	**347,950,065**	**347,950,065**
Deposits with other banks	**709,843**	**-**	**11,804,788**	**-**	**-**	**83,596,936**	**96,111,567**
Deposits with non-bank financial institution	**-**	**-**	**-**	**-**	**-**	**5,412,488**	**5,412,488**
Treasury Bills	**11,676,659**	**10,403,150**	**1,051,890**	**-**	**-**	**-**	**23,131,699**
Financial assets held for trading	**-**	**-**	**1,204,279**	**10,962,843**	**7,474,731**	**-**	**19,641,853**
Loans and receivables:							
-Loans and advances to customers	**36,767,886**	**11,931,123**	**14,428,078**	**169,447,161**	**641,476,792**	**-**	**874,051,040**
Investment securities:							
-Held-to-maturity	**2,234,778**	**1,763,118**	**7,325,888**	**50,402,178**	**58,322,554**	**-**	**120,048,516**
-Available-for-sale	**10,416,304**	**12,063,406**	**73,388,755**	**183,408,947**	**113,211,751**	**-**	**392,489,163**
Financial instruments - pledged assets	**-**	**-**	**659,071**	**1,985,304**	**8,065,894**	**-**	**10,710,269**
Due from related parties	**-**	**-**	**-**	**-**	**-**	**82,418,108**	**82,418,108**
Other assets	**-**	**-**	**-**	**-**	**-**	**52,452,945**	**52,452,945**
Total financial assets	**61,805,470**	**36,160,797**	**109,862,749**	**416,206,433**	**828,551,722**	**571,830,542**	**2,024,417,713**
Financial liabilities							
Deposits from banks	9,161,970	3,123,109	31,012,640	-	-	-	43,297,719
Due to customers	891,764,944	95,400,773	301,582,552	26,299,970	22,328,460	467,890,434	1,805,267,133
Repurchase agreements	-	-	13,702,747	-	-	-	13,702,747
Borrowings	2,196,938	1,231,507	5,695,045	22,382,501	47,675,466	-	79,181,457
Other liabilities	-	-	-	-	-	29,201,111	29,201,111
Total financial liabilities	**903,123,852**	**99,755,389**	**351,992,984**	**48,682,471**	**70,003,926**	**497,091,545**	**1,970,650,167**
Net interest repricing gap	**(841,318,382)**	**(63,594,592)**	**(242,130,235)**	**367,523,962**	**758,547,796**	**74,738,997**	**53,767,546**

3 Financial risk management*...continued*

Sensitivity analysis
Cash flow interest rate risk arises from loans and advances to customers and borrowings at variable rates. At 31 December 2018, if variable interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit/(loss) for the year would have been $632,565 (2017 – $840,509) lower/higher, mainly as a result of higher/lower interest income on variable rate loans.

Liquidity risk
Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

The Bank is exposed to daily cash calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board of Directors sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Liquidity risk management process
The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The contractual maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

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

Funding approach
Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term.

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

3 Financial risk management...*continued*

Liquidity risk management...*continued*

	Up to 1 month $	1-3 Months $	3-12 Months $	1-5 Years $	Over 5 years $	Total $
As at 31 December 2018						
Financial liabilities						
Deposits from banks	**24,156,078**	**3,181,430**	**28,742,270**	**-**	**-**	**56,079,778**
Due to customers	**1,422,071,161**	**77,583,779**	**271,885,323**	**23,566,773**	**32,642,528**	**1,827,749,564**
Repurchase Agreements	**-**	**-**	**8,012,191**	**-**	**-**	**8,012,191**
Borrowings	**2,127,968**	**1,827,397**	**8,058,770**	**50,735,463**	**28,405,078**	**91,154,676**
Other liabilities	**10,997,279**	**19,794,744**	**5,126,478**	**-**	**-**	**35,918,501**
Total financial liabilities	**1,459,352,486**	**102,387,350**	**321,825,032**	**74,302,236**	**61,047,606**	**2,018,914,710**

	Up to 1 month $	1-3 Months $	3-12 Months $	1-5 Years $	Over 5 years $	Total $
As at 31 December 2017						
Financial liabilities						
Deposits from banks	9,162,179	3,134,799	31,259,882	-	-	43,556,860
Due to customers	1,362,073,838	95,766,111	304,437,493	26,328,853	22,328,460	1,810,934,755
Repurchase Agreements	-	-	13,809,619	-	-	13,809,619
Borrowings	1,945,765	1,827,397	8,246,193	49,609,922	43,396,813	105,026,090
Other liabilities	9,076,901	16,744,021	3,837,200	-	-	29,658,122
Total financial liabilities	1,382,258,683	117,472,328	361,590,387	75,938,775	65,725,273	2,002,985,446

3 Financial risk management*...continued*

Liquidity risk management*...continued*

Assets held for managing liquidity risk
The Bank holds a diversified portfolio of cash and investment securities to support payment obligations.

The Bank's assets held for managing liquidity risk comprise cash and balances with Central Bank, certificate of deposits, government bonds that are readily acceptable in repurchase agreements, treasury and other eligible bills, loans and advances to financial institutions, loans and advances to customers and other items in the course of collection.

The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

3 Financial risk management*...continued*

Off-balance sheet items

(a) Loan commitments
The contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 29), are summarised in the table below.

(b) Financial guarantees and other financial facilities
Financial guarantees (Note 29) are also included below based on the earliest contractual maturity date.

	1 Year $	Total $
At 31 December 2018		
Loan commitments	**115,441,564**	**115,441,564**
Guarantees and letters of credit	**21,098,089**	**21,098,089**
Total	**136,539,653**	**136,539,653**
At 31 December 2017		
Loan commitments	69,837,704	69,837,704
Guarantees and letters of credit	23,764,807	23,764,807
Total	93,602,511	93,602,511

Fair values of financial assets and financial 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. The fair value of off-balance sheet commitments is also assumed to approximate the amounts disclosed in Note 29 due to their short term nature.

3 Financial risk management*...continued*

Fair values of financial assets and financial liabilities*...continued*

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 at rates which reflect market conditions and are assumed to have fair values which approximate carrying value.

Investment securities
Investment securities include interest bearing debt and equity securities measured at fair value through OCI, fair value through profit or loss.

Pledged assets
The estimated fair value of pledged assets are derived from market prices or broker/dealer quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

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

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

	Carrying value		**Fair value**	
	2018 **$**	**2017** **$**	**2018** **$**	**2017** **$**
Financial assets				
Loans and advances to customers:				
-Term loans	**185,142,601**	208,447,377	**187,809,774**	214,664,163
-Large corporate loans	**281,976,154**	280,564,996	**421,514,177**	406,844,223
-Overdrafts	**24,942,876**	29,291,085	**24,919,326**	29,291,085
-Mortgages	**357,153,033**	355,747,582	**363,859,598**	366,178,993
Investment securities:				
-Held to maturity	**180,141,654**	120,048,516	**183,563,692**	113,547,739
Financial liabilities				
Borrowings	**71,519,093**	79,181,457	**63,538,761**	73,747,815

Management assessed that cash and short term deposits, treasury bills, trade receivables, trade payables, repurchase agreements and other current liabilities approximate their carrying amounts largely due to the short term maturities of these instruments.

The Bank's interest-bearing borrowings and loans are determined by using DCF method using the discount rate that reflects the average rates at the end of the year.

