St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Financial Statements
June 30, 2022
(expressed in thousands of Eastern Caribbean dollars)

Grant Thornton
Corner Bank Street and West
Independence Square
P.O. Box 1038
Basseterre, St. Kitts
West Indies

T + 1 869 466 8200
F + 1 869 466 9822

Independent Auditor's Report

**To the Shareholders of
St. Kitts-Nevis-Anguilla National Bank Limited**

Opinion

We have audited the consolidated financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited** (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of June 30, 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2022, and its consolidated financial performance and its consolidated 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 ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants ("IESBA Code")*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters *...continued*

Expected credit losses ("ECL") of financial assets

Description of the Matter

The ECL of financial assets is a key audit matter, as it requires the application of critical management judgement and use of subjective estimates in determining the amount of ECL that are required to be recognised in the consolidated financial statements. As of June 30, 2022, the Group's financial assets with credit risk that are subject to ECL assessment amounted to $1,907,502,000 which represents 52% of total assets.

Accordingly, the Group used the ECL model in determining the credit loss allowance for its financial assets. Under IFRS 9, the assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of default occurring, the associated loss ratio and of default correlation between counterparties. Furthermore, the Group incorporates forward-looking information into the assessment of whether the credit risk of an instrument has increased significantly from its initial recognition to the measurement date of ECL. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses.

The disclosures relating to the credit loss allowances for the financial assets, and the related credit risk are included in notes 3 to 10, 16 and 32 to the consolidated financial statements.

How the Matter was addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the adequacy of the ECL allowance on the financial assets, which was considered to be a significant risk, included the following:

- Obtained an understanding of and critically assessed the Group's updated accounting policies relating to the classification, measurement and ECL assessment of financial assets;
- Assessed and evaluated the effectiveness of controls over the approval, recording and monitoring of financial assets, classification into credit risk stages, and calculation of ECL allowance;
- Evaluated the inputs and assumptions, as well as the formulae used in the development of the ECL models for the various financial assets. This includes assessing the appropriateness of design of the ECL impairment model and formulae used in determining the ECL;
- Evaluated the classification of credit-impaired loans and advances to customers to stage 3 for completeness of the population of loans and advances to customers included in the stage 3 ECL calculation. Independently tested the accuracy of management's stage 3 ECL calculation on a sample basis;
- Examined the collateral values recorded by management by comparing them to independent valuation reports of independent professional valuators;
- Assessed the estimated costs and time to sell pledged collaterals used in the ECL calculation for reasonableness; and
- Assessed the key credit risk factors such as default history, macro-economic factors and financial capability of counterparties.

Key Audit Matters *...continued*

Fair value measurement of investment securities

Description of the Matter

The Group has investment securities measured at fair value amounting to $1,170,641,000. A significant portion of these investment securities amounting to $67,101,000 do not trade in active markets with quoted prices. The valuation of these financial instruments have a higher estimation uncertainty due to the use of observable and unobservable data and various assumptions, using complex valuation models. The use of different valuation techniques and assumptions could result in significantly different estimates of fair value. Accordingly, we have assessed the valuation of the investment securities as a key audit matter.

How the Matter was addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the fair value of investment securities that do not trade in active markets, included the following:

- We used an independent valuation expert to develop an independent estimated fair value for a sample of investment securities that do not trade in an active market on a test basis, including level 2 and level 3 investment securities. The estimate was based on an independently developed discounted cash flow model, an option adjusted model, or a fundamental analysis to determine the price. The valuation specialist used data available for the equity, fixed income and other types of financial instruments collected independently.

- We recomputed the fair values for local and regional equity securities based on the inputs and compared to the fair values used by management in the consolidated financial statements; and

- We obtained and assessed the Service Organization Control (SOC1) Type II report on the description of the Group's Investment Custodians' operations systems and the suitability of the design and operating effectiveness of their controls.

Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 ISA 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements ...*continued*

From the matters communicated to the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lisa M. Roberts.

Grant Thornton

Chartered Accountants
December 1, 2022
Basseterre, St. Kitts

St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Statement of Financial Position

As of June 30, 2022

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2022 $	2021 $
Assets			
Cash and balances with Central Bank	5	**219,017**	214,066
Treasury bills	6	**71,253**	70,708
Deposits with other financial institutions	7	**564,479**	441,191
Loans and advances to customers	8	**964,589**	867,445
Originated debts	9	**154,211**	110,312
Financial asset	32	**360,794**	566,505
Investment securities	10	**1,170,641**	1,351,252
Property inventory	11	**8,565**	8,565
Investment property	12	**4,040**	4,040
Income tax recoverable	19	**21,135**	1,030
Property and equipment	13	**38,211**	38,153
Intangible assets	14	**390**	421
Right-of-use assets	15	**1,518**	1,882
Other assets	16	**56,195**	57,283
Deferred tax asset	19	**5,387**	4,178
Total assets		**3,640,425**	3,737,031
Liabilities			
Customers' deposits	17	**2,839,826**	2,595,318
Borrowings	10	**21,164**	42,942
Accumulated provisions, creditors and accruals	18	**292,606**	260,478
Acceptances, guarantees and letters of credit		**6,541**	6,375
Income tax payable	19	**188**	13,460
Lease liabilities	15	**1,549**	1,909
Deferred tax liability	19	**3,357**	3,780
Total liabilities		**3,165,231**	2,924,262
Shareholders' equity			
Issued share capital	20	**141,750**	135,000
Share premium		**3,877**	3,877
Reserves	21	**451,757**	383,115
(Accumulated deficit)/retained earnings		**(122,190)**	290,777
Total shareholders' equity		**475,194**	812,769
Total liabilities and shareholders' equity		**3,640,425**	3,737,031

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

Approved for issue by the Board of Directors on December 1, 2022.

Carol Boddie

Chairman

Director

St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Statement of Income

For the year ended June 30, 2022

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2022 $	2021 $
Interest income	22	**63,229**	62,023
Interest expense	22	**(50,591)**	(48,466)
Net interest income		**12,638**	13,557
Fees and commission income	23	**23,046**	17,118
Fees expenses	23	**(20,249)**	(12,736)
Net fees and commission income		**2,797**	4,382
Other (loss)/income, net	24	**(195,626)**	341,950
Operating (loss)/income		**(180,191)**	359,889
Operating expenses			
Administrative and general expenses	25	**(59,147)**	(61,970)
Other expenses	27	**(26,334)**	(28,285)
Credit impairment charges, net	26	**(39,117)**	(26,768)
Total operating expenses		**(124,598)**	(117,023)
Net (loss)/income before tax		**(304,789)**	242,866
Income tax credit/(expense)	19	**8,576**	(54,498)
Net (loss)/income for the year		**(296,213)**	188,368
(Loss)/earnings per share (basic and diluted)	28	**(2.14)**	1.40

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

St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Statement of Comprehensive Income

For the year ended June 30, 2022

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2022 $	2021 $
Net (loss)/income for the year		**(296,213)**	188,368
Other comprehensive (loss)/income, net of tax:			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Financial assets measured at FVOCI – debt instruments:			
Net unrealised (losses)/gains on investment securities, net of tax	21	**(2,706)**	3,302
Expected credit losses recognised on FVOCI – debt securities	21	**4**	48
Reclassification adjustments for net losses included in income, net of tax	21	**(450)**	(1,968)
		(3,152)	1,382
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods:			
Financial assets measured at FVOCI – equity instruments:			
Unrealised gains on investment securities, net of tax	21	**5,285**	24,035
Realised losses transferred to retained earnings, net of tax	21	**(6,842)**	(14,886)
Re-measurement (loss)/gain on defined benefit asset, net of tax	21	**(1,553)**	881
		(3,110)	10,030
Total other comprehensive (loss)/income for the year, net of tax		**(6,262)**	11,412
Total comprehensive (loss)/income for the year		**(302,475)**	199,780

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

St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Statement of Changes in Shareholders' Equity

For the year ended June 30, 2022

(expressed in thousands of Eastern Caribbean dollars)

	Notes	Issued share capital $	Share premium $	Reserves $	(Accumulated deficit)/ retained earnings $	Total $
Balance at June 30, 2020		**135,000**	**3,877**	**354,755**	**119,357**	**612,989**
Net income for the year		–	–	–	188,368	188,368
Other comprehensive income		–	–	26,298	(14,886)	11,412
Total comprehensive income for the year		**–**	**–**	**26,298**	**173,482**	**199,780**
Transfer to reserves	21	–	–	2,062	(2,062)	–
Balance at June 30, 2021		**135,000**	**3,877**	**383,115**	**290,777**	**812,769**
Net loss for the year		–	–	–	(296,213)	(296,213)
Other comprehensive loss		–	–	580	(6,842)	(6,262)
Total comprehensive loss for the year				**580**	**(303,055)**	**(302,475)**
Transfer to reserves		–	–	68,062	(68,062)	–
Dividends	29	6,750	–	–	(41,850)	(35,100)
Balance at June 30, 2022		**141,750**	**3,877**	**451,757**	**(122,190)**	**475,194**

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

St. Kitts-Nevis-Anguilla National Bank Limited
Consolidated Statement of Cash Flows
For the year ended June 30, 2022

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2022 $	2021 $
Cash flows from operating activities			
Net (loss)/income before tax		**(304,789)**	242,866
Adjustments for items not affecting cash:			
Fair value losses/ (gains)/losses on FVTPL investment securities		**370,596**	(84,933)
Interest expense	22	**50,591**	48,466
Credit and other impairment charges, net	26	**39,117**	26,768
Depreciation and amortisation	13, 14, 15	**3,013**	3,335
Pension expense	34	**851**	844
Dividend income	24	**(9,893)**	(7,557)
Interest income	22	**(63,229)**	(62,023)
Operating income before changes in operating assets and liabilities		**86,257**	167,766
Changes in operating assets:			
Loans and advances to customers		**(105,291)**	(80,781)
Mandatory deposits with Central Bank		**1,597**	(13,653)
Other assets		**5,023**	(8,495)
Financial asset		**205,742**	–
Changes in operating liabilities:			
Customers' deposits		**244,735**	69,984
Accumulated provisions, creditors and accruals		**32,128**	52,224
Acceptances, guarantees and letters of credit		**166**	–
Cash generated from operations		**470,357**	187,045
Interest received		**53,619**	51,507
Pension contributions paid	34	**(2,178)**	(2,095)
Income tax paid	19	**(24,436)**	(10,839)
Interest paid		**(50,768)**	(48,902)
Net cash from operating activities		**446,594**	176,716
Cash flows from investing activities			
Disposal of investment securities and originated debts		**592,081**	749,633
Changes in term deposits and treasury bills, net		**70,802**	66,892
Interest received		**9,690**	12,848
Dividends received		**9,893**	7,557
Proceeds from disposal of property and equipment		**–**	169
Acquisition of intangible assets	14	**(258)**	(210)
Purchase of equipment	13	**(1,919)**	(2,248)
Purchase of investment securities and originated debts		**(938,742)**	(1,043,801)
Net cash used in investing activities		**(258,453)**	(209,160)
Subtotal carried forward		**188,141**	(32,444)

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2022 $	2021 $
Subtotal brought forward		**188,141**	(32,444)
Cash flows from financing activities			
Repayments of lease liabilities	15	**(859)**	(701)
Interest paid on lease liabilities	15	**(50)**	(55)
Dividends paid	29	**(35,100)**	–
Net cash used in financing activities		**(36,009)**	(756)
Net increase/(decrease) in cash and cash equivalents		**152,132**	(33,200)
Cash and cash equivalents, beginning of year		**376,215**	409,415
Cash and cash equivalents, end of year	33	**528,347**	376,215

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

(expressed in thousands of Eastern Caribbean dollars)

1 Incorporation and principal activity

St. Kitts-Nevis-Anguilla National Bank Limited (the "Bank") was incorporated as a public limited company on February 15, 1971 under the Companies Act Chapter 335, and was re-registered under the new Companies Act No. 22 of 1996 on April 14, 1999. The Bank operates in both St. Kitts and Nevis and is subject to the provisions of the Banking Act of 2015. The Bank is a public company listed on the Eastern Caribbean Securities Exchange.

The Bank's registered office is at Central Street, Basseterre, St. Kitts. The principal activities of the Bank and its subsidiaries (the "Group") are described below.

The Bank is principally involved in the provision of financial services being primarily commercial banking and investment activities. The Bank is regulated by the Eastern Caribbean Central Bank ("the Central Bank" or "ECCB").

The Bank's subsidiaries and their activities are as follows:

- *National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited ("Trust Company")*

  The Trust Company was incorporated on January 26, 1972 under the Companies Act Chapter 335, and was re-registered under the new Companies Act No. 22 of 1996 on April 14, 1999.

  The principal activity of the Trust Company is the provision of long-term mortgage financing, raising long-term investment funds, real estate development, property management and the provision of trustee services.

- *National Caribbean Insurance Company Limited ("Insurance Company")*

  The Insurance Company was incorporated on June 20, 1973 under the Companies Act Chapter 335, and was re-registered under the new Companies Act No. 22 of 1996 on April 14, 1999.

  The Insurance Company provides life insurance coverage, non-life insurance coverage and pension schemes.

  The Company is regulated by Financial Services Regulatory Commission (FSRC) and the Anguilla Financial Services Commission (AFSC) for its operations in St. Kitts and Nevis and for its operations in Anguilla, respectively.

- *St. Kitts and Nevis Mortgage and Investment Company Limited ("MICO")*

  MICO was incorporated on May 25, 2001 under the Companies Act No. 22 of 1996 and commenced operations on May 13, 2002.

  MICO acts as the real estate arm of the Group with its main operating activities being the acquisition and sale of properties.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments, and in accordance with the going concern assumption.

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

2.2 Changes in accounting policies

New standards and amendments effective for the financial year beginning July 1, 2021

Standards and amendments that are effective for the first time on July 1, 2021 are as follows:

- Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16); and
- COVID-19-Related Rent Concessions (Amendments to IFRS 16).

These amendments do not have a material impact on these separate financial statements and therefore the disclosures have not been made.

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

At the date of authorisation of these consolidated financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective and have not been adopted early by the Group. Information on those expected to be relevant to the Group's consolidated financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. These standards are not expected to have a material impact on the Group's consolidated financial statements in future reporting periods and on foreseeable future transactions.

IFRS 17, Insurance Contracts (effective from January 1, 2023)

IFRS 17 was issued in May 2017 as replacement for IFRS 4, *Insurance Contracts*. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.2 Changes in accounting policies *…continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group *…continued*

IFRS 17, Insurance Contracts (effective from January 1, 2023) …continued

The standard allows a choice between recognising changes in discount rates either in the profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The directors anticipate that the application of IFRS 17 in the future will have a material impact on the amounts reported and the disclosures made in the financial statements due to the significant changes in the determination and recognition of profit related to insurance contracts.

The Company has currently engaged various consultants to assist with the implementation of the Standard. To date, the Company has outlined the following areas as having the most significant/severe impacts and complexity factors in its data, systems and processes:

- Operational data store;
- Actuarial and risk models;
- IFRS 17 calculation engine; and
- Reporting, analytics and visualisation and disclosure.

Areas which have been identified with medium severity/complexity factors are as follows:

- Planning, budgeting, forecasting and MI;
- Master data management;
- Governance risk compliance;
- Accounting rules engine; and
- Allocations.

Notwithstanding this, management has yet to fully assess the impact of IFRS 17 on these financial statements and is not yet in a position to provide quantified information. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2023.

There are no other new or amended standards and interpretations that are issued but not yet effective, that are expected to have a significant impact on the accounting policies or financial disclosures of the Company.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.3 Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of June 30, 2022. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of June 30. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.4 Cash and cash equivalents

Cash comprises cash on hand and demand and call deposits with Groups. Cash equivalents are short-term, highly liquid investments with original maturities of ninety (90) days or less that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Cash and cash equivalents are subject to an insignificant risk of change in value. Cash and cash equivalents exclude balances held to meet statutory requirements and restricted deposits.

2.5 Financial assets and liabilities

Classification and measurement

The Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

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

i) Debt instruments

Debt instruments are those instruments that contain contractual obligations to pay the instrument holder certain cash flows, such as government and corporate bonds, and loans and receivables.

Classification and subsequent measurement of debt instruments depend on:

- the Group’s business model for managing the asset; and
- the cash flow characteristics of the asset.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Classification and measurement *...continued*

i) Debt instruments ...continued

Business model test:

Business model reflects the objective of the Group holding different assets. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, the financial assets are held for trading purposes and are measured at FVTPL.

Solely payments of principal and interest (SPPI) test:

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognized in profit or loss.

- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be infrequent and none occurred during the period.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.5 Financial assets and liabilities *…continued*

Classification and measurement *…continued*

ii) Equity instruments

Equity instruments are instruments that do not contain contractual obligations to pay the instrument holder and that evidence residual interests in the issuer's net assets. The Group subsequently measures all equity investments at FVTPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI.

The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Credit risk measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'stage 1'. Financial instruments in stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'stage 2' but is not yet deemed to be credit-impaired. Instruments in stage 2 have their ECL measured based on expected credit losses on a lifetime basis.

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'stage 3'. Instruments in stage 3 have their ECL measured based on expected credit losses on a lifetime basis.

- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis.

For debt securities, the Group examines the issuer's capital adequacy, financial performance, liquidity position, and credit rating to assess whether the issuer has experience significant increase in credit risk since the origination of the assets. When no external credit rating is available, the Group assigns internal credit rating based on internal risk criteria. The Group also considers if there is any negative press or adverse market information that may indicate changes in credit risk.

For loans and advances and other receivables, delinquency status is utilized as the main indicator for changes in credit risk. Credit management actions are triggered by movement in days past due. Other qualitative factors are considered, which include but are not limited to:

- Early signs of cash flow/liquidity problems;
- In short-term forbearance;
- Known adverse change in financial conditions; and,
- Known adverse changes in business or economic conditions in which the borrower operates.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Credit risk measurement *...continued*

Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a SICR if:

- An obligor's external or internal credit rating is downgraded to below investment grade (BB+/Ba1, its internal equivalent or lower) compared to the rating at initial recognition;
- A below investment grade instrument is lowered by 2 or multiple notches; or
- Payment of principal and/or interest is more than 30 days past due.

If one or more of the above conditions are satisfied, the financial asset is transferred to stage 2 from stage 1. The assignment of a financial instrument to stage 3 will be based on the status of the obligor being in default. Assets in stage 2 or 3 will be transferred back to stage 1 or 2 once the criteria for significant increase in credit risk or impairment are no longer met.

The staging assessment requires the Group to monitor credit risk through regular credit reviews or other monitoring at a counterparty level. All loans and investment securities held by the Group are allocated to a credit quality rating or risk grade (internal or external) based on the most recent review, using forward-looking and other available information on an annual basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by Management.

Backstop

A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

If an asset is in investment grade at reporting date, it will be in stage 1 irrespective of its origination rating. With respect to loans and advances to customers however, the Group has not used the low credit risk exemption for any of those financial instruments for the years ended June 30, 2022 and June 30, 2021.

Default

For debt securities, default is defined as having missed the contractual payments of principal or interest. For loans and advances, and other receivables, the Group defines default based on the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Credit risk measurement *...continued*

Default ...continued

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. Examples of these instances are:

- The borrower is in long-term forbearance;
- The borrower is deceased;
- The borrower is insolvent; and
- The borrower is in breach of financial covenants.

The criteria above are consistent with the definition of default used for internal credit risk management purposes.

Impairment measurement

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instruments carried at amortised cost and FVOCI and with the exposure arising from loan commitments. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. PD is generated based on historical default data of each portfolio.

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). EAD is assessed based on contractual terms of the debt instrument.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, availability of collateral or other credit support, and historical recovery information.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Impairment measurement*...continued*

ECL is determined by projecting the PD, LGD and EAD for future periods and for each individual exposure or collective segment. These three components are multiplied together and discounted back to the reporting date using the effective interest rate. For expected credit loss provisions modelled on a collective basis, a group of exposures is assessed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

Forward looking information

When incorporating forward looking information, such as macroeconomic forecasts, into the determination of expected credit losses, the Group considers the relevance of the information for each specific group of financial instruments. The macroeconomic indicators utilised include, but are not limited to, GDP growth and unemployment rate. These variables and their associated impact on the ECL varies by financial instrument.

In addition to the base economic scenario, the Group also incorporates upside and downside scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each product type to ensure non-linearities are captured. The attributes of scenarios are reassessed at each reporting date. The scenario weightings takes account of the range of possible outcomes of which each chosen scenario is representative.

Derecognition of financial assets

Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the consolidated statement of financial position as ‘Pledged assets’, if the transferee has the right to sell or repledge them. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the consolidated statement of financial position as ‘Pledged assets’, if the transferee has the right to sell or repledge them.

Financial liabilities

Financial liabilities are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities include customers’ deposits, borrowings, acceptances, guarantees and letters of credit, accumulated provisions, creditors and accruals, other liabilities and lease liabilities.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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

2.6 Employee benefits

i) Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in accumulated provisions, creditors and accruals, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

ii) Gratuity

The Group provides a gratuity to its employees after fifteen (15) years of employment. The amount of the gratuity payment to eligible employees at retirement is computed with reference to final salary and calibrated percentage rates based on the number of years of service. Provisions for these amounts are included in the consolidated statement of financial position.

iii) Pension plan

The Group operates a defined benefit plan. The administration of the plan is conducted by the Insurance Company, one of the subsidiaries. The plan is funded through payments to trustee-administered deposit funds determined by periodic actuarial calculations. A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement based on factors such as age, years of service and final salary. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuation being carried out at the end of each reporting period.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.6 Employee benefits *…continued*

iii) Pension plan …continued

The asset figure recognised in the consolidated statement of financial position in respect of net defined benefit asset is the fair value of the plan assets less the present value of the defined benefit obligation at the reporting date. The retirement benefit asset recognised in the consolidated statement of financial position represents the actuarial surplus in the defined benefit plan. Re-measurements comprising of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognised immediately in the consolidated statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Re-measurement recorded in other comprehensive income is not recycled. However, the Group may transfer those amounts recognised in other comprehensive income within equity.

2.7 Property and equipment

Land and buildings held for use in the rendering of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity, usually every five (5) years, such that the carrying amount does not differ materially from that which would be determined using fair values at the year end.

Any revaluation increase arising on the revaluation of such land and buildings is credited in equity to revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in income, in which case the increase is credited to income to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to income to the extent that it exceeds the balance, if any, held in the fixed asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the consolidated statement of income. On the subsequent sale or retirement of a revalued property, any revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the fixed asset revaluation reserve to retained earnings except when an asset is derecognised.

Projects ongoing represents structures under construction and project development not yet completed and is stated at cost. This includes the costs of construction and other direct costs. Projects ongoing is not depreciated until such time that the relevant assets are ready for use.

Freehold land is not depreciated. Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on the following bases:

Buildings:	25 – 45 years
Leasehold improvements:	25 years, or over the period of lease if less than 25 years
Equipment, fixtures and fittings and motor vehicles:	3 – 10 years
Right-of-use assets:	3 – 10 years

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.7 Property and equipment *...continued*

Depreciation is charged so as to write off the cost or valuation of assets, other than freehold land, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

All repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

2.8 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and to bring into use the specific software. These costs are amortised on the basis of the expected useful life of such software which is three to five years.

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.

2.9 Impairment of non-financial assets

Non-financial 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). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Insurance contracts

i) Classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk.

ii) Recognition and measurement

Insurance contracts issued are classified as short-term insurance contracts and long-term insurance contracts with fixed and guaranteed payments.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.10 Insurance contracts *...continued*

ii) Recognition and measurement ...continued

Short-term insurance contracts

- Property and casualty insurance business

Property and casualty insurance contracts are generally one year renewable contracts issued by the Group covering insurance risks over property, motor, accident and marine.

Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of the property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Casualty insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damages (public liability).

Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the reporting date is reported as the unexpired insurance risk. Premiums are shown before deduction of commissions.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the reporting date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using:

- the input of assessments for individual cases reported to the Group; and
- statistical analyses for the claims incurred but not reported.

These are used to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

- Health insurance business

Health insurance contracts are generally one year renewable contracts issued by the Group covering insurance risks for medical expenses of insured persons. The liabilities of health insurance policies are estimated in respect of claims that have been incurred but not reported and claims that have been reported but not yet paid, due to the time taken to process the claim.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.10 Insurance contracts *…continued*

ii) Recognition and measurement …continued

Long-term insurance contracts with fixed and guaranteed terms

- Life insurance business

These contracts insure events associated with human life (for example, death and survival) over a long duration. Premiums are recognised as revenue when they are received or become receivable from the policyholder. Premiums are shown before deduction of commission. Benefits are recorded as an expense when they are incurred.

The determination of actuarial liabilities on life policies is based on the Net Level Premium (“NLP”) reserve method. This reserve method uses net premiums as opposed to calculating reserves on a first principles gross premium valuation. The NLP reserve method does not use lapse rates or expenses and takes into consideration only the bonus additions allocated to the policy to date. Future bonus additions are not considered in the valuation. The Group utilises an actuary for the determination of the actuarial liabilities. These liabilities consist of amounts that together with future premiums and investment income are required to provide for policy benefits, expenses and taxes on life insurance contracts. The process of calculating actuarial liabilities for future policy benefits involves the use of estimates concerning factors such as mortality and morbidity rates, future investment yields and future expense levels and persistency.

The liabilities are recalculated at each end of the reporting period using the assumptions established at inception of the contracts.

iii) Reinsurance contracts held

The Group obtains reinsurance contracts coverage for insurance risks underwritten. The Group cedes insurance premiums and risk related to property and casualty contracts in the normal course of business in order to limit the potential for losses arising from its exposures. Reinsurance does not relieve the Group of its liability. The benefits to which the Group are entitled under reinsurance contracts held are recognised as reinsurance assets. Reinsurance assets are assessed for impairment and if evidence that the asset is impaired exists, the impairment is recorded in the consolidated statement of income. The obligations of the Group under reinsurance contracts held are included under insurance contract liabilities.

iv) Liability adequacy test

At the end of the reporting period, liability adequacy tests are performed by the Group to ensure the adequacy of insurance contract liabilities, using current estimates of the related expected future cash flows.

If a test indicates that the carrying value of insurance contract liabilities is inadequate, then the liabilities are adjusted to correct the deficiency. The deficiency is included in the consolidated statement of income under claims and benefits.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.10 Insurance contracts *…continued*

v) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the consolidated statement of income. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated under the same method used for these financial assets.

vi) Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets until the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets until the liability is settled. The allowance is the amount of the assets that can be recovered from the action against the liable third party.

2.11 Guarantees and letters of credit

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

2.12 Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.13 Leased assets

For any new contracts entered, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract;
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets, if any, using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.13 Leased assets*...continued*

Measurement and recognition of leases as a lessee *...continued*

The right-of-use assets and lease liabilities have been disclosed separately on the consolidated statement of financial position.

2.14 Revenue recognition

The Group determines whether to recognize revenue based on a 5-step process:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognising revenue when/as performance obligation(s) are satisfied.

The Group's revenue generating activities are described below.

i) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the consolidated statement of income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, estimates of cash flows that consider all contractual terms of the financial instrument are included (for example, repayment options), except 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 impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.14 Revenue recognition*…continued*

ii) Fees and commission income
Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

Commission 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 business – are recognised on completion of the underlying transaction.

iii) Dividend income
Dividends are recognised in the consolidated statement of income when the right to receive payment is established.

iv) Premiums
Written premiums for non-life insurance relate to contracts beginning in the financial year and are stated gross of commissions payable to intermediaries and exclusive of taxes levied on premiums. Written premiums for life contracts are recognised when due from the policyholder. Unearned premiums are those proportions of the premium which relate to periods of risk after the reporting date.

v) Property sales
Revenue from property sales is recognised when title of the properties has passed to the buyer.

2.15 Operating expenses and fees expenses

Operating expenses and fees expenses are recognised in the consolidated statement of income upon utilisation of the services or as incurred.

2.16 Foreign currency translation

i) Functional and presentation currency
Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates (the "functional currency"). The consolidated financial statements are presented in Eastern Caribbean Dollars, which is the Group's functional and presentation currency. The values presented in the consolidated financial statements have been rounded to the nearest thousands unless otherwise stated.

ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 the consolidated statement of income. Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the consolidated statement of income within 'Other income'.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.17 Equity, reserves and dividend payments

i) *Issued share capital and share premium*
Issued share capital represents the proceeds of shares that have been issued. Share premium includes any premiums received on the issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

ii) *Dividends on ordinary shares*
Dividends on ordinary shares are recognised in equity in the period in which they are paid by the Board of Directors and or approved by the Group's shareholders.

iii) *Other components of equity*
Other components of equity include the following:

- *Statutory reserve* – reserve fund as per the regulatory requirement;
- *Revaluation reserve* – represents gains and losses from the revaluation of land and buildings;
- *Fair value reserves – FVOCI* – represent unrealised gains and losses from changes in the fair value of the FVOCI investment securities; and
- *Other reserves* – comprises the defined benefit pension plan reserve, regulatory reserve for loan impairment, regulatory reserve for interest accrued on non-performing loans, insurance and claims equalisation reserve and general reserve.

iv) *(Accumulated deficit)/retained earnings*
(Accumulated deficit)/retained earnings include cumulative balance of net (loss)/income, dividend distributions, effect of changes in accounting policy and other capital adjustments.

2.18 Current and deferred income tax

Income tax payable on profits, based on applicable tax law in St. Kitts and Nevis is recognised as an expense in the period in which profits arise, except to the extent that it relates to items recognised directly in equity. In such cases, the tax is recognised in a deferred tax liability account. The tax expense for the period comprises current and deferred tax.

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

The principal temporary differences arise from depreciation of property, plant and equipment and revaluation of certain financial assets. However, deferred tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. The rates enacted or substantively enacted at the reporting date are used to determine deferred income tax.