3 Financial risk management*...continued*

Fair values of financial assets and financial liabilities *...continued*

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 Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges such as the Luxembourg Stock Exchange and New York Stock Exchange.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

Assets measured at fair value

	Level 1 $	Level 2 $	Level 3 $	Total $
31 December 2018				
Investment properties	-	31,954,500	-	31,954,500
Land and buildings	-	-	38,925,314	38,925,314
Financial assets held for trading				
− Debt securities	-	18,622,966	-	18,622,966
Financial assets at FVTPL				
− Equity securities	10,240,554	1,473,503	-	11,714,057
Financial assets FVOCI (2017: AFS)				
− Debt securities	137,493	441,888,203	26,513,149	468,538,845
− Equity securities	-	8,569,024	-	8,569,024
Financial instruments-pledged	-	8,189,148	-	8,189,148
Total financial assets	10,378,047	510,697,344	65,438,463	586,513,854

3 Financial risk management*...continued*

Fair values of financial assets and liabilities*...continued*

Assets for which fair values are disclosed

	Level 2 $	Level 3 $	Total $
31 December 2018			
Loans and receivable	**-**	**998,102,875**	**998,102,875**
Amortised cost investments	**174,508,428**	**9,055,264**	**183,563,692**
Total financial assets	**174,508,428**	**1,007,158,139**	**1,181,666,567**
31 December 2017			
Loans and receivable	-	1,016,978,464	1,016,978,464
Held to maturity investments	113,547,739	-	113,547,739
Total financial assets	113,547,739	1,016,978,464	1,130,526,203

	Level 1 $	Level 2 $	Level 3 $	Total $
31 December 2017				
Investment properties	-	37,454,500	-	37,454,500
Land and buildings	-	-	39,503,809	39,503,809
Financial assets held for trading				
− Debt securities	-	19,641,853	-	19,641,853
Financial assets available for sale				
− debt securities	-	359,980,698	32,508,465	392,489,163
− equity securities	3,042,115	8,940,869	-	11,982,984
Financial instruments-pledged	-	10,710,269	-	10,710,269
Total financial assets	3,042,115	436,728,189	72,012,274	511,782,578

3 Financial risk management*...continued*

Fair values of financial assets and financial liabilities *...continued*

Liabilities for which fair values are disclosed:

	Level 3 $	Total $
31 December 2018		
Borrowings	**63,538,761**	**63,538,761**
31 December 2017		
Borrowings	73,747,815	73,747,815

3 Financial risk management*...continued*

Fair values of financial assets and financial liabilities *...continued*

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily DAX, FTSE 100 and Dow Jones debt securities classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter fixed income securities) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no transfers between level 1 and level 2 financial assets during the reporting period or any transfers to level 3.

The following table presents the change in level 3 instruments for the year ended 31 December 2018:

			FVOCI (2017: Available-for-Sale)	
	Debt Securities 2018 $	**Equity Securities 2018 $**	**Total 2018 $**	**Debt Securities 2017 $**
31 December 2018				
At beginning of year	**32,508,465**	**1,045,765**	**33,554,230**	9,014,042
(Disposals)/sales	**(5,995,316)**	**(1,045,765)**	**(7,041,081)**	23,494,423
At end of year	**26,513,149**	**-**	**26,513,149**	32,508,465

3 Financial risk management...*continued*

Fiduciary activities

The Bank provides investment management and advisory services to third parties, which involve the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Bank accepting targets for benchmark levels of returns for the assets under the Bank's care. At the reporting date, the Bank had financial assets under administration amounting to $102,752,497 (2017 – $94,689,511).

Capital management

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

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;

- 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 (ECCB) for supervisory purposes. The required information is filed with the ECCB on a quarterly basis.

The ECCB requires each bank or banking group to hold the minimum level of the regulatory capital to the risk-weighted asset (the 'Basel capital adequacy ratio') at or above the internationally agreed minimum of 8%.

The Bank's regulatory capital as managed by its Treasury is divided into two tiers:

- Tier 1 capital: share capital (net of any book values of the treasury shares), minority interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and

- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale and revaluation of fixed assets (limited to 50% of Tier 1 capital).

Investment in associates are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

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.

3 Financial risk management...*continued*

Capital management...*continued*

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2018 and 2017. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject.

	2018 $	2017 $
Tier 1 capital		
Share capital	**265,102,745**	265,102,745
Reserves	**191,633,284**	162,787,969
Accumulated deficit	**(246,734,690)**	(268,992,883)
Total qualifying Tier 1 capital	**210,001,339**	158,897,831
Tier 2 capital		
Revaluation reserve – FVOCI	**(5,139,264)**	1,437,172
Revaluation reserve – property and equipment	**13,855,322**	13,855,322
Collective impairment allowance (limited to 1.25% of risk weighted assets)	**5,140,409**	18,052,000
Redeemable preference shares	**4,150,000**	4,150,000
Subordinated debt (limited to 50% of tier 1 capital)	**50,000,000**	50,000,000
Total qualifying Tier 2 capital	**68,006,467**	87,494,494
Total regulatory capital	**278,007,806**	246,392,325
Risk-weighted assets:		
On-balance sheet	**1,385,001,200**	1,347,877,000
Off-balance sheet	**28,388,000**	18,720,400
Total risk-weighted assets	**1,413,389,200**	1,366,597,400
Basel capital adequacy ratio	**19.67%**	18.03%

4 Critical accounting estimates, and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Going concern
The Bank's management is satisfied that it has the resources to continue in business for the foreseeable future. The Bank's management is not aware of any material uncertainties that may cast significant doubt upon its ability to continue as a going concern.

Measurement of the expected credit loss allowance
The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is detailed in note 2.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- The Bank's criteria for determining if there has been a significant increase in credit risk and so impairment allowances for financial assets should be measured on a LTECL basis
- Choosing appropriate models and assumptions for the measurement of ECL
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Establishing the number and relative weightings of forward-looking macroeconomic scenarios for each type of product or market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Impairment of assets carried at fair value
The Bank determines that financial assets measured at FVOCI and FVTPL are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

The Bank individually assesses financial assets for objective evidence of impairment. If an impaired instrument has been renegotiated, interest continues to be accrued on the reduced carrying amount of the asset and is recorded as part of "interest income". If the fair value of the instrument increases in a subsequent year, the impairment loss is reversed through profit or loss.

Impairment of non-financial assets
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less cost of disposal is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental cost of disposing of the asset. The value in use calculation is based on a DCF model. The recoverable amount is sensitive to the discount rate used for DCF model as well as the future cash inflows.

4 Critical accounting estimates, and judgements in applying accounting policies*…continued*

Fair value of financial instruments
Financial instruments where recorded current market transactions or observable market data are not available, are recorded at fair value using valuation techniques. Fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the group's best estimates of the most appropriate model assumptions.

Deferred taxes
In calculating the deferred tax asset, management uses judgment to determine the possibility that future taxable profits will be available to facilitate utilization of temporary tax differences which may arise.

Corporate income taxes
Significant estimates are required in determining the provision for income taxes. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions. The deferred tax assets recognised at 31 December 2018 have been based on future profitability assumptions over a five year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

Revaluation of land and buildings and investment property
The Company measures its land and buildings and investment property at revalued amounts with changes in fair value being recognized in other comprehensive income and profit or loss respectively. The Company engages independent valuation specialists to determine fair value of its land and buildings. The valuer uses judgment in the application of valuation techniques such as replacement cost, capitalization of potential rentals and the market price of comparable properties, as applicable in each case.

Retirement benefits
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 assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The most sensitive assumptions used in determining the net cost (income) for pensions include the discount rate and future salary increases. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of Government securities that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Were the discount rate used to increase/(decrease) by 1% from management's estimates, the defined benefit obligation for pension benefits would be an estimated $7,165,679 lower or $9,921,555 higher (2017 - $5,923,123 lower or $8,738,294 higher).

Were the estimated salary increases used to increase/ (decrease) by 1% from management's estimates, the defined benefit obligation for pension benefits would be an estimated $4,563,411 higher or $3,876,202 lower (2017 - $4,137,031 higher or $3,375,968).

5 Cash and balances with Central Bank

	Notes	2018 $	2017 $
Cash in hand		**33,633,781**	32,416,222
Balances with Central Bank other than mandatory reserve deposits		**70,647,365**	194,504,510
Included in cash and cash equivalents	39	**104,281,146**	226,920,732
Mandatory reserve deposits with Central Bank		**119,701,655**	121,029,333
		223,982,801	347,950,065

Pursuant to the Banking Act of Saint Lucia of 2015, 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.