A deferred tax asset is recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. This is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.18 Current and deferred income tax*…continued*

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognised as a component of tax charge or credit in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of available-for-sale investment securities) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

The Group is subjected to the following tax rates:

(i) *Income tax rates*
The Group is subject to corporate income taxes at a rate of 33%. Refer to note 19 for details of the temporary COVID-19 stimulus package tax relief that was granted effective April 1, 2020 up to June 30, 2022.

(ii) *Premium tax rates*
Insurers are subject to tax on premium revenues generated in certain jurisdictions. The principal rate of premium tax is 5% for general insurance and nil for life insurance.

2.19 Deposit funds

Deposit administration contracts are issued by the Group to registered pension schemes for the deposit of pension plan assets with the Group.

Deposit administration liabilities are recognised initially at fair value and are subsequently stated at:

- amortised cost where the insurer is obligated to provide investment returns to the pension scheme in the form of interest; and
- fair value through income where the Group is obligated to provide investment returns to the pension scheme in direct proportion to the investment returns on specified blocks of assets.

Deposit administration contributions are recorded directly as liabilities. Withdrawals are deducted directly from the liability. The interest or investment return provided is recorded as an interest expense.

2.20 Investment property

Investment property is property held to earn rental and/or for capital appreciation, including property under construction for such purposes. Investment property is measured at cost, including transaction cost.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property is included in income in the period in which the property is derecognised.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.21 Property inventory

Property inventory is measured at the lower of cost and net realizable value (NRV). The cost of property inventory comprises all costs incurred in bringing the properties to their present condition. NRV represents the estimated selling price less all estimated costs necessary to make the sale.

2.22 Business segments

Business segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

2.23 Events after the financial reporting date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting (non-adjusting events) are disclosed in the notes to the financial statements when material.

2.24 (Loss)/earnings per share

Basic (loss)/earnings per share are determined by dividing (loss)/profit by the weighted average number of ordinary shares outstanding during the period after giving retroactive effect to stock dividends declared, stock splits and reverse stock splits during the period, if any.

Diluted (loss)/earnings per share are computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. Currently, the Group does not have dilutive potential shares outstanding, hence, the diluted (loss)/earnings per share is equal to the basic (loss)/earnings per share.

2.25 Comparatives

The classification of certain items in the consolidated financial statements has been changed from the prior period to achieve a clearer or more appropriate presentation. The comparative figures have been similarly formatted and reclassified in order to achieve comparability with the current period.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks

The Group's activities expose it to a variety of financial and insurance 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 commercial Banking business and insurance, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse risks, to set appropriate levels and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group 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 Credit Division and Comptroller Division under policies approved by the Board of Directors. Management identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management, as well as approved policies covering specific areas, such as foreign exchange, interest rate, insurance and credit risks. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important types of financial and insurance risks are credit risk, liquidity risk, market risk, insurance risk (property, casual and life insurance risk) and other operational risk. Market risk includes foreign exchange risk, interest rate risk and other price risk.

3.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparties will cause financial losses for the Group by failing to discharge their obligations. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management, therefore, carefully manages its exposure to such credit risks. Credit exposure arises principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Group's asset portfolio.

There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised and reported to the Board of Directors.

The Group's exposure to credit risk is managed through regular analysis of the ability of its borrowers and potential borrowers to meet interest and capital repayment obligations. Credit risk is managed also in part by the taking of collateral and corporate and personal guarantees as securities on advances.

i) Loans and advances to customers

The prudential guidelines of the Group's regulators are included in the daily credit operational management of the Group. The operational measurements can be contrasted with impairment allowances required under IFRS 9, which are based on an expected credit loss model approach.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *…continued*

3.1 Credit risk *…continued*

i) Loans and advances …continued

The Group assesses the probability of default of individual borrowers using internal rating tools tailored to the various categories of the counterparty. These rating tools are fashioned from the guidelines of the commercial Group's regulators. Advances made by the Group are segmented into five rating classes that reflect the range of default probabilities for each rating class. The rating tools are kept under review and upgraded as necessary.

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

ii) Debt securities and other bills

For debt securities and other bills, external rating such as Standard & Poor's rating or their equivalents are used by the Group Treasury/Fund Managers 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 requirement at the same time.

3.1.1 Risk limit control and mitigation policies

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

The Group structures the levels of credit risks it undertakes by placing limits on the amount of risk acceptable in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review, when considered necessary by the Board of Directors.

The exposure to any one borrower, including Groups and other financial institutions, is further restricted by sub-limits covering on-balance sheet and off-balance sheet exposures. Actual exposures against limits are monitored. 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.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.1 Risk limit control and mitigation policies *...continued*

Other specific controls and mitigation measures are outlined below:

i) Collateral

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

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

Longer-term finance and lending to corporate entities and individual credit facilities are generally secured. In addition, in order to minimize credit loss, the Group 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.

ii) 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 Group on behalf of a customer authorising a third party to draw drafts on the Group 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 and advances, guarantees or letters of credit. With respect to credit risk, the Group 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 Group monitors the term of maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning

The debt securities and other financial assets at amortised cost are summarised as follows in the consolidated financial statements:

	Deposits with other financial institutions (term deposits) $	Treasury bills $	Originated debts $	Financial asset $	Debt securities – FVOCI $	Other assets $	Total $
Credit grade:							
Investment grade	58,419	–	80,721	–	45,518	10,089	194,747
Non–investment grade	224,984	71,265	73,577	363,192	2,060	15,922	751,000
Default	–	–	–	–	–	1,111	1,111
Gross carrying amount	283,403	71,265	154,298	363,192	47,578	27,122	946,858
Loss allowance	(639)	(12)	(87)	(2,398)	(52)	(757)	(3,945)
Carrying amount as at June 30, 2022	**282,764**	**71,253**	**154,211**	**360,794**	**47,526**	**26,365**	**942,913**
Credit grade:							
Investment grade	44,865	–	–	–	41,929	11,434	98,228
Non–investment grade	47,537	70,749	74,350	569,617	1,742	14,941	778,936
Default	–	–	36,243	–	–	5,157	41,400
Gross carrying amount	92,402	70,749	110,593	569,617	43,671	31,532	918,564
Loss allowance	(141)	(41)	(281)	(3,112)	(48)	(5,683)	(9,306)
Carrying amount as at June 30, 2021	**92,261**	**70,708**	**110,312**	**566,505**	**43,623**	**25,849**	**909,258**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

The loans and advances to customers are summarised as follows in the consolidated financial statements:

	Loans to customers $	Overdrafts $	Credit cards $	Total $
Credit grade:				
Performing	566,635	17,430	9,233	593,298
Under-performing	7,778	–	455	8,233
Non–performing	368,666	74,426	773	443,865
Gross carrying amount	943,079	91,856	10,461	1,045,396
Loss allowance	(55,257)	(23,896)	(1,654)	(80,807)
Carrying amount as at June 30, 2022	**887,822**	**67,960**	**8,807**	**964,589**
Credit grade:				
Performing	476,110	13,116	8,954	498,180
Under-performing	10,799	–	373	11,172
Non–performing	355,338	74,462	886	430,686
Gross carrying amount	842,247	87,578	10,213	940,038
Loss allowance	(49,225)	(21,783)	(1,585)	(72,593)
Carrying amount as at June 30, 2021	**793,022**	**65,795**	**8,628**	**867,445**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

The following tables contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

Debt securities and other financial assets at amortised cost	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Total $**
Credit grade:				
Investment grade	194,747	–	–	194,747
Non–investment grade	712,174	30,642	8,184	751,000
Default	–	–	1,111	1,111
Gross carrying amount	906,921	30,642	9,295	946,858
Loss allowance	(867)	(2,321)	(757)	(3,945)
Carrying amount as at June 30, 2022	**906,054**	**28,321**	**8,538**	**942,913**
Credit grade:				
Investment grade	98,228	–	–	98,228
Non–investment grade	740,349	30,590	7,997	778,936
Default	–	–	41,400	41,400
Gross carrying amount	838,577	30,590	49,397	918,564
Loss allowance	(937)	(2,686)	(5,683)	(9,306)
Carrying amount as at June 30, 2021	**837,640**	**27,904**	**43,714**	**909,258**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Loans and advances to customers	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Total $
Credit grade:				
Performing	593,298	–	–	593,298
Under-performing	–	8,233	–	8,233
Non–performing	–	–	443,865	443,865
Gross carrying amount	593,298	8,233	443,865	1,045,396
Loss allowance	(6,765)	(1,202)	(72,840)	(80,807)
Carrying amount as at June 30, 2022	**586,533**	**7,031**	**371,025**	**964,589**
Credit grade:				
Performing	498,180	–	–	498,180
Under-performing	–	11,172	–	11,172
Non–performing	–	–	430,686	430,686
Gross carrying amount	498,180	11,172	430,686	940,038
Loss allowance	(4,627)	(876)	(67,090)	(72,593)
Carrying amount as at June 30, 2021	**493,553**	**10,296**	**363,596**	**867,445**

Loss allowances

The allowance for ECL is recognised in each reporting period and is impacted by a variety of factors, as described below:

- Transfers between stages due to financial assets experiencing significant movement in credit risk or becoming credit-impaired during the period;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to inputs used in the calculation including the movement between 12-month and lifetime ECL;
- Impacts on the measurement of ECL due to changes made to models and model assumptions; and
- Foreign exchange retranslations for assets denominated in foreign currencies.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Loss allowances *...continued*

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Debt securities and other financial assets at amortised cost	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Loss allowance as at June 30, 2021	937	2,686	5,683	9,306
New financial assets originated or purchased	581	–	–	581
Financial assets fully derecognised during the year	(26)	–	(4,861)	(4,887)
Changes to inputs used in ECL calculation	(625)	(365)	(65)	(1,055)
Loss allowance as at June 30, 2022	**867**	**2,321**	**757**	**3,945**
Loss allowance as at June 30, 2020	2,004	1,731	525	4,260
New financial assets originated or purchased	254	–	–	254
Financial assets fully derecognised during the year	(1,415)	–	–	(1,415)
Changes to inputs used in ECL calculation	94	955	5,158	6,207
Loss allowance as at June 30, 2021	**937**	**2,686**	**5,683**	**9,306**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Loss allowances *...continued*

Loans and advances to customers	Stage 1 12–month ECL $	Stage 2 lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Loss allowance as at June 30, 2021	4,627	876	67,090	72,593
Transfers:				
Transfer from stage 1 to stage 2	(60)	60	–	–
Transfer from stage 1 to stage 3	(183)	–	183	–
Transfer from stage 2 to stage 1	1,060	(1,060)	–	–
Transfer from stage 2 to stage 3	–	(690)	690	–
Transfer from stage 3 to stage 1	75	–	(75)	–
Transfer from stage 3 to stage 2	–	52	(52)	–
New financial assets originated or purchased	1,223	294	368	1,885
Financial assets fully derecognised during the year	–	–	(25)	(25)
Changes to inputs used in ECL calculation	23	1,670	4,661	6,354
Loss allowance as at June 30, 2022	**6,765**	**1,202**	**72,840**	**80,807**
Loss allowance as at June 30, 2020	4,740	1,075	91,948	97,763
Transfers:				
Transfer from stage 1 to stage 2	(68)	68	–	–
Transfer from stage 1 to stage 3	(12)	–	12	–
Transfer from stage 2 to stage 1	305	(305)	–	–
Transfer from stage 2 to stage 3	–	(106)	106	–
Transfer from stage 3 to stage 1	75	–	(75)	–
Transfer from stage 3 to stage 2	–	9	(9)	–
New financial assets originated or purchased	785	45	19	849
Financial assets fully derecognised during the year	(152)	(36)	(46,704)	(46,892)
Changes to inputs used in ECL calculation	(1,046)	126	21,793	20,873
Loss allowance as at June 30, 2021	**4,627**	**876**	**67,090**	**72,593**

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to $225,832 (2021: $148,198). The loan loss provision calculated under IFRS 9 for the loans held by the Group amounted to $80,807 (2021: $72,593). When the ECCB loan loss provision is greater than the loan loss provision calculated under IFRS 9, the difference is set aside as a non-distributable reserve through equity. As of June 30, 2022, the loan loss provision calculated under IFRS 9 was less than the ECCB provision for the loans held by the Group. Therefore, a non-distributable reserve through equity was required at the reporting date and is included in other reserves in equity (note 21). The gross carrying value of impaired loans at the year-end was $443,865 (2021: $430,686).

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Loss allowances *...continued*

Interest receivable on loans that would not be recognised under ECCB guidelines amounted to $66,989 (2021: $59,675) and is included in other reserves in equity (note 21).

IFRS 9 carrying values

The following tables explain the changes in the carrying value between the beginning and the end of the year. The gross carrying amounts of financial assets below represent the Group's maximum exposure to credit risk on these assets.

Debt securities and other financial assets at amortised cost	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Total $**
Gross carrying amount as at June 30, 2021	838,577	30,590	49,397	918,564
New financial assets originated or purchased	307,129	–	–	307,129
Financial assets fully derecognised during the year	(15,677)	–	(40,289)	(55,966)
Changes in principal and interest	(223,108)	52	187	(222,869)
Gross carrying amount at June 30, 2022	**906,921**	**30,642**	**9,295**	**946,858**
Gross carrying amount as at June 30, 2020	880,243	31,051	42,375	953,669
New financial assets originated or purchased	201,239	–	5,158	206,397
Financial assets fully derecognised during the year	(203,327)	–	–	(203,327)
Changes in principal and interest	(39,578)	(461)	1,864	(38,175)
Gross carrying amount at June 30, 2021	**838,577**	**30,590**	**49,397**	**918,564**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

IFRS 9 carrying values *...continued*

Loans and advances to customers	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Total $**
Gross carrying amount as at June 30, 2021	498,180	11,172	430,686	940,038
Transfers:				
Transfer from stage 1 to stage 2	(5,661)	5,661	–	–
Transfer from stage 1 to stage 3	(17,257)	–	17,257	–
Transfer from stage 2 to stage 1	5,614	(5,614)	–	–
Transfer from stage 2 to stage 3	–	(3,654)	3,654	–
Transfer from stage 3 to stage 1	462	–	(462)	–
Transfer from stage 3 to stage 2	–	318	(318)	–
New financial assets originated or purchased	114,624	1,557	2,269	118,450
Financial assets fully derecognised during the year	(24,223)	(1,631)	(1,543)	(27,397)
Changes in principal and interest	21,559	424	(7,678)	14,305
Gross carrying amount as at June 30, 2022	**593,298**	**8,233**	**443,865**	**1,045,396**
Gross carrying amount as at June 30, 2020	426,146	10,180	470,686	907,012
Transfers:				
Transfer from stage 1 to stage 2	(7,897)	7,897	–	–
Transfer from stage 1 to stage 3	(1,401)	–	1,401	–
Transfer from stage 2 to stage 1	3,888	(3,888)	–	–
Transfer from stage 2 to stage 3	–	(1,357)	1,357	–
Transfer from stage 3 to stage 1	488	–	(488)	–
Transfer from stage 3 to stage 2	–	62	(62)	–
New financial assets originated or purchased	92,730	575	121	93,426
Financial assets fully derecognised during the year	(17,653)	(458)	(9,057)	(27,168)
Changes in principal and interest	1,879	(1,839)	(33,272)	(33,232)
Gross carrying amount as at June 30, 2021	**498,180**	**11,172**	**430,686**	**940,038**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at June 30, are set out below.

As at June 30, 2021

		2022	2023
World GDP growth rate	Base	4.40%	4.40%
	Upside	6.22%	6.22%
	Downside	2.58%	2.58%
US GDP growth rate	Base	4.95%	4.95%
	Upside	6.87%	6.87%
	Downside	3.03%	3.03%
St. Kitts and Nevis GDP growth rate	Base	6.90%	6.90%
	Upside	12.39%	12.39%
	Downside	1.41%	1.41%
St. Lucia GDP growth rate	Base	6.90%	6.90%
	Upside	12.39%	12.39%
	Downside	1.41%	1.41%

As at June 30, 2022

		2022	2023
World GDP growth rate	Base	3.60%	3.60%
	Upside	5.50%	5.50%
	Downside	1.70%	1.70%
US GDP growth rate	Base	3.00%	3.00%
	Upside	5.10%	5.10%
	Downside	0.90%	0.90%
St. Kitts and Nevis GDP growth rate	Base	7.40%	7.40%
	Upside	12.1%	12.1%
	Downside	2.60%	2.60%
St. Lucia GDP growth rate	Base	7.90%	7.90%
	Upside	13.5%	13.5%
	Downside	2.20%	2.20%

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Economic variable assumptions *...continued*

The scenario weightings assigned to each economic scenario were as follows:

Year	Base	Upside	Downside
June 30, 2022	**80%**	**10%**	**10%**
June 30, 2021	85%	5%	10%

Set out below are the changes to the ECL as at June 30, 2022 that would result from reasonably possible variations in the most significant assumptions affecting the ECL allowance for the financial assets in stages 1 to 2 with respect to the credit risk:

		ECL impact of:	
Loss Given Default	**Change in threshold**	**Increase in value $**	**Decrease in value $**
Debt securities – amortised cost	+/- 5%	20	(20)
Debt securities – FVOCI	+/- 5%	21	(21)
		ECL impact of:	
Collateral haircut	**Change in threshold**	**Increase in value $**	**Decrease in value $**
Loans	+/- 5%	792	(792)
Advances	+/- 5%	467	(467)

Purchased or originated credit-impaired (POCI) financial assets

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL is less than the amount of ECL included in the estimated cash flows on initial recognition.

Loans and advances to customers renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans during the year amounted to $780 (2021: $126).

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.3 Geographical concentrations of on-balance sheet and off-balance sheet with credit risk exposure

The Group operates three (3) business segments as follows:

- commercial and retail banking;
- insurance coverage; and
- Real estate and trust services.

These are predominantly localised to St. Kitts and Nevis. Commercial Banking activities, however, account for a significant portion of credit risk exposure.

The credit risk exposure is, therefore, spread geographically and over a diversity of personal and commercial customers.

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean Territories $	Total $
As of June 30, 2022					
Cash and balances with Central Bank	30,653	–	–	–	30,653
Treasury bills	71,253	–	–	–	71,253
Deposits with other financial institutions	44,976	293,976	220,716	4,811	564,479
Financial asset	360,794	–	–	–	360,794
Loans and advances to customers	860,435	65,698	1,743	36,713	964,589
Originated debts	23,757	80,706	–	49,748	154,211
Debt investment securities	–	50,946	394	–	51,340
Acceptances, guarantees and letters of credit	6,541	–	–	–	6,541
Other assets	19,673	151	–	–	19,824
	1,418,082	**491,477**	**222,853**	**91,272**	**2,223,684**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.3 Geographical concentrations of on-balance sheet and off-balance sheet with credit risk exposure *...continued*

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean Territories $	Total $
As of June 30, 2021					
Cash and balances with Central Bank	28,741	–	–	–	28,741
Treasury bills	70,708	–	–	–	70,708
Deposits with other financial institutions	39,516	360,859	36,616	4,200	441,191
Financial asset	566,505	–	–	–	566,505
Loans and advances to customers	792,510	67,493	2,232	5,210	867,445
Originated debts	23,759	–	–	86,553	110,312
Debt investment securities	–	70,448	1,872	–	72,320
Acceptances, guarantees and letters of credit	6,375	–	–	–	6,375
Other assets	17,241	2,233	–	–	19,474
	1,545,355	**501,033**	**40,720**	**95,963**	**2,183,071**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.4 Concentration of risks of financial assets with credit exposure

The following tables break down the Group's main credit exposures at their carrying amounts, as categorised by industry sectors of the counterparties:

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2022							
Cash and balances with Central Bank	–	–	–	30,653	–	–	30,653
Treasury bills	71,253	–	–	–	–	–	71,253
Deposits with other financial institutions	30,398	–	–	534,081	–	–	564,479
Financial asset	360,794	–	–	–	–	–	360,794
Loans and advances to customers	257,500	105,644	196,769	42,470	256,285	105,921	964,589
Originated debts	110,015	–	–	44,196	–	–	154,211
Debt investment securities	4,891	483	–	25,927	–	20,039	51,340
Acceptances, guarantees and letters of credit	2,466	–	–	–	–	4,075	6,541
Other assets	336	–	–	17,170	777	1,541	19,824
	837,653	**106,127**	**196,769**	**694,497**	**257,062**	**131,576**	**2,223,684**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

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

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2021							
Cash and balances with Central Bank	–	–	–	28,741	–	–	28,741
Treasury bills	70,708	–	–	–	–	–	70,708
Deposits with other financial institutions	30,349	–	–	410,842	–	–	441,191
Financial asset	566,505	–	–	–	–	–	566,505
Loans and advances to customers	252,725	91,230	174,125	9,651	235,188	104,526	867,445
Originated debts	109,318	–	–	994	–	–	110,312
Debt investment securities	5,026	72	–	45,406	–	21,816	72,320
Acceptances, guarantees and letters of credit	2,299	–	–	–	–	4,076	6,375
Other assets	64	–	–	16,263	744	2,403	19,474
	1,036,994	**91,302**	**174,125**	**511,897**	**235,932**	**132,821**	**2,183,071**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1.4 Concentration of risks of financial assets with credit exposure *…continued*

The Government of St. Kitts and Nevis accounts for $595,292 (2021: $769,599) or 27% (2021: 35%) of total credit exposure, which represents a significant concentration of credit risk. The amounts due from the Government are included in the Public Sector category.

3.2 Market risk

The Group is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of the market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Group's exposure to market risks primarily arise from the interest rate management of the Group's retail and commercial Banking assets and liabilities, debt investment securities and equity risks arising from its FVOCI investments.

3.2.1 Price risk

The Group is exposed price risk in respect to its investment securities classified on the consolidated statement of financial position as FVTPL (note 10). If the quoted stock price for these securities increased or decreased by 10%, profit or loss and accumulated deficit would have changed by $110,817 (2021: $127,073).

The investments in listed securities classified on the consolidated statement of financial position as FVOCI are considered long-term strategic investments. The performance of these investments is continuously monitored.

3.2.2 Foreign exchange risk

The Group is exposed to foreign exchange risk through fluctuation in certain prevailing foreign exchange rates on its consolidated financial position and cash flows. The Board of Directors limits the level of exposure by currency and in total which are monitored daily. The Group's exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The Group uses the mid-rate of exchange ruling on that day to convert all assets and liabilities in foreign currencies to Eastern Caribbean dollars (EC$). The Group has set the mid-rate of exchange rate of the Eastern Caribbean (EC$) to the United States dollar (US$) at EC$2.7026 = US$1.00 since 1976.

The following table summarises the Group's exposure to foreign currency exchange rate risk at the reporting date. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.2 Market risk *...continued*

3.2.2 Foreign exchange risk *...continued*

Concentration of currency risk

As of June 30, 2022	XCD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	213,865	5,096	16	9	24	7	–	219,017
Treasury bills	71,253	–	–	–	–	–	–	71,253
Deposits with other financial institutions	48,240	510,541	1,213	2,515	1,357	592	21	564,479
Loans and advances to customers	566,187	398,402	–	–	–	–	–	964,589
Originated debts	34,011	120,200	–	–	–	–	–	154,211
Acceptances, guarantees and letters of credit	6,541	–	–	–	–	–	–	6,541
Investment securities – FVOCI	9,616	52,859	–	–	–	–	–	62,475
Investment securities – FVTPL	863	1,107,303	–	–	–	–	–	1,108,166
Financial asset	360,794	–	–	–	–	–	–	360,794
Other assets	19,442	380	–	–	2	–	–	19,824
Total financial assets	**1,330,812**	**2,194,781**	**1,229**	**2,524**	**1,383**	**599**	**21**	**3,531,349**
Liabilities								
Customers' deposits	2,339,797	499,619	142	24	244	–	–	2,839,826
Borrowings	–	21,164	–	–	–	–	–	21,164
Lease liabilities	1,549	–	–	–	–	–	–	1,549
Acceptances, guarantees and letters of credit	6,541	–	–	–	–	–	–	6,541
Accumulated provisions, creditors and accruals	206,966	69,494	43	512	67	204	2	277,288
Total financial liabilities	**2,554,853**	**590,277**	**185**	**536**	**311**	**204**	**2**	**3,146,368**
Net on–balance sheet	**(1,224,041)**	**1,604,504**	**1,044**	**1,988**	**1,072**	**395**	**19**	**384,981**
Credit commitments	**33,440**	**34,760**	**–**	**–**	**–**	**–**	**–**	**68,200**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.2 Market risk *...continued*

3.2.2 Foreign exchange risk *...continued*

Concentration of currency risk *...continued*

As of June 30, 2021	XCD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	208,267	5,681	20	40	31	27	–	214,066
Treasury bills	70,708	–	–	–	–	–	–	70,708
Deposits with other financial institutions	42,328	393,288	1,279	1,636	1,890	749	21	441,191
Loans and advances to customers	540,400	327,045	–	–	–	–	–	867,445
Originated debts	70,982	39,330	–	–	–	–	–	110,312
Acceptances, guarantees and letters of credit	6,375	–	–	–	–	–	–	6,375
Investment securities – FVOCI	9,585	70,941	–	–	–	–	–	80,526
Investment securities – FVTPL	919	1,269,807	–	–	–	–	–	1,270,726
Financial asset	566,505	–	–	–	–	–	–	566,505
Other assets	16,924	2,548	–	–	2	–	–	19,474
Total financial assets	**1,532,993**	**2,108,640**	**1,299**	**1,676**	**1,923**	**776**	**21**	**3,647,328**
Liabilities								
Customers’ deposits	2,198,827	395,970	215	44	262	–	–	2,595,318
Borrowings	–	42,942	–	–	–	–	–	42,942
Lease liabilities	1,909	–	–	–	–	–	–	1,909
Acceptances, guarantees and letters of credit	6,375	–	–	–	–	–	–	6,375
Accumulated provisions, creditors and accruals	209,067	35,637	44	509	58	156	2	245,473
Total financial liabilities	**2,416,178**	**474,549**	**259**	**553**	**320**	**156**	**2**	**2,892,017**
Net on–balance sheet	**(883,185)**	**1,634,091**	**1,040**	**1,123**	**1,603**	**620**	**19**	**755,311**
Credit commitments	**38,372**	**24,294**	**–**	**–**	**–**	**–**	**–**	**62,666**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.2 Market risk *...continued*

3.2.3 Interest rate risk

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

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

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.2 Market risk *...continued*

3.2.3 Interest rate risk *...continued*

As of June 30, 2022	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non–interest bearing $	Total $
Assets							
Cash and balances with Central Bank	–	–	–	–	–	219,017	219,017
Treasury bills	12,957	3,196	54,679	–	–	421	71,253
Deposit with other financial institutions	97,001	40,497	175,487	44,872	–	206,622	564,479
Loans and advances to customers	346,482	411	2,549	63,153	551,758	236	964,589
Originated debts	–	38,860	39,950	50,717	23,726	958	154,211
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,541	6,541
Investment securities – FVOCI	–	–	220	29,154	13,918	19,183	62,475
Investment securities – FVTPL	–	–	1,793	2,022	–	1,104,351	1,108,166
Financial asset	–	–	–	351,458	–	9,336	360,794
Other assets	567	–	–	–	–	19,257	19,824
Total financial assets	**457,007**	**82,964**	**274,678**	**541,376**	**589,402**	**1,585,922**	**3,531,349**
Liabilities							
Customers' deposits	791,947	213,730	921,851	–	–	912,298	2,839,826
Borrowings	–	–	–	21,164	–	–	21,164
Lease liabilities	64	128	577	742	38	–	1,549
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,541	6,541
Accumulated provisions, creditors and accruals	–	–	–	–	–	277,288	277,288
Total financial liabilities	**792,011**	**213,858**	**922,428**	**21,906**	**38**	**1,196,127**	**3,146,368**
Total interest repricing gap	**(335,004)**	**(130,894)**	**(647,750)**	**519,470**	**589,364**	**389,795**	**384,981**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.2 Market risk *...continued*

3.2.3 Interest rate risk *...continued*

As of June 30, 2021	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non–interest bearing $	Total $
Assets							
Cash and balances with Central Bank	–	–	–	–	–	214,066	214,066
Treasury bills	11,427	3,070	55,797	–	–	414	70,708
Deposit with other financial institutions	133,501	–	27,182	44,865	–	235,643	441,191
Loans and advances to customers	340,255	275	3,829	60,011	462,808	267	867,445
Originated debts	13,504	–	7,999	25,204	62,907	698	110,312
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,375	6,375
Investment securities – FVOCI	1	880	1,420	12,346	19,559	46,320	80,526
Investment securities – FVTPL	15,472	–	9,012	4,213	–	1,242,029	1,270,726
Financial asset	–	–	–	556,487	–	10,018	566,505
Other assets	339	–	–	–	–	19,135	19,474
Total financial assets	**514,499**	**4,225**	**105,239**	**703,126**	**545,274**	**1,774,965**	**3,647,328**
Liabilities							
Customers' deposits	767,377	179,506	930,314	–	–	718,121	2,595,318
Borrowings	42,942	–	–	–	–	–	42,942
Lease liabilities	68	135	606	1,044	56	–	1,909
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,375	6,375
Other liabilities	–	–	–	–	–	245,473	245,473
Total financial liabilities	**810,387**	**179,641**	**930,920**	**1,044**	**56**	**969,969**	**2,892,017**
Total interest repricing gap	**(295,888)**	**(175,416)**	**(825,681)**	**702,082**	**545,218**	**804,996**	**755,311**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.2 Market risk *...continued*

3.2.3 Interest rate risk *...continued*

The Group's fair value market rate risk arises from debt securities classified as fair value through other comprehensive income and fair value through profit or loss. Had market interest rates at the reporting date been 100 basis points higher/lower with all variables held constant, equity for the year would have been $475 (2021: $411) lower/higher as a result of the decrease/increase in revaluation reserve for fair value through other comprehensive income debt securities and profit or loss for the year would have been 38 (2021: $287) lower/higher due to an decrease/increase in fair value of debt securities measured at fair value through profit or loss.

Cash flow interest rate risk arises from loans and advances to customers at available rates. Had variable rates at the reporting date been 100 basis points higher/lower with all other variables held constant, profits for the year would have been 4,223 (2021: $3,814) higher/lower, mainly as a result of higher/lower interest income from loans and advances (all loans and advances carry variable interest rates).