6 Deposits with other banks

	Notes	2018 $	2017 $
Items in the course of collection with other banks		**9,039,852**	8,152,443
Placements with other banks		**36,291,336**	75,444,493
Interest bearing deposits - cash and cash equivalents		**59,625,046**	12,514,631
Included in cash and cash equivalents	39	**104,956,234**	96,111,567
Interest bearing deposits more than 90 days to maturity		**54,608,399**	-
		159,564,633	96,111,567

The weighted average effective interest rate in respect of interest bearing deposits at 31 December 2018 was 1.78% (2017 – 1.25%).

7 Deposits with non-bank financial institutions

	Notes	2018 $	2017 $
Deposits – cash and cash equivalents	39	**23,316,874**	5,412,488
Deposits – more than 90 days to maturity		**10,120,122**	-
Deposits		**33,436,996**	5,412,488

The weighted average effective interest rate in respect of interest bearing deposits at 31 December 2018 was 1.66% (2017- nil). Interest rate on deposits depends on the value of deposits held.

8 Treasury bills

	Notes	2018 $	2017 $
Treasury bills – cash and cash equivalents	39	**17,409,437**	22,079,809
Treasury bills – more than 90 days to maturity		**-**	1,051,890
		17,409,437	23,131,699

The weighted average interest rate on treasury bills was 4.5% (2017-4.5%).

9 Financial assets held for trading

	2018 $	2017 $
Debt securities	**-**	19,641,853
Financial assets through profit or loss		
Debt securities	**18,622,966**	-

Financial assets held for trading were acquired for the purpose of selling in the near term and would otherwise have been classified as held-to-maturity investments. The weighted average interest rate on debt securities was 7.05% (2017 - 6.98%).

10 Loans and advances to customers

	Notes	2018 $	2017 $
Large corporate loans		**321,063,723**	342,745,665
Mortgage loans		**365,947,424**	367,403,230
Term loans		**194,963,568**	225,239,571
Overdrafts		**30,073,300**	34,277,829
Gross		**912,048,015**	969,666,295
Less allowance for impairment losses on loans and advances	11	**(62,833,351)**	(95,615,255)
Net		**849,214,664**	874,051,040

The weighted average effective interest rate on productive loans stated at amortised cost at 31 December 2018 was 7.15% (2017 – 7.60%) and productive overdrafts stated at amortised cost was 14.04% (2017 – 14.66%).

11 Allowance for impairment on financial assets

The movement on the loan provisions by class was as follows:

	12 months ECL	Lifetime ECL Stage 2	Lifetime ECL credit impaired Stage 3	Collective Provision	Total provisions
	$	$	$	$	$
Large corporate loans					
At beginning of the year as previously stated	-	-	49,844,499	12,336,169	62,180,668
Effects of adoption of IFRS 9	2,427,208	1,531,931	49,844,499	-	53,803,638
Changes due to financial assets recognized in the opening balance that have:					
Transferred to 12-months ECL stage 1	91,216	(91,216)	-	-	-
Transferred to Lifetime ECL not credit impaired - stage 2	(5,913)	5,913	-	-	-
Transferred to Lifetime ECL credit impaired stage 3	(650,231)	(1,117,482)	1,767,713	-	-
New financial assets originated or purchased	462,118	-	2,653,359	-	3,115,477
Financial assets that have been derecognised	(2,494,832)	(324,035)	(489,095)	-	(3,307,962)
Bad debts written off	-	-	(22,111,297)	-	(22,111,297)
Provision for the period	2,233,809	55,459	5,298,443	-	7,587,711
Balance at 31 December 2018	**2,063,375**	**60,570**	**36,963,622**	**-**	**39,087,567**

11 Allowance for impairment on financial assets *...continued*

	12 months ECL	Lifetime ECL Stage 2	Lifetime ECL credit impaired Stage 3	Collective Provision	Total provisions
	$	$	$	$	$
Term loans					
At beginning of the year as previously stated	-	-	11,814,671	4,977,523	16,792,194
Effects of adoption of IFRS 9	742,573	751,772	11,814,671	-	13,309,016
Changes due to financial assets recognized in the opening balance that have:					
Transferred to 12-months ECL stage 1	410,328	(410,328)	-	-	-
Transferred to Lifetime ECL not credit impaired - stage 2	(5,222)	5,222	-	-	-
Transferred to Lifetime ECL credit impaired stage 3	(11,916)	(113,509)	125,425	-	-
New financial assets originated or purchased	295,951	4,947	33,987	-	334,885
Financial assets that have been derecognised	(626,186)	(50,883)	(332,685)	-	(1,009,754)
Bad debts written off	(7,076)	(36,426)	(717,195)	-	(760,697)
Provision for the period	303,665	90,247	(2,446,395)	-	(2,052,483)
Balance at 31 December 2018	**1,102,117**	**241,042**	**8,477,808**	-	**9,820,967**

11 Allowance for impairment on financial assets *...continued*

	12 months ECL $	Lifetime ECL Stage 2 $	Lifetime ECL credit impaired Stage 3 $	Collective Provision $	Total provisions $
Mortgage Loans					
At beginning of the year as previously stated	-	-	5,912,099	5,743,549	11,655,648
Effects of adoption of IFRS 9	3,961	409,817	5,912,099	-	6,325,877
Changes due to financial assets recognized in the opening balance that have:					
Transferred to 12-months ECL stage 1	203,302	(203,302)	-	-	-
Transferred to Lifetime ECL not credit impaired - stage 2	(42)	42	-	-	-
Transferred to Lifetime ECL credit impaired stage 3	(22)	(71,873)	71,895	-	-
New financial assets originated or purchased	36,331	-	294,002	-	330,333
Financial assets that have been derecognised	-	(35,315)	(167,160)	-	(202,475)
Bad debts written off	(668)	(2)	(431,564)	-	(432,234)
Provision for the period	584,874	171,541	2,016,475	-	2,772,890
Balance at 31 December 2018	**827,736**	**270,908**	**7,695,747**	**-**	**8,794,391**

11 Allowance for impairment on financial assets *....continued*

	12 months ECL	Lifetime ECL Stage 2	Lifetime ECL credit impaired Stage 3	Collective Provision	Total provisions
	$	$	$	$	$
Overdrafts					
At beginning of the year as previously stated	-	-	3,953,025	1,033,719	4,986,744
Effects of adoption of IFRS 9	821,911	761,306	3,953,025	-	5,536,242
Changes due to financial assets recognized in the opening balance that have:					
Transferred to 12-months ECL stage 1	630,145	(420,219)	(209,926)	-	-
Transferred to Lifetime ECL not credit impaired - stage 2	(84,935)	84,935	-	-	-
Transferred to Lifetime ECL credit impaired stage 3	-	(29,862)	29,862	-	-
New financial assets originated or purchased	150,090	211,514	68,203	-	429,807
Financial assets that have been derecognised	(111,574)	(283,168)	(110)	-	(394,852)
Bad debts written off	-	(5,389)	(802,544)	-	(807,933)
Provision for the period	(288,818)	149,212	506,768	-	367,162
Balance at 31 December 2018	**1,116,819**	**468,329**	**3,545,278**	**-**	**5,130,426**

11 Allowance for impairment on financial assets *....continued*

	12 months ECL	Lifetime ECL Stage 2	Lifetime ECL credit impaired Stage 3	Collective Provision	Total provisions
	$	$	$	$	$
Total credit provisioning					
At beginning of the year as previously stated	-		71,524,295	24,090,960	95,615,255
Effects of adoption of IFRS 9					
Loans and advances	3,995,653	3,454,827	-	(24,090,960)	(16,640,480)
Undrawn loans (included in other provisions)	41,213	-	-	-	41,213
Total impact of adoption of IFRS 9 included in contingency reserve	4,036,866	3,454,827	-	(24,090,960)	(16,599,267)
Loss allowance for loans and undrawn commitments as at 1 January 2018 restated	**4,036,866**	**3,454,827**	**71,524,295**	**-**	**79,015,988**
Changes in the loss allowance as at 1 January 2018					
Transferred to stage 1	1,334,992	(1,125,065)	(209,926)	-	-
Transferred to stage 2	(96,111)	96,111	-	-	-
Transferred to stage 3	(662,170)	(1,332,727)	1,994,897	-	-
New financial assets originated or purchased	944,490	216,461	3,049,549	-	4,210,500
Financial assets that have been derecognised	(3,232,592)	(693,402)	(989,050)	-	(4,915,044)
Bad debts written off	(7,743)	(41,818)	(24,062,599)	-	(24,112,160)
Provision for the period	2,833,530	466,458	5,375,292	-	8,675,280
	1,114,396	(2,413,982)	(14,841,837)	-	(16,141,424)
Less provision for undrawn loans included in other liabilities	(41,213)	-	-	-	(41,213)
	1,073,183	(2,413,982)	(14,841,837)	-	(16,182,637)
Loan loss allowance as at 31 December 2018	**5,110,049**	**1,040,845**	**56,682,458**	**-**	**62,833,351**

11 Allowance for impairment on financial assets*...continued*

Impairment allowance - investment securities

	2018				2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
Debt investment securities at FVOCI (2017: available-for-sale)	**$**	**$**	**$**	$	$
Balance 1 January 2018	**1,410,183**	**-**	**525,755**	**1,935,938**	401,438
Net remeasurement of loss allowance	**150,162**	**-**	**-**	**150,162**	124,317
Balance at 31 December 2018	**1,560,345**	**-**	**525,755**	**2,068,100**	**525,755**

The above loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI (2017: available-for-sale) is their fair value.

	2018				2017
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**	**Total**
Debt investment securities at amortised cost (2017: held-to-maturity)	**$**	**$**	**$**	**$**	$
Balance 1 January 2018	**70,636**	**-**	**4,506,177**	**4,576,813**	4,312,154
Net remeasurement of loss allowance	**94,575**	**-**	**-**	**94,575**	194,023
Balance at 31 December 2018	**165,211**	**-**	**4,506,177**	**4,671,388**	4,506,177

11 Allowance for impairment on financial assets*...continued*

The table below shows the reconciliation of changes in the net carrying amount of credit-impaired loans and advances to customers:

	$
Balance at 1 January 2018	**246,613,974**
Change in allowance for impairment	**(38,932,799)**
Classified as credit impaired during the year	**15,909,837**
Transferred to not credit impaired during the year	**(37,193,275)**
Net repayments	**(11,627,435)**
Recoveries of amounts previously written off	**-**
Disposals	**(21,428,226)**
Balance at 31 December 2018	**153,342,076**

The table below provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to LECL.

Financial assets modified during the year	**$**
Amortised cost before modification	**4,831,919**
Net modification loss	**59,468**
Financial assets modified since initial recognition	**$**
Gross carrying amount at December 31, 2018 of financial assets for which loss allowance has changed to 12-month measurement during the year	**56,038,612**

12 Investment securities

	2018 $	2017 $
Securities measured at held-to-maturity		
Debt securities at held-to maturity		
- Unlisted	-	3,615,939
-Listed	-	120,938,754
Less allowance for impairment	-	(4,506,177)
Total securities held-to-maturity	-	120,048,516
Securities measured at available-for-sale		
Debt securities at fair value		
- Unlisted	-	29,090,962
- Listed	-	363,923,956
	-	393,014,918
Less allowance for impairment	-	(525,755)
	-	392,489,163
Equity securities:		
- Unlisted		998,320
- Listed	-	11,982,984
Total securities at available-for-sale	-	405,470,467
Total investment securities	-	525,518,983

12 Investment securities *…continued*

From 1 January 2018

Securities measured at amortised cost	**2018 $**	**2017 $**
Debt securities at amortised cost		
- Unlisted	**6,790,604**	**-**
- Listed	**178,022,438**	**-**
Less allowance for impairment	**(4,671,388)**	**-**
Total securities at amortised cost	**180,141,654**	**-**
Securities measured at fair value through OCI		
Debt securities at fair value		
- Unlisted	**47,096,423**	**-**
- Listed	**421,442,422**	**-**
Total debt securities	**468,538,845**	**-**
Equity securities at fair value		
- Unlisted	**2,421,994**	**-**
- Listed	**6,672,785**	**-**
Total equity securities	**9,094,779**	**-**
Less allowance for impairment	**(525,755)**	**-**
Total securities at fair value through OCI	**477,107,869**	**-**
Securities measured at fair value through P&L		
Equity securities:		
- Unlisted	**-**	**-**
- Listed	**11,714,057**	**-**
Total securities measured at fair value through P&L	**488,821,926**	**-**
Total investment securities	**668,963,580**	**-**

All debt securities have fixed interest rates.

The weighted average effective interest rate on securities held-to-maturity stated at amortised cost at 31 December 2018 was 3.23% (2017- 3.32%).

The weighted average effective interest rate on available-for-sale securities at 31 December 2018 was 3.51% (2017 – 3.5%).

12 Investment securities*...continued*

Movements of the Bank's financial assets are summarised as follows:

	Held-to-maturity $	Available-for-sale $	Held for trading $	Total $
At 31 December 2017	**120,048,516**	**405,470,467**	**19,641,853**	**545,160,836**
Transferred to amortised cost	**(120,048,516)**	**-**	**-**	**(120,048,516)**
Transferred to fair value through OCI				
- Debt	**-**	**(392,489,163)**	-	**(392,489,163)**
- Equity	**-**	**(8,358,845)**	-	**(8,358,845)**
Transferred to FVTPL - equities	**-**	**(4,622,459)**	**-**	**(4,622,459)**
Transferred to FVTPL – held for trading	**-**	**-**	**(19,641,853)**	**(19,641,853)**
At 31 December 2018	**-**	**-**	**-**	**-**
At 31 December 2016	93,924,043	364,634,392	18,599,712	477,158,147
Additions	48,572,744	181,755,873	1,785,658	232,114,275
Movement in interest accrued	312,046	646,260	4,053	962,359
Disposals (sale and redemption)	(23,085,679)	(143,885,844)	(723,014)	(167,694,537)
Unrealised loss from changes in fair value	**-**	2,444,102	(24,556)	2,419,546
Decrease in provision	(194,023)	(124,316)	-	(318,339)
Amortisation of premium/discount	519,385	-	-	519,385
At 31 December 2017	**120,048,516**	**405,470,467**	**19,641,853**	**545,160,836**

12 Investment securities*...continued*

On adoption of IFRS 9 on 1 January 2018

	Amortised Cost $	FVOCI - Debt $	FVOCI - Equity $	FVTPL - Equities $	FVTPL - Held for Trading $	Total $
At 1 January 2018						
Opening Balance	**120,048,516**	**392,489,163**	**8,358,845**	**4,622,459**	**19,641,853**	**545,160,836**
Additions	**78,927,606**	**212,908,165**	**180,542**	**8,032,888**	**2,204,962**	**302,254,163**
Movement in interest Accrued	**352,961**	**957,321**	**-**	**-**	**(81,958)**	**1,228,324**
Disposals (sale and redemption)	**(18,731,028)**	**(131,222,896)**	**-**	**-**	**-**	**(149,953,924)**
Unrealised gain from changes in fair value	**-**	**(6,592,908)**	**29,637**	**(941,290)**	**(3,141,891)**	**(10,646,452)**
Provision for the year	**(94,575)**	**-**	**-**	**-**	**-**	**(94,575)**
Amortization of Premium/Discount	**(361,826)**	**-**	**-**	**-**	**-**	**(361,826)**
At 31 December 2018	**180,141,654**	**468,538,845**	**8,569,024**	**11,714,057**	**18,622,966**	**687,586,546**

13 Financial instruments - pledged assets and repurchase agreements

The following assets are pledged against other funding instruments and as collateral on borrowings on behalf of the parent company, East Caribbean Financial Holding Company Limited.