3.3 Liquidity risk

Liquidity risk is the risk that the Group 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 fulfil commitments to lend.

3.3.1 Liquidity risk management

The Group's liquidity is managed and monitored by the Comptroller Division with guidance, where necessary, from the Board of Directors. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This includes:

- Daily monitoring of the Group's liquidity position to ensure that requirements can be met. These include the replenishment of funds as they mature and/or are borrowed by customers.

- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against unforeseen liquidity problems. Additionally, the investment portfolio is diversified by geography, product, industry, and term.

- Daily monitoring of the statement of financial position liquidity ratios against internal and regulatory requirements.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.3 Liquidity risk *...continued*

3.3.1 Liquidity risk management *...continued*

- Managing the concentration and profile of debt maturities.

- Formalised arrangements with non-regional financial institutions to fund any liquidity needs that may arise.

3.3.2 Funding approach

Sources of liquidity are regularly reviewed to maintain a wide diversification of geography, currency, providers, products and terms. The Group holds a diversified portfolio of cash loans and investment securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets held for managing liquidity risk include the following:

- Cash and balances with Central Bank;
- Deposits with other financial institutions;
- Loans and advances to customers
- Treasury bills;
- Originated debts;
- Investment securities;
- Financial asset;
- Acceptances, guarantees and letters of credit; and
- Other assets.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.3 Liquidity risk *...continued*

3.3.3 Cash flows

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

As of June 30, 2022	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $
Financial liabilities						
Customers' deposits	1,691,503	218,259	954,797	–	–	2,864,559
Borrowings	21,164	–	–	–	–	21,164
Lease liabilities	67	134	602	770	39	1,612
Acceptances, guarantees and letters of credit	–	–	–	–	6,541	6,541
Other liabilities	263,989	13,299	–	–	–	277,288
Total financial liabilities	**1,976,723**	**231,692**	**955,399**	**770**	**6,580**	**3,171,164**
Assets held to manage liquidity risk	**2,042,929**	**82,964**	**274,678**	**541,376**	**589,402**	**3,531,349**
Net liquidity gap	**66,206**	**(148,728)**	**(680,721)**	**540,606**	**582,822**	**360,185**
As of June 30, 2021						
Financial liabilities						
Customers' deposits	1,474,655	183,611	963,858	–	–	2,622,124
Borrowings	42,942	–	–	–	–	42,942
Lease liabilities	71	143	642	1,090	58	2,004
Acceptances, guarantees and letters of credit	–	–	6,375	–	–	6,375
Other liabilities	225,103	20,370	–	–	–	245,473
Total financial liabilities	**1,742,771**	**204,124**	**970,875**	**1,090**	**58**	**2,918,918**
Assets held to manage liquidity risk	**2,289,464**	**4,225**	**105,239**	**703,126**	**545,274**	**3,647,328**
Net liquidity gap	**546,693**	**(199,899)**	**(865,636)**	**702,036**	**545,216**	**728,410**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.3 Liquidity risk *...continued*

3.3.4 Off-balance sheet items

Loan commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (note 31), are summarised in the table below.

	Up to 1 year $	1 to 3 years $	Over 3 years $	Total $
As of June 30, 2022				
Loan commitments	8,823	88	45,287	54,198
Credit card commitments	14,002	–	–	14,002
	22,825	**88**	**45,287**	**68,200**
As of June 30, 2021				
Loan commitments	8,242	1,622	40,435	50,299
Credit card commitments	12,367	–	–	12,367
	20,609	**1,622**	**40,435**	**62,666**

3.4 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

To limit the Group's exposure of potential loss on an insurance policy, the Group ceded certain levels of risk to a reinsurer. The Group selects reinsurers which have a well-established capability to meet their contractual obligations, and which generally have high credit ratings.

For its property risks, the Group uses quota share and excess of loss catastrophe reinsurance treaties to obtain reinsurance coverage. Catastrophe reinsurance is obtained for multiple claims arising from one event or occurring within a specified time period. However, treaty limits may apply and may expose the insurer to further claims exposure.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefits payments exceed the carrying amount of the insurance liabilities. This could occur because of the frequency or severity of claims and if benefits payments are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.4 Insurance risk *...continued*

The concentration of insurance risk before and after reinsurance by risk category is summarised below, with reference to the carrying amount of the insurance liabilities (gross and net of reinsurance) arising from insurance contracts:

	Gross liability		Reinsurers' share		Net liability	
	2022	2021	2022	2021	2022	2021
	$	$	$	$	$	$
St. Kitts	**7,943**	5,970	**–**	–	**7,943**	5,970
Nevis	**577**	463	**–**	–	**577**	463
Anguilla	**873**	664	**–**	–	**873**	664
	9,393	7,097	**–**	–	**9,393**	7,097
Health & Life	**4,741**	3,521	**–**	–	**4,741**	3,521
Motor	**3,373**	3,255	**–**	–	**3,373**	3,255
Property	**1,279**	321	**–**	–	**1,279**	321
	9,393	7,097	**–**	–	**9,393**	7,097

i) Property insurance

Property insurance contracts are underwritten using the following main risk categories: fire, business interruption, weather damage and theft.

Frequency and severity of claims
For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, flooding, hurricanes, earthquake, etc.), increase the frequency and severity of claims and their consequences. The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The Group has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from fire, hurricane, and earthquake damage. The Group has reinsurance cover for such damage to limit losses to $0.50 million (2021: $0.50 million) in any one occurrence, per individual property risk.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.4 Insurance risk *...continued*

i) Property insurance ...continued

Sources of uncertainty in the estimation of future claim payments
Claims on property contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract even if the loss is discovered after the end of the contract term. There are several variables that affect the amount and timing of cash flows from these contracts. The compensation paid on these contracts is the monetary awards granted for property damage caused by insured perils as stated in the contract of insurance.

The estimated costs of claims include direct expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Property claims are less sensitive as the shorter settlement period for these claims allows the Group to achieve a higher degree of certainty about the estimated cost of claims. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for incurred but not reported (IBNR) and a provision for reported claims not yet paid (outstanding claims) at the reporting date.

ii) Casualty insurance

The Group's casualty insurance is motor, marine and liability insurance.

Frequency and severity of claims
The frequency and severity of claims can be affected by several factors. The most significant is the number of cases coming to Court that have been inactive or latent for a long period of time. Estimated inflation is also a significant factor due to the long period required to settle these cases.

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Furthermore, the Group's strategy limits the total exposure to the Group only by the use of reinsurance treaty arrangements. The reinsurance arrangements include excess of loss cover. The effect of such reinsurance arrangements is that the Group should not suffer total net insurance loss of more than $0.30 million (2021: $0.30 million) per risk for casualty insurance.

Sources of uncertainty in the estimation of future claim payments
Claims on casualty contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract even if the loss is discovered after the end of the contract term. As a result, casualty and financial risk claims are settled over a longer period of time. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employers' liability covers). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur because of the accident.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *…continued*

3.4 Insurance risk *…continued*

ii) Casualty insurance …continued

Sources of uncertainty in the estimation of future claim payments*…continued*
The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for incurred but not reported (IBNR) and a provision for reported claims not yet paid (outstanding claims) and a provision for unexpired risks at the reporting date. The Group's IBNR loss reserves are derived using paid loss development estimation method (triangular method). Each business classes' IBNR was calculated using claims data and loss history. The quantum of casualty claims is particularly sensitive to the level of Court awards and to the development of legal precedent on matters of contract and tort.

iii) Life insurance contracts

The Group is exposed to potential loss on its life insurance policies from the possibility that an insured event occurs. The Group has no reinsurance on its life insurance contracts. Hence, this risk is fully borne by the Group.

iv) Claims development

The Group employs loss (claims) development tables as a means of measuring actual claims compared with previous estimates. Claims are typically resolved within one year and are assessed on a case-by-case basis. The claims that tend to extend beyond one year are normally from the Accident line of business and to a lesser extent, the Motor line.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.4 Insurance risk *...continued*

iv) Claims development ...continued

Claims reserve for the individual event years at the respective reporting dates (gross)

EC$					Event year						
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Date	$	$	$	$	$	$	$	$	$	$	$
30/6/2013	7,911	–	–	–	–	–	–	–	–	–	7,911
30/6/2014	3,962	2,707	–	–	–	–	–	–	–	–	6,669
30/6/2015	2,771	358	3,385	–	–	–	–	–	–	–	6,514
30/6/2016	1,638	561	358	3,455	–	–	–	–	–	–	6,012
30/6/2017	1,142	380	212	256	3,244	–	–	–	–	–	5,234
30/6/2018	971	343	114	205	474	5,632	–	–	–	–	7,739
30/6/2019	115	331	61	145	417	1,102	4,146	–	–	–	6,317
30/6/2020	83	40	61	145	417	972	437	3,174	–	–	5,329
30/6/2021	83	40	19	145	342	816	719	680	4,253	–	7,097
30/6/2022	78	40	19	152	345	514	300	543	610	6,792	9,393

Claims reserves are made up as follows (see note 18):

	$
Outstanding claims – Life	**1,407**
Outstanding claims – Non-life	**5,429**
Claims IBNR – Non-life	**2,557**
	9,393

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.5 Fair values of financial assets and liabilities

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable willing parties who are under no compulsion to act and is best evidenced by a quoted market value if one exists. 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, items in transit are assumed to approximate their carrying values due to their short-term nature. The fair values of off-balance sheet commitments are also assumed to approximate the amount disclosed in note 31. Fair values of financial assets and financial liabilities are also determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with pricing models based on discounted cash flow analysis using prices from observable current market transactions.

i) Treasury bills

Treasury bills are assumed to approximate their carrying value due to their short-term nature.

ii) Deposits with other financial institutions

Deposits with other financial institutions include cash on operating accounts fixed deposits. These deposits are estimated to approximate their carrying values due to their short-term nature.

iii) Loans and advances to customers and originated debts

The estimated fair values of loans and advances to customers and originated debts represent the discounted amount of estimated future cash flow expected to be received. Expected cash flows are discounted at current market rate to determine fair value. Initial loan values are taken as fair value and where observed values are different, adjustments are made.

iv) Customers' deposits

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

v) Borrowings

The estimated fair value of 'borrowings' is the amount payable on demand.

vi) Acceptances, guarantees and letters of credit

Acceptances, guarantees and letters of credit are short-term in nature therefore fair value in this category is estimated to approximate carrying value.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

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

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

	Carrying value		Fair value	
	2022	**2021**	**2022**	**2021**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with Central Bank	**219,017**	214,066	**219,017**	214,066
Treasury bills	**71,253**	70,708	**71,253**	70,708
Deposits with other financial institutions	**564,479**	441,191	**564,479**	441,191
Financial asset	**360,794**	566,505	**360,794**	566,505
Loans and advances to customers	**964,589**	867,445	**914,994**	818,266
Originated debts	**154,211**	110,312	**154,211**	110,312
Acceptances, guarantees and letters of credit	**6,541**	6,375	**6,541**	6,375
Other assets	**19,824**	19,474	**19,824**	19,474
	2,360,708	2,296,076	**2,311,113**	2,246,897
Financial liabilities				
Customers' deposits	**2,839,826**	2,595,318	**2,839,826**	2,595,318
Borrowings	**21,164**	42,942	**21,164**	42,942
Lease liabilities	**1,549**	1,909	**1,549**	1,909
Acceptances, guarantees and letters of credit	**6,541**	6,375	**6,541**	6,375
Other liabilities	**277,288**	245,473	**277,288**	245,473
	3,146,368	2,892,017	**3,146,368**	2,892,017

3.5.1 Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial and non-financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observed. No transfers occurred between the levels of the securities during the year.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair values measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks*...continued*

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

3.5.2 Fair value measurements of FVTPL and FVOCI investment securities

As of June 30, 2022	Level 1 $	Level 2 $	Level 3 $	Total $
Debt securities	45,844	–	5,496	51,340
Equities	1,057,696	17,270	44,335	1,119,301
	1,103,540	**17,270**	**49,831**	**1,170,641**
As of June 30, 2021				
Debt securities	36,673	–	35,647	72,320
Equities	1,225,382	17,976	35,574	1,278,932
	1,262,055	**17,976**	**71,221**	**1,351,252**

3.5.3 Fair value measurements of non-financial assets

The following table shows the level within the hierarchy of non-financial assets measured at fair value:

	Level 1 $	Level 2 $	Level 3 $	Total $
As of June 30, 2022				
Land and buildings	**–**	–	**33,167**	**33,167**
As of June 30, 2021				
Land and buildings	–	–	32,990	32,990

The fair value of the Group's land and buildings included in property, plant and equipment is estimated based on appraisals performed by an independent property valuer. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the Board of Directors. The appraisal was carried out primarily using a market based approach that reflects the selling prices for similar properties and incorporates adjustments for factors specific to the properties in question, including square footage, location and current condition/use.

3.6 Capital management

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

- To comply with the capital requirement set by the Central Bank;
- To safeguard the Group'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 Group's management, employing techniques based on the guidelines developed by the Central Bank for supervisory purposes.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.6 Capital management *...continued*

In addition, there are also capital requirements for the insurance business based on the Insurance Act No. 8 of 2009. According to the Act, the required paid-up capital is $2,000 (2021: $2,000). The Group has met this capital requirement for its insurance business.

The Central Bank requires each Group or Banking group to: (a) hold the minimum level of the regulatory capital of $20,000 and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the international agreed minimum of 8%.

The commercial Group's regulatory capital as managed by management is divided into two tiers:

- Tier 1 Capital: share capital, retained earnings and reserves created by appropriation of retained earnings.
- Tier 2 Capital: qualifying subordinated loan capital, collective impairment allowance and unrealised gains arising on the fair valuation of security instruments held as FVOCI.

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.

The table below summarises the composition of regulatory capital and the ratios of the Group for the two-year presentation. During those two years, the Group complied with all of the externally imposed capital requirements to which it must comply.

	2022 $	2021 $
Tier 1 capital		
Issued share capital	**141,750**	135,000
Share premium	**3,877**	3,877
Issued bonus shares from capitalisation of unrealised assets revaluation gain reserve	**(4,500)**	(4,500)
Reserves	**451,757**	383,115
Add fair value reserves – FVOCI	**7,533**	9,666
Less revaluation reserve	**(25,924)**	(25,924)
(Accumulated deficit)/retained earnings	**(122,190)**	290,777
Total qualifying tier 1 capital	**452,303**	792,011
Tier 2 capital		
Fair value reserves – FVOCI	**(7,533)**	(9,666)
Revaluation reserve	**25,924**	25,924
Bonus shares capitalisation	**4,500**	4,500
Total qualifying tier 2 capital	**22,891**	20,758
Total regulatory capital	**475,194**	812,769

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.6 Capital management *...continued*

	2022 $	2021 $
Risk-weighted assets:		
On-balance sheet	**1,980,867**	2,022,399
Off-balance sheet	**58,228**	52,543
Total risk-weighted assets	**2,039,095**	2,074,942
Tier 1 capital ratio	**22%**	38%
Basel ratio	**23%**	39%

4 Critical accounting estimates and judgements

The Group's consolidated financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements. Estimates and judgments 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. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates that have a significant risk of causing material adjustments to the carrying amounts of assets within the next financial year are discussed below:

i) Fair value of financial instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Group's financial assets at FVOCI and FVTPL and the amounts of fair value changes recognised on those assets are disclosed in Note 10.