	Pledged assets 2018 $	Pledged assets 2017 $
Pledged against repurchase agreements	**8,189,148**	10,710,269
	8,189,148	10,710,269

The value of repurchase agreements on the statement of financial position which are secured by pledged assets is $7,952,878 (2017 - $13,702,747). The variance between investment pledged against repurchase agreements and the value of repurchase agreements represents accrued interest.

14 Related party balances and transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Bank is controlled by East Caribbean Financial Holding Company Limited which owns 100% of the ordinary shares and is related to the companies listed below by common ownership and control.

14 Related party balances and transactions*...continued*

A number of banking transactions are entered into with related parties in the normal course of business. These include loans and receivables. Included in amounts due from related parties is an amount of $82,015,212 (2017 - $82,418,108) which is non-interest bearing and has no fixed terms of repayment.

	2018 $	2017 $
Due from related parties		
East Caribbean Financial Holding Company Limited	**82,015,212**	82,418,108

The following accounts maintained by related parties are included under due to customers and loans and advances:

	2018 $	2017 $
Bank of Saint Vincent and the Grenadines Limited		
Current account	**2,771,986**	817,564
Investments	**6,954,425**	6,834,815
EC Global Insurance Company Limited		
Current account	**1,075,428**	1,105,226
Fixed deposit	**336,354**	332,491
Managed funds	**9,744,875**	9,847,996
East Caribbean Amalgamated Bank		
Current account	**174,249**	176,062
Fixed Deposit	**18,961,712**	18,941,733
Loans	**-**	5,186
Student Loan Guarantee Fund		
Current account	**732,783**	541,381
Fixed deposit	**2,911,285**	2,864,213
Productive Equity Funds		
Current account	**2,273,626**	2,273,636

14 Related party balances and transactions*...continued*

The following transactions were carried out with related companies:

	2018 $	2017 $
Income		
Service and management charges	**381,000**	576,970

The Bank has an agency arrangement with EC Global Insurance Company Limited. The balances and transactions with respect to this arrangement are as follows:

	2018 $	2017 $
Liabilities	**931,980**	709,099
Commissions	**1,903,687**	1,884,915
Expenses	**1,448,737**	1,516,939

Other related parties
A number of banking transactions are entered into with other related parties in the normal course of business. These include loans and deposits. These transactions were carried out on commercial terms and at market rates. The volumes of related party transactions, outstanding balances at year end, and related expenses and income for the year are as follows:

Other related parties' balances with the Bank:

	2018		2017	
	Loans $	Deposits $	Loans $	Deposits $
Government of Saint Lucia	**56,528,658**	**184,725,738**	25,043,292	183,741,876
Statutory bodies	**17,834,791**	**498,608,420**	17,710,351	469,742,428
Directors and key management	**12,096,987**	**3,858,138**	14,362,383	5,550,840

14 Related party balances and transactions*...continued*

No provisions have been recognised in respect of loans given to related parties (2017 – nil).

The loans issued to directors and other key management personnel during the year are repayable monthly over an average of 8 years (2017 – 6 years) and have a weighted average effective interest rates of 5.5% (2017 – 5.1%)

Interest income and interest expense with other related parties:

	2018		**2017**	
	Income $	**Expenses $**	**Income $**	**Expenses $**
Government of Saint Lucia	**1,474,927**	**697,282**	801	729,368
Statutory bodies	**1,153,413**	**5,651,854**	966,020	6,155,804
Directors and key management	**645,837**	**82,544**	661,029	99,208

Transactions with related parties were carried out on commercial terms and conditions.

Key management compensation
Key management includes the Bank's complete management team. The compensation paid or payable to key management for employee services is shown below:

	2018 $	**2017 $**
Key management compensation		
Salaries and other short-term benefits	**5,315,240**	6,143,000
Post-employment benefit – Pension costs	**653,415**	494,674
	5,968,655	6,637,674

15 Property and equipment

	Notes	Land and Buildings $	Leasehold Improvements $	Office Furniture and Equipment $	Computer Equipment and Software $	Motor Vehicles $	Total $
Year ended 31 December 2017							
Opening net book amount		70,230,402	1,776,363	4,938,711	1,576,444	250,609	78,772,529
Additions		428,117	71,764	608,558	1,632,947	-	2,741,386
Transfer to investment properties	19	(30,028,787)	-	-	-	-	(30,028,787)
Disposals at cost		-	-	(8,363)	(3,435)	(246,111)	(257,909)
Accumulated depreciation on disposals		-	-	8,363	10,361	240,517	259,241
Depreciation charge	36	(1,125,923)	(601,940)	(1,475,858)	(1,187,648)	(116,910)	(4,508,279)
Closing net book amount		39,503,809	1,246,187	4,071,411	2,028,669	128,105	46,978,181
At 31 December 2017							
Cost		57,126,970	9,387,889	27,279,398	31,494,800	1,279,128	126,568,185
Accumulated depreciation		(17,623,161)	(8,141,702)	(23,207,987)	(29,466,131)	(1,151,023)	(79,590,004)
Net book amount		39,503,809	1,246,187	4,071,411	2,028,669	128,105	46,978,181
Year ended 31 December 2018							
Opening net book amount		**39,503,809**	**1,246,187**	**4,071,411**	**2,028,669**	**128,105**	**46,978,181**
Additions		**461,265**	**2,044**	**1,245,015**	**1,872,432**	**393,500**	**3,974,256**
Disposals at cost		**-**	**-**	**(38,412)**	**(954,790)**	**(661,493)**	**(1,654,695)**
Accumulated depreciation on disposals		**-**	**-**	**38,412**	**954,790**	**661,493**	**1,654,695**
Depreciation charge	36	**(1,039,760)**	**(521,289)**	**(1,246,258)**	**(1,567,189)**	**(125,405)**	**(4,499,901)**
Closing net book amount		**38,925,314**	**726,942**	**4,070,168**	**2,333,912**	**396,200**	**46,452,536**
At 31 December 2018							
Cost		**57,588,235**	**9,389,933**	**28,486,001**	**32,412,442**	**1,011,135**	**128,887,746**
Accumulated depreciation		**(18,662,921)**	**(8,662,991)**	**(24,415,833)**	**(30,078,530)**	**(614,935)**	**(82,435,210)**
Net book amount		**38,925,314**	**726,942**	**4,070,168**	**2,333,912**	**396,200**	**46,452,536**

15 Property and equipment*...continued*

The major component of land and buildings were revalued in 2017 by an independent valuer based on open market value and a management internal specialist performed a review of the remaining buildings. The valuation indicates that the market value does not differ materially from the carrying amount of the respective assets in the books of the Bank.

The historical cost of land and buildings is:

	2018 $	2017 $
Cost	**38,913**	38,452
Accumulated depreciation based on historical cost	**(21,385)**	(20,345)
Depreciated historical cost	**17,528**	18,107

16 Other assets

	2018 $	2017 $
Suspense accounts - credit cards	**37,504,001**	38,587,372
Other receivables	**16,064,342**	13,143,561
Rent receivables	**1,507,295**	2,069,808
	55,075,638	53,800,741
Less provision for impairment on other receivables	**(1,555,040)**	(1,347,796)
	53,520,598	52,452,945
Stationery and supplies	**620,029**	526,546
Prepaid expenses	**2,055,549**	2,229,391
	2,675,578	2,755,937
	56,196,176	55,208,882

As of 31 December 2018, trade receivables of $723,607 (2017 - $306,596) were past due but not impaired. These relate mainly to receivables from existing customers with some defaults in the past but all amounts due were fully recovered. The aging analysis of these trade receivables is as follows:

	2018 $	2017 $
Greater than 30 days but less than 60 days	**295,512**	296,801
Greater than 60 days but less than 90 days	**125,305**	307,316
Greater than 90 days	**783,688**	740,499
	1,204,505	1,344,616

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

17 Provision for impairment on other receivables

The movement on the provision for impairment on other receivables was as follows:

	2018 $	2017 $
At beginning of year	**1,347,796**	1,874,443
Provisions made during the year	**407,333**	493,494
Receipts	**(31,405)**	(154,295)
Write offs during the year	**(168,684)**	(865,846)
At end of year	**1,555,040**	1,347,796

18 Investment in associates

	2018 $	2017 $
At beginning of year	**4,800,000**	4,800,000
At end of year	**4,800,000**	4,800,000

The Company's interests in its associates comprise a **20%** holding in East Caribbean Amalgamated Bank Limited, an unlisted company incorporated in St. Kitts.