(expressed in thousands of Eastern Caribbean dollars)

4 Critical accounting estimates and judgements *…continued*

ii) Testing of cash flow characteristics of financial assets and continuing evaluation of the business model

In determining the classification of financial assets, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortised cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, IFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortised cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

iii) 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 earlier detailed, which also sets out key sensitivities of the ECL to changes in these elements.

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

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out before in note 3.1.2 "Impairment and provisioning".

(expressed in thousands of Eastern Caribbean dollars)

4 Critical accounting estimates and judgements *...continued*

iii) Measurement of the expected credit loss allowance ...continued

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences in estimates and actual loss experienced. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision for loans and advances to customers would be estimated as $8,500 lower or $8,888 higher (2021: $8,505 lower or $8,737 higher).

iv) Estimate of insurance actuarial liabilities

The Group issues whole life, limited payment life, endowment, term insurance, health and medical insurance policies. The estimation of the actuarial liabilities arising under these insurance contracts is dependent on estimates made by the Group. The estimate is subject to several sources of uncertainty that need to be considered in determining the future benefit payments.

i. Mortality – Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to the risk. The Group bases these estimates on the UK A67/70 for assured lives. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments. An increase in the rate of mortality will lead to a larger number of claims, resulting in lower income. Were the mortality rate to differ by +/-10% from management’s estimate, the actuarial liabilities would decrease by approximately $6,049 or increase by approximately $5,041.

ii. Discount rate – Estimates are also made as to the discount rate use in the valuation of the insurance plans to determine the actuarial liabilities. A net rate of 3.4% (2021: 2.9%) was used as the discount rate in the valuation of insurance plans having a reversionary bonus, which is used to distribute profits to the policies. A net rate of 4.15% (2021: 3.65%) is used in the valuation for plans which do not participate in profits. Were the discount rate to differ by +/-50 basis points from management’s estimate, the actuarial liabilities would decrease by approximately $8,612 or increase by approximately $13,626.

v) Estimate of outstanding claims

The estimation of the ultimate liability arising from claims incurred under property and casualty insurance contracts is subject to several sources of uncertainty that need to be considered in determining the amount that the insurer will ultimately pay for such claims. Provisions are made at the year-end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. These are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions, economic conditions, and changes in medical condition of claimants.

(expressed in thousands of Eastern Caribbean dollars)

4 Critical accounting estimates and judgements *…continued*

v) Estimate of outstanding claims …continued

The estimation of the ultimate liability arising from claims incurred under property and casualty insurance contracts is subject to several sources of uncertainty that need to be considered in determining the amount that the insurer will ultimately pay for such claims. Provisions are made at the year-end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. These are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions, economic conditions and changes in medical condition of claimants.

However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported (“IBNR”) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claims has happened.

If the IBNR rates were adjusted by +/-1%, the change in the statement of comprehensive income would be to decrease or increase reported profits by approximately -/+$93.

Management engages loss adjusters and independent actuaries, either to assist in making or to confirm the estimate of claim liabilities. The ultimate liability arising from claims incurred under property and casualty insurance contracts may be mitigated by recovery arising from reinsurance contracts held.

vi) Pension benefits

The present value of the defined benefit pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group 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 Group considers the interest rates of high-quality corporate bonds 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 obligation. Additional information is disclosed in note 34.

(expressed in thousands of Eastern Caribbean dollars)

4 Critical accounting estimates and judgements *...continued*

vii) Estimation of current and deferred income taxes

Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group 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 current and deferred income tax assets and liabilities in the period in which such determination is made.

The extent to which deferred tax assets and tax credits can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. The estimated deferred tax asset and tax credit may vary from the actual amounts recovered in the future.

5 Cash and balances with Central Bank

	2022 $	**2021 $**
Cash on hand	**18,606**	13,970
Balances with Central Bank other than mandatory deposits	**30,653**	28,741
Included in cash and cash equivalents (note 33)	**49,259**	42,711
Mandatory deposits with Central Bank	**169,758**	171,355
	219,017	214,066

The Group is required to maintain an Automated Clearing Housing (ACH) collateral amount with the Central Bank. This amount can be in the form of cash and/or ECCU member Government securities issued on the Regional Government Securities Market. The Group’s collateral amount held with the Central Bank at June 30, 2022 amounted to $11,528 (2021: $10,022).

Commercial banks are also required under Section 57 of the Banking Act, 2015 to maintain a reserve deposit with the Central Bank equivalent to 6 percent of their total customer deposits. This reserve deposit is not available to finance the Group’s day-to-day operations.

Cash and balances with Central Bank, which include mandatory and ACH collateral deposits are not interest bearing.

(expressed in thousands of Eastern Caribbean dollars)

6 Treasury bills

	2022 $	2021 $
Treasury bills	**70,844**	70,335
Interest receivable	**421**	414
Treasury bills, gross	**71,265**	70,749
Less: provision for expected credit losses	**(12)**	(41)
Total treasury bills, net	**71,253**	70,708

Treasury bills are held with the Government of Saint Kitts and Nevis with maturities of 90 days to one year. The treasury bills included in cash and cash equivalents as at June 30, 2022 amounted to $13,282 (2021: $12,765) (see note 33). Interest on treasury bills is accrued at an interest rate of 4.0% (2021: 4.0%).

The movement in the treasury bills during the year is as follows:

	2022 $	2021 $
Balance at beginning of year	**70,708**	69,898
Additions	**70,843**	55,309
Disposals (sales/redemptions)	**(70,334)**	(54,818)
Impairment recovery during the year, net	**29**	313
Movement of interest receivable	**7**	6
Balance at end of year	**71,253**	70,708

The movement in the provision for expected credit losses is as follows:

	2022 $	2021 $
Balance at beginning of year	**41**	354
Expected credit recoveries during the year, net	**(29)**	(313)
Balance at end of year	**12**	41

(expressed in thousands of Eastern Caribbean dollars)

7 Deposits with other financial institutions

	2022 $	2021 $
Operating cash balances	**273,227**	346,985
Interest bearing term deposits	**205,255**	14,751
Items in the course of collection	**8,488**	1,945
Included in cash and cash equivalents (note 33)	**486,970**	363,681
Interest bearing term deposits	**32,329**	32,295
Restricted term deposits	**44,872**	44,865
	564,171	440,841
Interest receivable	**947**	491
Total deposits with other financial institutions, gross	**565,118**	441,332
Less: provision for expected credit losses	**(639)**	(141)
Total deposits with other financial institutions, net	**564,479**	441,191

The operating balances earn interest at rates of 0% to 4% (2021: 0% to 3.25%). The amounts held in these accounts are to facilitate the short-term commitments and day-to-day operations of the Group.

Restricted term deposits are interest bearing fixed deposits collateral used in the Group's international business operations. These deposits are not available for use in the day-to-day operations of the Group.

Interest earned on restricted term deposits is credited to the consolidated statement of income. The effective interest rate on 'Deposits with other financial institutions' at June 30, 2022 was 2.45% (2021: 1.76%).

Interest bearing term deposits are interest bearing which earn interest at a rate of 1.05% to 3.35% per annum (2021: 1.5% to 3.25%) and have original terms of maturity of 62 days to one year ending within the period July 11, 2022 to June 29, 2023 (2021: July 2021 to June 2022).

The movement in expected credit losses is as follows:

	2022 $	2021 $
Balance at beginning of year	**141**	316
Expected credit losses/(recoveries) during the year, net	**498**	(175)
Balance at end of year	**639**	141

(expressed in thousands of Eastern Caribbean dollars)

8 Loans and advances to customers

	2022 $	2021 $
Performing		
Demand	**401,041**	320,541
Mortgages	**134,187**	125,279
Other secured	**23,743**	24,470
Overdrafts	**17,430**	13,116
Credit cards	**9,233**	8,954
Consumer	**5,744**	3,992
Under-performing		
Demand	**5,257**	3,615
Mortgages	**2,351**	6,672
Other secured	**12**	346
Credit cards	**455**	373
Consumer	**158**	166
Non-performing	**443,865**	430,686
Interest receivable	**1,920**	1,828
Total loans and advances to customers, gross	**1,045,396**	940,038
Less: provision for expected credit losses	**(80,807)**	(72,593)
Total loans and advances to customers, net	**964,589**	867,445
Current	**349,678**	344,626
Non-current	**614,911**	522,819
	964,589	867,445

The weighted average effective interest rate on performing loans and advances excluding overdrafts at June 30, 2022 was 5.78% (2021: 6.19%) and on overdrafts was 5.80% (2021: 6.52%).

The movement in the provision for expected credit losses is as follows:

	2022 $	2021 $
Balance at beginning of year	**72,593**	97,763
Expected credit losses during the year, net (note 26)	**8,239**	21,722
Write offs	**(25)**	(46,892)
Balance at end of year	**80,807**	72,593

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debts

	2022 $	2021 $
Local sovereign bonds	**23,731**	22,783
Regional sovereign bonds	**49,155**	49,870
Certificates of participation	**–**	36,243
International corporate bond	**80,454**	–
Local corporate bond	**–**	1,000
	153,340	109,896
Interest receivable	**958**	697
Total originated debts, gross	**154,298**	110,593
Less: provision for expected credit losses	**(87)**	(281)
Total originated debts, net	**154,211**	110,312
Current	**79,768**	14,202
Non-current	**74,443**	96,110
	154,211	110,312

Originated debts are bonds held with sovereigns in the Eastern Caribbean Currency Union (ECCU), certificates of participation in the Government of Antigua and Barbuda, bonds in a regional financial institution and international financial institutions as well as short term commercial paper in an international financial institution.

i) Local and regional sovereign bonds

The Group has certain investment securities which comprise of fixed rate bonds held with sovereigns in the ECCU. Bonds yield interest at rates of 1.50% - 6.75% (2021: 1.5% – 6.75%). Bonds have terms ranging from 3 months to 35 years (2021: 2 – 45 years) and will mature between September 10, 2022 and April 18, 2057 (2021: July 17, 2021 and April 18, 2057) and pay semi-annual coupon interest payments until maturity.

ii) Certificates of participation in the Government of Antigua and Barbuda 7-Year Long Term Note

The Group placed funds on deposit with ABI Group Limited (ABIB). These deposits were placed with ABIB, which at the time was facing serious liquidity challenges, at the request of the ECCB, having regard to the contagion effect on the ECCU and the Group that would result if ABIB were unable to mitigate its liquidity risks.

By April 28, 2010, the Group had placed total deposits of $32,000 with ABIB. On May 7, 2010, these deposits, along with an additional $6,710 were used to purchase from ABIB a series of certificates of participation (COPs) in the cash flows from a Long-Term Note issued by the Government of Antigua and Barbuda (GoAB), which had been securitised by ABIB.

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debts *…continued*

ii) Certificates of participation in the Government of Antigua and Barbuda 7-Year Long Term Note …continued

On July 22, 2011, ECCB was directed by the Monetary Council to exercise the special emergency powers conferred on it by Part IIA, Article 5B of the ECCB Agreement Act 1983 to assume control of ABIB. During the years of ECCB's control of ABIB, the Group received an annual confirmation from ECCB of the total outstanding amounts of the COPs, with the stated objective of stabilising the operations of ABIB so that all obligations would be settled in the normal course of business. ABIB was placed in receivership on November 27, 2015 by ECCB.

On July 11, 2019, the Group wrote to Caribbean Financial Services Corporation informing them that the Group intends to exercise its rights under clause 9.2 of the Trust Deed to bring proceedings against the Government of Antigua and Barbuda and/or any holder of the proceeds of the Long-Term Note.

As at June 30, 2021, the Group's interest under the COP's amounted to $36,243. All of the COP's have now matured and are past due.

As of June 30, 2022, the Group's Financial Statements no longer show an interest under COPs. A decision was made and approved by the new Board of Directors to have the COPs which amounted to $36,242,620 at the start of the financial year 2021/22, written-off at the end of the financial year ended June 30, 2022.

The Group will continue to pursue its entitlement under the COPs through ongoing legal action to recover its interest. The Group's external legal counsel team was buttressed by the retention of legal counsel out of the United Kingdom, who the Group was advised is an expert in this particular area of the law.

The Group continues to rely on the expert legal advice received thus far as it pertains to the prospects of enforcing recovery and anticipated settlement.

iii) Local corporate bond

The Group holds a bond with Eastern Caribbean Home Mortgage Bank which is denominated in Eastern Caribbean Dollars and which yielded an interest rate of 2.7% (2021: 2.7%). The bond matured on May 4, 2022 and no reinvestment was made in this bond at the end of the financial year

iv) International corporate bond

The Group held various bonds with Wells Fargo which are denominated in United States Dollars and which yielded an average interest rate of 1.90%. The bonds have maturity dates ranging from September 29, 2022 – June 9, 2025.

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debts*...continued*

The movement in the originated debts during the year is as follows:

	2022 $	2021 $
Balance at beginning of year	**110,312**	136,597
Additions	**121,902**	40,793
Disposals (sales/redemptions)	**(42,215)**	(67,660)
Direct write-offs during the year (note 26)	**(36,243)**	–
Expected credit recoveries during the year, net	**194**	734
Movement in interest receivable	**261**	(152)
Balance at end of year	**154,211**	110,312

The movement in the provision for expected credit losses is as follows:

	2022 $	2021 $
Balance at beginning of year	**281**	1,015
Expected credit recoveries, net	**(194)**	(734)
Balance at end of year	**87**	281

10 Investment securities

	2022 $	2021 $
FVTPL		
Equity investments	**1,104,352**	1,242,029
Debt investments	**3,814**	28,697
	1,108,166	1,270,726
FVOCI – equity securities		
Quoted equity investments	**5,828**	27,782
Unquoted equity investments	**9,121**	9,121
	14,949	36,903

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities *…continued*

	2022 $	2021 $
FVOCI – debt securities		
Quoted corporate bonds	**42,238**	37,779
Quoted sovereign bonds	**4,871**	5,005
Interest receivable	**417**	630
Preference shares	**–**	209
Total debt securities – FVOCI	**47,526**	43,623
Total investment securities	**1,170,641**	1,351,252
Current	**1,108,585**	1,303,821
Non-current	**62,056**	47,431
Total investment securities	**1,170,641**	1,351,252

The movement in investment securities during the year is as follows:

	FVTPL $	Equity securities – FVOCI $	Debt securities – FVOCI $	Total $
Balance as at June 30, 2021	1,270,726	36,903	43,623	1,351,252
Additions	723,585	–	22,420	746,005
Disposals (sales/redemptions)	(567,334)	(29,841)	(13,568)	(610,743)
Fair value gains/(losses) on disposal of investment securities	51,785	(9,123)	(450)	42,212
Fair value (losses)/gains on existing securities	(370,596)	17,010	(4,286)	(357,872)
Movement of interest receivable	–	–	(213)	(213)
Balance as at June 30, 2022	**1,108,166**	**14,949**	**47,526**	**1,170,641**

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities *…continued*

	FVTPL $	Equity securities – FVOCI $	Debt securities – FVOCI $	Total $
Balance as at June 30, 2020	876,583	58,546	47,474	982,603
Additions	925,257	14,058	8,389	947,704
Disposals (sales/redemptions)	(716,275)	(71,838)	(13,913)	(802,026)
Fair value gains/(losses) on disposal of investment securities	100,228	(19,847)	(1,968)	78,413
Fair value gains on existing securities	84,933	55,984	3,939	144,856
Expected credit recoveries, net	–	–	477	477
Movement of interest receivable	–	–	(775)	(775)
Balance as at June 30, 2021	**1,270,726**	**36,903**	**43,623**	**1,351,252**

i) FVTPL – quoted debt and equity instruments

The Group maintains certain debt and equity instruments trading in regional and international markets denominated in USD and XCD currency.

ii) FVOCI – equity instruments

The Group maintains certain equity instruments which are quoted and unquoted. The instruments are denominated in USD and XCD currency. The Group has made the irrevocable election to classify these securities as FVOCI – equity instruments as management has not obtained these instruments for the purposes of speculation or active trading.