19 Investment properties

	Notes	2018 $	2017 $
At beginning of year		**37,454,500**	6,547,711
Additions		**-**	65,257
Disposals		**(5,500,000)**	-
Transfer from property & equipment	15	**-**	30,028,787
Fair value gain	35	**-**	812,745
At end of year		**31,954,500**	37,454,500

The investment properties are composed of land and buildings. The investment properties are valued annually at fair value by an independent, professionally qualified valuer. The following amounts have been recognised in profit or loss:

	2018 $	2017 $
Rental income	**3,109,980**	2,260,290
Direct operating expenses arising from investment properties that generated rental income	**(353,826)**	(736,013)
Profit arising from investment properties carried at fair value	**2,756,154**	1,524,277

19 Investment properties*...continued*

Under the market comparable method (or market comparable approach), a property's fair value is estimated based on comparable transactions. Although property interests are not homogeneous, the International Valuation Standards Council considers the market approach most commonly applied. "In order to compare the subject of the valuation with the price of other real property interests that have been recently exchanged or that may be currently available in the market, it is usual to adopt a suitable unit of comparison. A unit of comparison is only useful when it is consistently selected and applied to the subject property and the comparable properties in each analysis."

The market comparable approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. In theory, the best comparable sale would be an exact duplicate of the subject property and would indicate, by the known selling price of the duplicate, the price for which the subject property could be sold. The unit of comparison applied by the Company is the price per square foot (sq. ft.).

20 Retirement benefit asset

The amounts recognised in the statement of financial position are determined as follows:

	2018 **$**	**2017** **$**
Fair value of plan assets	**64,993,737**	62,216,858
Present value of funded obligation	**(54,548,600)**	(48,601,909)
Asset in the statement of financial position	**10,445,137**	13,614,949

Movement in the asset recognised in the statement of financial position:

The movement in the defined benefit obligation over the year is as follows:

	2018 **$**	**2017** **$**
Beginning of year	**48,601,909**	45,796,967
Current service cost	**1,326,871**	1,381,940
Interest cost	**3,749,989**	3,549,370
Employee contribution	**818,763**	861,634
Actuarial gain	**1,546,438**	(1,556,785)
Benefits paid	**(1,495,370)**	(1,431,217)
End of year	**54,548,600**	48,601,909

20 Retirement benefit asset*...continued*

The movement in the fair value of plan assets of the year is as follows:

	2018 $	2017 $
Beginning of year	**62,216,858**	56,423,536
Actual return on plan assets	**808,138**	3,504,441
Employer contributions	**2,919,710**	3,053,950
Employee contributions	**818,763**	861,634
Benefits paid	**(1,495,370)**	(1,431,217)
Administrative expenses	**(274,362)**	(195,486)
End of year	**64,993,737**	62,216,858

	Notes	2018 $	2017 $
Net asset at beginning of year		**13,614,949**	10,626,569
Net periodic cost	37	**(611,130)**	(809,198)
Contributions paid		**2,919,710**	3,053,950
Effect on statement of other comprehensive income		**(5,478,392)**	743,628
Net asset at end of year		**10,445,137**	13,614,949

Benefit cost:

	2018 $	2017 $
Current service cost	**1,326,871**	1,381,940
Interest on net defined benefit asset	**3,749,989**	3,549,370
Expected return on plan assets	**(4,740,092)**	(4,317,598)
Administrative expenses	**274,362**	195,486
	611,130	809,198

The amounts recognised in the statement of other comprehensive income are as follows:

	2018 $	2017 $
Gain from change in assumptions	**672,415**	
Gain/(loss) from experience	**874,023**	(1,556,785)
Expected return on plan assets	**4,740,092**	4,317,598
Actual return on plan assets	**(808,138)**	(3,504,441)
	5,478,392	(743,628)

20 Retirement benefit asset*...continued*

The principal actuarial assumptions used were as follows:

	2018 %	2017 %
Discount rate	**7.50**	7.50
Future promotional salary increases	**5.00-6.50**	3.00-4.50
Future inflationary salary increases	**1.75**	2.00

Assumptions are set to approximate the expected average rates over the long term and may not be appropriate in any specific year.

Plan assets allocation is as follows:

	2018 %	2017 %
Debt securities	**82**	87
Equity securities	**10**	10
Other	**8**	3
	100	100

Mortality rate
Assumptions regarding future mortality experience are set based on advice, published statistics and experience in each territory.

The average life expectancy in years of a pensioner retiring at age 60 after the statement of financial position date is as follows:

	2018	2017
Male	**24.77**	24.69
Female	**26.90**	26.86

The assumption adopted for the expected return on assets considers the actual assets the Plan holds and the outlook for returns on various asset classes. This assumption is usually derived by looking at actual asset mix and making assumptions about returns relative to the "baseline" of our discount rate, which are taken to be the returns on corporate and government bonds.

20 Retirement benefit asset*...continued*

The major categories of the fair value of the total plan assets are as follows:

	2018 $	2017 $
Investments quoted in active markets:		
Quoted equity investments:		
- Energy	**34,424**	27,227
- Consumer staples	**2,618,050**	2,155,050
- Other	**3,674,416**	3,882,193
Quoted debt securities:		
- Sovereign bonds	**23,253,664**	20,700,251
- Energy	**-**	1,616,634
- Industrial	**4,699,493**	679,270
- Consumer staples		
- Other	**10,439,689**	15,531,438
Cash and cash equivalents	**4,985,523**	1,815,993
Unquoted investments		
Unquoted debt securities:		
- Sovereign bonds	**14,871,781**	15,758,802
- Other	**-**	-
Unquoted equity securities		
- Other	**416,697**	50,000
Total	**64,993,737**	62,216,858

The following payments are expected contributions to the defined benefit plan in future years:

	2018 $	2017 $
Within the next 12 months	**862,657**	784,360
Between 1 and 5 years	**4,506,515**	3,958,822
Between 5 and 10 years	**11,815,228**	9,005,170
Total expected payments	**17,184,400**	13,748,352

The average duration of the defined benefit plan obligation at the end of the reporting period is 16 years (2017 – 17 years).

21 Deferred tax asset

The movement on the deferred tax asset is as follows:

	2018 $	2017 $
At beginning of year	**819,894**	-
Deferred tax credit during the year	**1,536,241**	1,042,983
Income/(expense) during the year in other comprehensive income	**1,643,487**	(223,089)
At end of year	**3,999,622**	819,894

The deferred tax asset account is detailed below:

	2018 $	2017 $
Unutilised tax losses	**8,439,958**	6,847,841
Accelerated capital allowances	**(1306,795)**	(1,943,462)
Fair value pension gains	**(3,133,541)**	(4,084,485)
	3,999,622	819,894

Deferred income taxes are calculated on all temporary differences under the liability method using the effective tax rate of 30%.

22 Deposits from banks

	2018 $	2017 $
Deposits from other banks	**55,844,642**	43,297,719

The weighted average effective interest rate on deposits from other banks at 31 December 2018 was 1.78% (2017 – 1.59%).

23 Due to customers

	2018 $	2017 $
Term deposits	**368,045,120**	418,725,141
Savings deposits	**645,431,519**	630,747,843
Call deposits	**338,810,837**	284,598,124
Demand deposits	**472,042,035**	471,196,025
	1,824,329,511	1,805,267,133

The weighted average effective interest rate of customers' deposits at 31 December 2018 was 1.24% (2017 – 1.43%).

24 Borrowings

	Due	Rate %	2018 $	Rate %	2017 $
Caribbean Development Bank	2020	4.46	**20,287,586**	3.8	**27,949,950**
National Insurance Corporation	2026	7.25	**51,231,507**	7.25	**51,231,507**
Total			**71,519,093**		**79,181,457**

Security for loans includes a first hypothecary obligation over the building and property known as the Financial Center, which is located at #1 Bridge Street.

The Bank has not had any defaults of principal, interest or other breaches with respect to borrowings during the year.

The Bank had undrawn facilities at the end of the financial reporting period of nil (2017 – $24,913,398) with the Caribbean Development Bank.

In August 2016, the Company issued a ten (10) year, EC$50 million unsecured bond via private placement. The bond which qualifies as tier II capital, pays interest semi-annually at the rate of 7.25%. Principal repayments are to be amortised by way of 10 semi-annual payments over the last 5-year term of the instrument. The National Insurance Corporation was the sole purchaser of the bond.

25 Cumulative preference shares

	No. of Shares	2018 $	No. of Shares	2017 $
7% Cumulative Preference Shares				
Authorised:				
11,550,000 preference shares				
At beginning and end of year	**830,000**	**4,150,000**	830,000	4,150,000

The preference shares are non-voting and are to be converted to ordinary shares. The Company has imposed certain restrictions with respect to the number of preference shares that can be converted to ordinary shares in any one year.

The Board of Directors of the Company and the National Insurance Corporation have formally agreed that future conversions of preference shares should be done at $5 per share.

Dividends declared on the preference shares during the year amounted to $290,500 (2017 - $290,500).

26 Other liabilities

	2018 $	2017 $
Managers' cheques outstanding	**4,183,730**	2,898,887
Trade and other payables	**31,485,481**	26,146,572
Agency loans	**261,003**	155,652
	35,930,214	29,201,111

The Agency loans are funds issued to the Bank by the Government of Saint Lucia for disbursement to the related projects. The Bank earns an agency fee on the amounts disbursed. The funds belong to the Government of Saint Lucia.

27 Share capital

	Number of shares	2018 $	Number of shares	2017 $
Authorised:				
Unlimited ordinary shares up to 3,000,000				
Issued and fully paid:				
At beginning of year	**1,972,909**	**265,102,745**	1,478,875	198,718,745
Shares issued during the year	**-**	**-**	494,034	66,384,000
At end of year	**1,972,909**	**265,102,745**	1,972,909	265,102,745

28 Reserves

	2018 $	2017 $
(a) General reserve	**48,952,219**	48,952,219
(b) Statutory reserve	**101,586,227**	93,651,365
(c) Special reserve	**2,034,132**	2,034,132
(d) Retirement benefit reserve	**10,445,137**	13,614,949
(e) Contingency reserve	**28,615,569**	4,535,304
	191,633,284	162,787,969

Movements in reserves were as follows:

(a) General reserve

	2018 $	2017 $
At the beginning and end of the year	**48,952,219**	48,952,219

It is the policy of the Bank to maintain a general reserve for reinvestment in banking operations. There were no transfers to general reserves during 2018.

(b) Statutory reserve

	2018 $	2017 $
At the beginning of the year	**93,651,365**	87,970,850
Transferred from retained earnings	**7,934,862**	5,680,515
At the end of the year	**101,586,227**	93,651,365

Pursuant to Section 45 (1) of the Banking Act of Saint Lucia 2015, the Bank shall, out of its net profits of each year transfer to that reserve a sum equal to not less than twenty percent of such profits whenever the amount of the fund is less than one hundred percent of the paid-up capital of the Bank.

(c) Special reserve

	2018 $	2017 $
At the beginning of the year	**2,034,132**	2,034,132
At the end of the year	**2,034,132**	2,034,132

The previous finance contract between the European Investment Bank ("EIB") and the former St. Lucia Development Bank, now assumed by Bank of Saint Lucia Limited, required the Bank to establish and maintain this special reserve.

28 Reserves...*continued*

(d) Retirement benefit reserve

	2018 $	2017 $
At the beginning of the year	**13,614,949**	10,626,569
Transferred (to)/from retained earnings	**(3,169,812)**	2,988,380
At the end of the year	**10,445,137**	13,614,949

The retirement benefit reserve is a non-distributable reserve. It is the Bank's policy to match the amount of fair value of retirement benefit plan assets with the retirement benefit reserve.

(e) Contingency reserve

	2018 $	2017 $
At the beginning of the year	**4,535,304**	-
Adjustment on adoption of IFRS 9	**16,599,267**	-
Transfer from retained earnings	**7,480,998**	4,535,304
At the end of the year	**28,615,569**	4,535,304

The contingency reserve fund is created as an appropriation from retained earnings to set aside a portion of profits against loan loss provisions. This reserve will be funded annually until the total loan loss provisions and the contingency reserve equates to non-performing loans. Upon implementation of IFRS 9 in January 2018, the required adjustment for expected credit losses for loans and undrawn commitments as at January 1, 2018 was posted to the contingency reserve.

29 Contingent liabilities and commitments

Commitments
At 31 December the Bank had contractual amounts of off-balance sheet financial instruments that commit it to extend credit to customers, guarantees and other facilities as follows:

	2018 $	2017 $
Loan commitments	**115,441,564**	69,837,704
Guarantees and letters of credit	**21,098,089**	23,764,807
	136,539,653	93,602,511

30 Net interest income

	2018 $	2017 $
Interest income		
Loans and advances	**59,165,652**	60,983,699
Treasury bills and investment securities	**23,375,636**	19,073,592
Deposits with banks	**1,470,954**	190,168
	84,012,242	80,247,459
Interest expense		
Time deposits	**(8,963,382)**	(12,774,544)
Savings deposits	**(13,394,535)**	(13,230,674)
Other borrowed funds	**(4,542,161)**	(4,932,757)
Demand deposits	**(459,227)**	(387,372)
Correspondent banks	**(559,277)**	(819,615)
	(27,918,582)	(32,144,962)
Net interest income	**56,093,660**	48,102,497

31 Fee and commission income

	2018 $	2017 $
Credit related fees and commissions	**27,627,126**	26,151,812
Brokerage related fees and commissions	**4,704,086**	4,887,978
Asset management and related fees	**351,347**	333,153
	32,682,559	31,372,943

32 Dividend income

	2018 $	2017 $
Equity instruments at FVTPL (2017 – AFS)	**274,034**	211,445
Associates	**264,000**	264,000
	538,034	475,445

33 Net foreign exchange trading income

	2018 $	2017 $
Foreign exchange		
- transaction gains, net	**9,763,948**	10,108,150
- translation gains, net	**515,387**	1,361,074
	10,279,335	11,469,224

34 Other income

	Notes	2018 $	2017 $
Service and management fees	14	**381,000**	576,970
Rental income		**3,109,980**	2,260,290
Bad debt recovery income		**11,687,890**	7,971,739
		15,178,870	10,808,999

35 Other gains, net

	Notes	2018 $	2017 $
Fair value gains/(losses):			
- Gains on disposal of FVOCI (2017: Available-for-sale) investments		**52,095**	2,225,372
- Gain/(loss) on disposal of Amortised Cost (2017: Held-to-Maturity) investments		**13,730**	(70,379)
- Unrealised loss on FVTPL (2017: Held for trading) investments		**(795,629)**	(24,556)
- Gain on FVTPL (2017: Held for trading) investment		**-**	35,124
- Loss on disposal of investment property		**(500,000)**	-
- Fair value gains on investment properties	19	**-**	812,745
		(1,229,804)	2,978,306