For unquoted securities, the Group undertakes a fair value assessment at each reporting date to assess the gains or losses attributable to such assets. During the financial year, net fair value losses related to financial assets in equity securities which are not trading in an active market amounted to $nil (2021: gains $438).

iii) FVOCI – debt securities – quoted corporate and sovereign bonds

The Group has certain investment securities which comprise of quoted corporate and sovereign fixed rate bonds trading. Bonds have coupon rates of 0.125% to 7.375% (2021: 0.88% to 9.00%); whilst, the effective interest rate for these bonds ranges from 0.5% to 11.85% (2021: 2.00% to 13.00%). Bonds have a maximum term of ten (10) years and will mature between July 2021 and May 2032 and pay semi-annual coupon interest payments until maturity. As at June 30, 2022, the fair values of these amounted to $47,526 (2021: $43,623).

The movement in the provision for expected credit losses is as follows:

	2022 $	2021 $
Balance at beginning of year	–	477
Expected credit recoveries, net	–	(477)
Balance at end of year	–	–

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities *…continued*

iv) Borrowings – line of credit

The Group has an operating line of credit with its investment custodian, Raymond James, to facilitate investment transactions. At the reporting date, the amount used amounted to $21,164 (2021: $42,942) (see note 33). The line of credit bears interest at a rate of 1.5% (2021: 1.5%). The line of credit has a limit of US$50 million or EC$135 million.

11 Property inventory

Property inventory relates mainly to land and buildings held for sale by certain companies within the Group and, is measured at the lower of cost and net realisable value.

	2022 **$**	**2021** **$**
Cost	**8,783**	8,783
Net realisable value	**8,565**	8,565

12 Investment property

	2022 **$**	**2021** **$**
Land at Camps	**2,021**	2,021
Land at Brighton	**2,019**	2,019
	4,040	4,040

All of the Group's investment property is held under freehold interests. The estimated fair market value of the investment property is $4,355 based on an independent valuation that was performed in 2020.

(expressed in thousands of Eastern Caribbean dollars)

13 Property and equipment

	Land and Buildings $	Equipment, furniture and fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
At June 30, 2020						
Cost or valuation	34,870	22,868	1,070	161	1,045	60,014
Accumulated depreciation	(1,160)	(19,538)	(732)	(160)	–	(21,590)
Net book value	**33,710**	**3,330**	**338**	**1**	**1,045**	**38,424**
Year ended June 30, 2021						
Opening net book value	33,710	3,330	338	1	1,045	38,424
Additions	–	1,426	490	–	332	2,248
Disposals	–	(220)	–	–	–	(220)
Depreciation charge	(720)	(1,463)	(167)	–	–	(2,350)
Write-back on disposals	–	51	–	–	–	51
Closing net book value	**32,990**	**3,124**	**661**	**1**	**1,377**	**38,153**
At June 30, 2021						
Cost or valuation	34,870	24,074	1,560	161	1,377	62,042
Accumulated depreciation	(1,880)	(20,950)	(899)	(160)	–	(23,889)
Net book value	**32,990**	**3,124**	**661**	**1**	**1,377**	**38,153**

(expressed in thousands of Eastern Caribbean dollars)

13 Property and equipment *...continued*

	Land and Buildings $	Equipment, furniture and fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
Year ended June 30, 2022						
Opening net book value	32,990	3,124	661	1	1,377	38,153
Additions	864	716	307	–	32	1,919
Disposals	–	(1,147)	(196)	–	–	(1,343)
Depreciation charge	(687)	(953)	(221)	–	–	(1,861)
Write-back on disposals	–	1,147	196	–	–	1,343
Closing net book value	**33,167**	**2,887**	**747**	**1**	**1,409**	**38,211**
At June 30, 2022						
Cost or valuation	35,734	23,643	1,671	161	1,409	62,618
Accumulated depreciation	(2,567)	(20,756)	(924)	(160)	–	(24,407)
Net book value	**33,167**	**2,887**	**747**	**1**	**1,409**	**38,211**

(expressed in thousands of Eastern Caribbean dollars)

13 Property and equipment *...continued*

In 2020, the Group's land and buildings were revalued based on the appraisal made by an independent firm of appraisers. Valuations were made on the basis of comparative recent market transactions on arm's length terms. The revaluation surplus was credited to 'revaluation reserve' in shareholders' equity.

The following is the historical cost carrying amount of land and buildings carried at revalued amounts.

	Land $	Buildings $	Total $
At June 30, 2022			
Cost	4,656	17,935	22,591
Accumulated depreciation	–	(7,700)	(7,700)
Net book value	**4,656**	**10,235**	**14,891**
At June 30, 2021			
Cost	3,792	17,935	21,727
Accumulated depreciation	–	(7,164)	(7,164)
Net book value	**3,792**	**10,771**	**14,563**

(expressed in thousands of Eastern Caribbean dollars)

14 Intangible assets

	Computer software licenses $
At June 30, 2020	
Cost	8,238
Accumulated amortisation	(7,780)
Net book value	**458**
Year ended June 30, 2021	
Opening net book value	458
Additions	210
Amortisation charge	(247)
Closing net book value	**421**
At June 30, 2021	
Cost	8,448
Accumulated amortisation	(8,027)
Net book value	**421**
Year ended June 30, 2022	
Opening net book value	421
Additions	258
Amortisation charge	(289)
Closing net book value	**390**
At June 30, 2022	
Cost	8,706
Accumulated amortisation	(8,316)
Net book value	**390**

(expressed in thousands of Eastern Caribbean dollars)

15 Leases

The Group leases properties and equipment for its operations with lease terms ranging from 3 to 10 years. The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets.

Information about leases for which the Group is a lessee is presented below.

i) Amounts recognised in the consolidated statement of financial position:

Right-of-use assets	**$**
Cost	1,936
Accumulated depreciation	(799)
Balance as at June 30, 2020	**1,137**
Year ended June 30, 2021	
Opening net book value	1,137
Additions	1,483
Disposals	(446)
Write-back on disposals	446
Depreciation charge	(738)
Closing net book value	**1,882**
Cost	2,973
Accumulated depreciation	(1,091)
Balance as at June 30, 2021	**1,882**
Year ended June 30, 2022	
Opening net book value	1,882
Additions	499
Depreciation charge	(863)
Closing net book value	**1,518**
Cost	3,472
Accumulated depreciation	(1,954)
Balance as at June 30, 2022	**1,518**

(expressed in thousands of Eastern Caribbean dollars)

15 Leases *...continued*

i) Amounts recognised in the consolidated statement of financial position:...continued

	2022 $	2021 $
Lease liabilities		
Balance at beginning of year	**1,909**	1,127
Additions	**499**	1,483
Interest expense (note 22)	**50**	55
Lease payments	**(909)**	(756)
Balance at end of year	**1,549**	1,909
Current	**769**	809
Non-current	**780**	1,100
	1,549	1,909

ii) Amounts recognised in the consolidated statement of financial position:

	2022 $	2021 $
Depreciation charge on right-of-use assets	**863**	738
Interest expense on lease liabilities	**50**	55
	913	793

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublease the asset to another party, the right-of-use asset can only be used by the Group. Each lease is either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Group is prohibited from selling or pledging the underlying leased asset as security. Further, the Group must keep the leased properties in a good state of repair and return the leased properties in its original condition at the end of the lease. Also, the Group must insure items of property and equipment and incur maintenance fees on such items in accordance with the lease contracts.

(expressed in thousands of Eastern Caribbean dollars)

15 Leases *...continued*

The table below describes the nature of the Group's leasing activity by type of right-of-use assets recognised on the consolidated statement of financial position.

June 30, 2022 **Right-of-use asset**	**No. of right-of-use assets leased**	**Range of remaining term**	**Average remaining lease term**	**No. of leases with extension option**	**No. of leases with termination options**
Office buildings	11	Up to 7 years	5.5 years	8	9
Storage facilities	2	Up to 1 year	1 year	2	1
IT Equipment	8	Up to 1.5 years	1.5 year	8	–

June 30, 2021 **Right-of-use asset**	**No. of right-of-use assets leased**	**Range of remaining term**	**Average remaining lease term**	**No. of leases with extension option**	**No. of leases with termination options**
Office buildings	8	Up to 8 years	6.5 years	5	6
Storage facilities	2	Up to 2 years	1.5 years	2	1
IT Equipment	8	Up to 2.5 years	2.5 years	8	–

The lease liabilities are unsecured and future minimum lease payments are as follows:

	Within 1 year $	**1 – 2 years $**	**2 – 3 years $**	**3 – 4 years $**	**4 – 5 years $**	**After 5 years $**	**Total $**
June 30, 2022							
Lease payments	803	431	199	121	19	39	1,612
Finance charges	(34)	(16)	(8)	(3)	(1)	(1)	(63)
Net present values	**769**	**415**	**191**	**118**	**18**	**38**	**1,549**
June 30, 2021							
Lease payments	856	549	245	175	121	58	2,004
Finance charges	(47)	(22)	(13)	(8)	(3)	(2)	(95)
Net present values	**809**	**527**	**232**	**167**	**118**	**56**	**1,909**

Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

(expressed in thousands of Eastern Caribbean dollars)

16 Other assets

	2022 $	2021 $
Insurance and other receivables, gross	**28,081**	32,764
Provision for expected credit losses	**(757)**	(5,683)
Insurance and other receivables, net	**27,324**	27,081
Net defined benefit asset (note 34)	**17,822**	18,813
Acceptances, guarantees and letters of credit	**6,541**	6,375
Prepayments	**3,555**	4,216
Stationery and card stock	**953**	798
	56,195	57,283
Current	**32,636**	32,727
Non-current	**23,559**	24,556
	56,195	57,283

The movement in the provision for expected credit losses is as follows:

	2022 $	2021 $
Opening provision for expected credit losses	**5,683**	525
Impairment (recoveries)/charges, net	**(4,926)**	5,158
Ending provision for expected credit losses	**757**	5,683

17 Customers' deposits

	2022 $	2021 $
Fixed deposit accounts	**1,224,802**	1,205,808
Direct demand accounts	**864,896**	673,977
Savings accounts	**621,727**	581,894
Call accounts	**116,222**	121,283
	2,827,647	2,582,962
Interest payable	**12,179**	12,356
	2,839,826	2,595,318
Current	**2,839,826**	2,595,318
Non-current	**–**	–
	2,839,826	2,595,318

(expressed in thousands of Eastern Caribbean dollars)

17 Customers' deposits *…continued*

Customers' deposits represent all types of deposit accounts held by the Group on behalf of customers. The deposits include demand deposit accounts, call accounts, savings accounts and fixed deposits. All customers' deposits were current for both years.

The Group pays interest on all categories of customers' deposits except demand deposits. At the reporting date, total interest expense on customers' deposit accounts for the year amounted to $50,591 (2021: $48,466). The average effective rate of interest paid on customers' deposits was 1.85% (2021: 1.94%).

18 Accumulated provisions, creditors and accruals

	2022 **$**	**2021** **$**
Actuarial liabilities	**101,328**	104,438
Suspense liabilities	**66,807**	34,559
Deposit pension funds	**60,381**	57,296
Insurance contract liabilities	**29,778**	25,363
Other payables	**29,175**	33,104
Unpaid drafts on other banks	**3,338**	3,132
Managers' cheques and banker's payments	**1,799**	2,586
	292,606	260,478
Current	**232,225**	203,182
Non-current	**60,381**	57,296
	292,606	260,478

Actuarial liabilities

Actuarial liabilities comprise the reserves maintained for the Group's individual life insurance business. The actuarial liabilities are calculated using the Net Level Premium (NLP) reserve method. This reserve method is a net premium reserve method that does not use lapse rates or expenses.

	2022 **$**	**2021** **$**
Whole life plans	**86,486**	89,573
Endowment plans	**8,816**	8,627
Limited payment life plans	**4,812**	4,627
Other plans	**1,214**	1,611
Total actuarial liabilities	**101,328**	104,438

The actuarial liabilities are largely backed by short-term deposits, cash and treasury bills. The valuation rate for insurance plans is based on an expected ultimate short-term (one year or less) reinvestment rate assumption. Non-participating plans use an ultimate rate of 4.15% (2021: 3.65%). A spread of 0.75% is deducted for the plans with reversionary bonuses in support of bonus payments for a net rate of 3.4% (2021: 2.9%).

(expressed in thousands of Eastern Caribbean dollars)

18 Accumulated provisions, creditors, and accruals *...continued*

Deposit pension funds

	2022 $	2021 $
Contributions	**2,715**	2,498
Interest	**2,237**	2,136
	4,952	4,634
Less expenses		
Group pension benefits	**145**	1,113
Management expenses	**1,722**	162
	1,867	1,275
Surplus for the year	**3,085**	3,359
Funds at beginning of year	**57,296**	53,937
Funds at end of year	**60,381**	57,296

The deposit pension funds represent pension funds which the Group manages for its employees and certain other entities. The funds provide a guaranteed minimum rate of 4% (2021: 4%). The fund balance represents the amount standing on account of the contributors to the fund and those liabilities are supported by term deposits and treasury bills.

Insurance contract liabilities

The insurance contract liabilities primarily relate to the non-life insurance business and are comprised of the following:

	2022 $	2021 $
Life		
Outstanding claims	**1,407**	897
Non-life		
Unexpired risks	**13,839**	13,503
Reinsurance premiums payable	**5,067**	3,261
Outstanding claims	**5,429**	4,290
IBNR	**2,557**	1,910
Premiums received in advance	**1,479**	1,502
	28,371	24,466
	29,778	25,363

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation

In 2020, as part of the COVID-19 stimulus package, the Government of St. Kitts and Nevis granted a reduction in the corporate income tax rate from 33% to 25% on the assessable income for businesses that retain at least 75% of their employees. This temporary reduction resulted in an effective tax rate of 25% (2021: 25%) for the year. The exemption period expired on June 30, 2022.