36 Operating expenses

	Notes	2018 $	2017 $
Employee benefit expense	37	**26,216,703**	25,609,346
Rent		**832,971**	1,455,543
Utilities		**4,238,111**	4,055,882
Security		**1,381,344**	1,509,244
Bank and other licences		**215,000**	217,375
Credit card expenses		**8,921,473**	7,182,869
Advertising and promotions		**598,203**	469,144
Repairs and maintenance		**6,871,897**	6,475,002
Legal and professional		**578,435**	707,091
Other expenses		**9,949,263**	10,329,479
Depreciation	15	**4,499,901**	4,508,279
		64,303,301	62,519,254

37 Employee benefit expense

	2018 $	2017 $
Wages and salaries	**19,882,765**	20,360,452
Other staff costs	**5,722,808**	4,439,696
Pensions	**611,130**	809,198
	26,216,703	25,609,346

38 Income tax expense

	2018 $	2017 $
Current tax	**1,890,743**	969,364
Reversal of overpayment of tax	**-**	(1,945,739)
Deferred tax credit during the year	**(1,536,212)**	(1,042,982)
	354,531	(2,019,357)
Income tax expense in other comprehensive income:		
Deferred tax arising from defined benefit plan	**(1,643,487)**	223,089
	(1,288,956)	(1,796,268)

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

	2018 $	2017 $
Profit before income tax and preference shares	**40,319,336**	26,673,719
Tax calculated at the applicable tax rate of 30%	**12,095,801**	8,002,116
Tax effect of exempt income	**(8,517,949)**	(5,047,028)
Tax effect of expenses not deductible for tax purposes	**259,510**	(321,424)
Losses utilised	**(1,890,743)**	(969,364)
Overpayment of corporate tax	**-**	(1,945,739)
Fixed asset adjustment	**29**	-
Deferred tax asset recognised-losses	**(1,592,117)**	(1,737,918)
	354,531	(2,019,357)

The Bank has unutilised tax losses of $28,133,192 (2017 – $22,826,137) for which the deferred tax asset has been recognised due to the certainty of its recoverability. Unutilized tax losses may be carried forward and deducted against 50% of future taxable income within five years following the year in which the losses were incurred. The Bank has unutilised tax losses of $121,889,338 (2017 - $225,461,123) for which no deferred tax asset has been recognized.

Tax losses expire as follows:

	2018 $	2017 $
2018	**-**	98,264,730
2019	24,956,581	24,956,581
2020	6,366,799	6,366,799
2021	13,619,552	13,619,552
2022	105,079,598	105,079,598
	150,022,530	248,287,260

There was no income tax effect relating to components of other comprehensive income.

39 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances:

	Notes	2018 $	2017 $
Cash and balances with Central Bank	5	**104,281,146**	226,920,732
Deposits with other banks	6	**104,956,234**	96,111,567
Deposits with non-bank financial institutions	7	**23,316,874**	5,412,488
Treasury bills	8	**17,409,437**	22,079,809
		249,963,691	350,524,596

40 Transition to IFRS 9

Reconciliation of IAS 39 to IFRS 9
The table below provides the impact from the transition to IFRS 9 on the Statement of Financial Position at the transition date of January 1, 2018. The impact consists primarily of reclassifications and re-measurements:

40 Transition to IFRS 9*...continued*

	IAS 39 Carrying amount as at 31 December 2017	Reclassification	Remeasurements	IFRS 9 carrying amount 1 January 2018
Amortised cost	**$**	$	$	$
Opening balance under IAS 39				
Cash and balances with Central Bank	347,950,065	-	-	347,950,065
Deposits with other banks	96,111,567	-	-	96,111,567
Deposits with non-bank financial institutions	5,412,488	-	-	5,412,488
Treasury bills	23,131,699	-	-	23,131,699
Closing balance under IFRS 9	**472,605,819**	**-**	**-**	472,605,819
Loans and receivables - loans and advances to customers				
Opening balance under IAS 39	874,051,040	-	-	874,051,040
Remeasurement: ECL allowance	-	-	16,640,480	16,640,480
Closing balance under IFRS 9	874,051,040	-	16,640,480	890,691,520
Investment securities Held to maturity				
Opening balance under IAS 39	120,048,516	-	-	120,048,516
Transferred to amortised cost	-	(120,048,516)	-	(120,048,516)
Remeasurement: ECL allowance	-	-	-	-
Closing balance under IFRS 9	120,048,516	(120,048,516)	-	-
From held to maturity	**-**	**120,048,516**	**-**	120,048,516
Remeasurement: ECL allowance	**-**	**-**	**(70,636)**	(70,636)
Closing balance under IFRS 9	**-**	**120,048,516**	**(70,636)**	119,977,880
Total financial assets measured at amortised cost	**1,466,705,375**	**-**	**16,569,844**	**1,483,275,219**

40 Transition to IFRS 9*...continued*

Financial assets measured at FVOCI *Investment securities - available for sale*	**IAS 39 Carrying amount as at 31 December 2017**	**Reclassification**	**Remeasurements**	**IFRS 9 carrying amount 1 January 2018**
Opening balance under IAS 39	405,470,467	-	-	405,470,467
To FVTPL - equity	-	(4,622,458)	-	(4,622,458)
To FVOCI – debt	-	(392,489,163)	-	(392,489,163)
To FVOCI - equity		(8,358,846)		(8,358,846)
Closing balance AFS under IFRS 9	405,470,467	(405,470,467)	-	-
FVOCI – debt and equity				
Opening balance	-	-	-	-
From available for sale Debt	-	392,489,163	-	392,489,163
From available for sale - equity		8,358,846		8,358,846
Closing balance under IFRS 9	-	400,848,009	-	400,848,009
Total measured at FVOCI		**400,848,009**	**-**	**400,848,009**
Financials assets held for trading and pledged				
Opening balance under IAS 39	19,641,853	-	-	19,641,853
Pledged assets	10,710,269	-	-	10,710,269
Transferred to FVTPL	-	(30,352,122)	-	(30,352,122)
Total financial assets HFT	30,352,122	(30,352,122)	-	**-**
Financial assets measured at FVTPL (including pledged assets)				
Opening balance under IAS 39	-	-	-	-
From available for sale	-	4,622,458	-	4,622,458
From held for trading	-	19,641,853	-	19,641,853
From pledged assets	-	10,710,269	-	10,710,269
Total financial assets measured at FVTPL	**-**	**34,974,580**	**-**	**34,974,580**
Total financial assets				**1,919,097,808**

40 Transition to IFRS 9...*continued*

The table below reconciles the prior year's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new impairment allowance measured in accordance with IFRS 9 expected loss model at 1 January 2018:

Measurement category	Loan loss allowance under IAS 39	Remeasurement	Loan loss allowance under IFRS 9
	$	$	$
Loans and receivables (IAS 39)/ Financial assets at amortised cost (IFRS 9)			
Cash and balances with Central Bank	-	-	-
Deposits with other banks	-	-	-
Deposits with non-bank financial institutions	-	-	-
Treasury bills	-	-	-
Loans and receivables - loans and advances to customers	95,615,255	(16,640,480)	78,974,775
Total	**95,615,255**	**(16,640,480)**	**78,974,775**
Available for sale: Bonds (IAS 39)/ Financial Assets at FVOCI (IFRS 9)			
Investment securities	525,755	-	525,755
Held to maturity (IAS 39)/ Financial Assets at Amortised cost (IFRS 9)			
Investment securities	4,506,177	70,636	4,576,813
Undrawn loan commitments			
Provisions	-	41,213	41,213
Total	**5,031,932**	**111,849**	**5,143,781**
	100,647,187	**(16,528,631)**	**84,118,556**

41 Dividends

At the meeting held on 21 March 2019, the Board of Directors proposed a dividend in respect of the 2018 financial year end of $0.30 for each unit of paid up share capital, or EC $591,873 (2017:nil). The financial statements for the year ended 31 December 2018 do not reflect this proposed dividend which will be accounted for in equity as an appropriation of retained earnings in the year ending 31 December 2019.