	2022 **$**	**2021** **$**
Net (loss)/income before tax	**(304,789)**	242,866
Tax (credit)/expense at effective tax rate of 25% (2021: 25%)	**(76,197)**	60,717
Non-deductible expenses and other permanent differences	**8,465**	8,316
Tax effect of change in income tax rate	**–**	(414)
Deferred tax movement not recorded	**73,080**	119
Income not subject to tax	**(4,803)**	(4,560)
Prior year's deferred income tax	**(276)**	(199)
Deferred tax not recognised on tax losses carried forward	**–**	8
Tax credit from discounted interest on government loans	**(8,845)**	(9,489)
Income tax (credit)/expense	**(8,576)**	54,498
Represented as follows:		
Current year's income tax (credit)/expense	**(94)**	64,314
Prior year income tax expense overstated	**(2)**	–
Tax credit from discounted interest on government loans	**(8,845)**	(9,489)
	(8,941)	54,825
Deferred tax expense/(credit)	**365**	(327)
Income tax (credit)/expense	**(8,576)**	54,498

During the year, the Group incurred realised losses of $9,123 (2021: $19,847) on FVOCI equity securities that were transferred directly to retained earnings. The tax benefit of $2,281 (2021: $4,961) associated with these losses was also recognised directly in retained earnings. The tax benefit recognised directly in retained earnings during the year of $2,281 represented a deferred tax benefit. Accordingly, the current year's income tax (credit)/expense was $94 (2021: $59,353), represented by the current year's income tax credit of $94 (2021: expense $64,314) and the current tax benefit in retained earnings of $nil (2021: $4,961).

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation *...continued*

Deferred tax asset/(liability)

The net deferred tax asset/(liability) is comprised as follows:

	2022 $	2021 $
Items recognised in profit or loss:		
Accelerated depreciation	**1,208**	1,406
Unutilised capital cost allowances	**456**	–
Net defined benefit asset	**(3,415)**	(2,792)
	(1,751)	(1,386)
Items recognised directly in other comprehensive income:		
Unrealised losses on FVOCI securities	**5,102**	6,151
Revaluation of buildings	**(1,849)**	(1,849)
Unutilised tax loss on realised losses on FVOCI equity securities	**2,281**	–
Net defined benefit asset	**(1,753)**	(2,518)
	3,781	1,784
	2,030	398
Comprised as follows on the consolidated statement of financial position:		
Deferred tax asset	**5,387**	4,178
Deferred tax liability	**(3,357)**	(3,780)
	2,030	398

The movements on deferred tax asset/(liability) are as follows:

	2022 $	2021 $
Balance at beginning of year	**398**	13,232
Movement in net unrealised losses on investment securities	**(1,049)**	(12,761)
Deferred tax movement for pension asset in profit and loss	**(623)**	261
Movement in decelerated depreciation	**(198)**	66
Unutilised capital cost allowances	**456**	–
Unutilised tax losses	**2,281**	–
Movement in re-measurement of defined benefit asset	**765**	(400)
Balance at end of year	**2,030**	398

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation *...continued*

Income tax payable

The movement in the income tax payable is as follows:

	2022 $	2021 $
Balance at beginning of year	**13,460**	1,992
Current tax expense for the year	**121**	14,456
Transfer of advance tax overpayment to tax recoverable	**3,492**	–
Payment previously applied to tax recoverable reclassified	**(948)**	–
Prior year over-provision in tax payable	**(1)**	–
Taxes paid during the year	**(15,936)**	(2,988)
Balance at end of year	**188**	13,460

Tax losses

The Group has incurred income tax losses amounting to $301,887 (2021: $475) which may be carried forward and applied to reduce taxable income by an amount not exceeding one half of taxable income in any one year of assessment within 5 years following the year in which the losses were incurred. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department.

The losses expire as follows:

Year of loss	Year loss expire	Balance at June 30, 2021 $	Expired or utilised $	Incurred loss $	Balance at June 30, 2022 $
2017	2022	648	(648)	–	–
2018	2023	579	–	–	579
2019	2024	513	–	–	513
2020	2025	470	–	–	470
2021	2026	475	–	–	475
2022	2027	–	–	301,887	301,887
		2,685	(648)	301,887	**303,924**

Deferred tax asset

At the year end, the Group had a deferred tax asset of $98,086 (2021: $890) which was not recognised in the consolidated financial statements due to the uncertainty of its recovery.

Income tax recoverable

Included in the consolidated statement of financial position is an amount of $21,135 (2021: $1,030) that relates to income tax credits/advance tax payments due from the IRD in respect of tax assessments that were finalised up to the year ended June 30, 2020 and the change in the Group's estimate of the current income tax expense based on a settlement agreement with the IRD. The amount may be applied against any future taxes payable by the Group, with certain agreed restrictions.

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation *...continued*

Income tax recoverable *...continued*

The movement in the income tax recoverable is as follows:

	2022 $	2021 $
Balance, beginning of year	**1,030**	28,587
Current year's income tax credit	**9,060**	9,489
Taxes paid during the year	**8,500**	7,851
Transfer from income tax liability	**3,492**	–
Payment previously applied to tax liability reclassified	**(948)**	–
Prior year over-provision in tax liability offset amount	**1**	–
Current year's income tax expense offset	**–**	(44,897)
Balance, end of year	**21,135**	1,030

20 Issued share capital

	2022 $	2021 $
Authorised		
270,000,000 ordinary shares of $1 each	**270,000**	270,000
Issued and fully paid		
141,750,000 ordinary shares of $1 each	**141,750**	135,000

21 Reserves

The reserves are comprised as follows:

	2022 $	2021 $
Statutory reserve	**144,457**	144,457
Revaluation reserve	**25,924**	25,924
Fair value reserves – FVOCI	**(7,533)**	(9,666)
Other reserves	**288,909**	222,400
	451,757	383,115

i) *Statutory reserve*
In accordance with Section 45 (1) of Saint Christopher and Nevis Banking Act, 2015, the Group is required to maintain a reserve fund into which it shall transfer not less than 20% of its net income of each year whenever the reserve fund is less than the Group's paid-up capital.

The reserve requirement was met in the year ended June 30, 2020. Accordingly, no additional transfers were made during the year.

(expressed in thousands of Eastern Caribbean dollars)

21 Reserves *...continued*

ii) Revaluation reserve

	2022 $	2021 $
Balance at beginning of year	**25,924**	25,924
Decease in fair value of land and buildings	**–**	–
Balance at end of year	**25,924**	25,924

iii) Fair value reserves – FVOCI

	2022 $	2021 $
Balance at beginning of year	**(9,666)**	(35,083)
Realised losses transferred to retained earnings, net of tax	**6,842**	14,886
Movement in market value of securities, net	**(4,713)**	10,483
Expected credit losses recognised on investment securities	**4**	48
Balance at end of year	**(7,533)**	(9,666)

The details of movement in market value of securities, net are as follows:

	2022 $	2021 $
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		
Net unrealised (losses)/gains on investment securities, net of tax	**(2,706)**	3,302
Net realised losses on investment securities, net of tax	**(450)**	(1,968)
	(3,156)	1,334
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods		
Net unrealised gains on investment securities, net of tax	**5,285**	24,035
Net realised losses on investment securities, net of tax	**(6,842)**	(14,886)
	(1,557)	9,149
	(4,713)	10,483

(expressed in thousands of Eastern Caribbean dollars)

21 Reserves *...continued*

iv) Other reserves

	2022 $	2021 $
Balance at beginning of year	**222,400**	219,457
Transfer to regulatory reserve for loan impairment	**69,420**	21,797
Transfer to regulatory reserve for interest accrued on non-performing loans	**7,314**	(18,572)
Transfer to insurance and claims equalisation reserves	**2,062**	2,062
Remeasurement loss on defined benefit asset, net of tax	**(1,553)**	881
Transfer from retained earnings to general reserve	**66,000**	–
Transfer from general reserve to regulatory reserves	**(76,734)**	(3,225)
Balance at end of year	**288,909**	222,400
Other reserves is represented by:		
Regulatory reserve for interest accrued on non-performing loans (note 3.1.2)	**66,989**	59,675
Regulatory reserve for loan impairment (note 3.1.2)	**145,025**	75,605
General reserve	**29,492**	40,226
Insurance and claims equalisation reserves	**43,891**	41,829
Defined benefit pension plan reserve	**3,512**	5,065
	288,909	222,400

Included in other reserves are the following individual reserves:

General reserve
General reserve is used from time to time to transfer profits from retained earnings at the discretion of the Board of Directors. There is no policy of regular transfer.

Insurance and claims equalisation reserves
The insurance reserve is a discretionary reserve for the health and public liability insurance business. The underlying assets are included in the Group's cash balances which form part of 'Cash and cash equivalents'.

Claims equalisation reserve represents cumulative amounts appropriated from retained earnings based on the discretion of the Board of Directors as part of the Insurance Company's risk management strategies to mitigate against catastrophic events. Annually, the claims equalisation reserve is assessed, and transfers made as considered necessary by the Board of Directors. This reserve is in addition to the catastrophe reinsurance cover.

Regulatory reserve for loan impairment
Regulatory reserve represents cumulative amounts appropriated from retained earnings based on the prudential guidelines of the ECCB. When the ECCB loan provision is greater than the loan provision calculated under IFRS 9, the difference is set aside in a reserve in equity.

(expressed in thousands of Eastern Caribbean dollars)

21 Reserves *...continued*

iv) Other reserves ...continued

Reserve for interest accrued on non-performing loans
This reserve is created to set aside interest accrued on non-performing loans where certain conditions are met in accordance with IFRS 9. The prudential guidelines of the ECCB do not allow for the accrual of such interest. As a result, the interest is set aside in a reserve and it is not available for distribution to shareholders until received.

Defined benefit pension plan reserve
This reserve is used to record the actuarial re-measurement of the defined benefit pension asset in other comprehensive income.

22 Net interest income

	2022 $	2021 $
Interest income		
Loans and advances to customers	**42,133**	38,356
Financial asset (note 32)	**8,576**	10,071
Originated debts	**4,546**	4,288
Deposits with other financial institutions	**2,775**	1,669
Investment securities at FVTPL and FVOCI	**2,301**	4,656
Others	**2,898**	2,983
Interest income for the year	**63,229**	62,023
Interest expense		
Fixed deposit accounts	**37,581**	36,137
Savings accounts	**11,612**	10,856
Direct demand accounts	**624**	688
Line of credit	**435**	434
Call accounts	**289**	296
Finance lease liabilities (note 15)	**50**	55
Interest expense for the year	**50,591**	48,466
Net interest income	**12,638**	13,557

(expressed in thousands of Eastern Caribbean dollars)

23 Net fees and commission income

	2022 $	2021 $
Fees and commission income		
International business and foreign exchange	**15,621**	10,376
Brokerage and other fees and commission	**4,159**	3,742
Credit related fees and commission	**3,266**	3,000
Fees and commission income for the year	**23,046**	17,118
Fee expenses		
International business and foreign exchange	**17,091**	9,959
Other fee expenses	**1,176**	920
Brokerage and other related fee expenses	**1,982**	1,857
Fee expenses for the year	**20,249**	12,736
Net fees and commission income	**2,797**	4,382

24 Other (loss)income, net

	2022 $	2021 $
Net (losses)/gains on FVTPL investment securities	**(252,916)**	289,034
Net insurance premium income (note 36)	**41,083**	40,590
Dividend income	**9,893**	7,557
Foreign exchange gain	**5,746**	5,766
Other operating income	**1,018**	971
Net losses on financial assets measured at FVOCI reclassified to profit or loss	**(450)**	(1,968)
	(195,626)	341,950

(expressed in thousands of Eastern Caribbean dollars)

25 Administrative and general expenses

	2022 $	2021 $
Employee cost	**32,199**	38,134
Management fees on investment	**10,513**	10,198
Repairs and maintenance	**8,880**	6,410
Other general	**1,475**	1,713
Communication	**954**	902
Insurance	**861**	894
Advertisement and marketing	**847**	457
Utilities	**709**	740
Stationery and supplies	**669**	681
Security services	**653**	626
Legal fees and expenses	**505**	557
Taxes and licences	**387**	350
Shareholders' expenses	**335**	115
Premises upkeep	**73**	59
Rent and occupancy	**67**	25
Sundry losses	**20**	109
	59,147	61,970

Employee cost

	2022 $	2021 $
Salaries and wages	**23,892**	20,994
Other staff cost	**4,732**	14,868
Insurance and other benefits	**2,724**	1,428
Pension expense (note 34)	**851**	844
	32,199	38,134

26 Credit and other impairment charges, net

	2022 $	2021 $
Loans and advances to customers (note 8)	**8,239**	21,722
Originated debts written-off directly to income (note 9)	**36,243**	–
Investment securities and other financial assets at amortised cost	**(5,365)**	5,046
	39,117	26,768

(expressed in thousands of Eastern Caribbean dollars)

27 Other expenses

	2022 $	2021 $
Net claims incurred (note 36)	**21,047**	22,970
Depreciation and amortisation (notes 13, 14 and 15)	**3,013**	3,335
Directors' fees and expenses	**1,371**	1,173
Professional fees and related expenses	**903**	807
	26,334	28,285

28 (Loss)/(earnings per share

'(Loss)/(earnings per share' is calculated by dividing the net (loss)/income attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2022 $	2021 $
Net (loss)/income attributable to shareholders	**(296,213)**	188,368
Weighted average number of ordinary shares in issue (in thousands)	**138,625**	135,000
Basic and diluted (loss)/earnings per share	**(2.14)**	1.40

29 Dividends

The consolidated financial statements reflect total dividends of $41,850 paid during the year. This amount represents a cash dividend payment of $0.05 per share ($6,750) paid August 24, 2021 and a 5% stock dividend ($6,750) for the financial year ended June 30, 2022 and a cash dividend payment of $0.20 per share ($28,350) for the financial year ended June 30, 2021 paid on December 16, 2021.

30 Related parties balances and transactions

A related party relationship exists when one party has the ability to control directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between or among entities under common control, with the reporting enterprise and its key management personnel, directors and shareholders.

Government of St. Kitts and Nevis

The Government of St. Kitts and Nevis holds 51% of the Group's issued share capital. The remaining 49% of the issued share capital is held by individuals and other institutions (over 5,500 shareholders). The Government is a customer of the Group and, as such, all transactions executed by the Group on behalf of the government are performed on strict commercial banking terms at existing market rates.

(expressed in thousands of Eastern Caribbean dollars)

30 Related parties balances and transactions *…continued*

	2022 $	2021 $
Public sector		
Customer's deposits	**1,342,753**	**1,359,658**
Financial asset	**360,794**	**566,505**
Loans and advances to customers	**375,078**	**368,770**
Interest on deposits	**31,699**	**32,019**
Interest on loans and advances to customers	**11,954**	**11,558**
Gross premium written	**11,914**	**24,747**
Gross claims incurred	**10,828**	**8,984**
Interest on financial asset	**9,255**	**10,071**
Insurance contract liabilities	**2,323**	**2,358**
Associated companies		
Loans and advances to customers	**69,882**	69,882
Customers' deposits	**7,378**	6,206
Interest on customers' deposits	**60**	105
Directors and associates		
Customers' deposits	**1,647**	1,126
Directors' fees and expenses	**1,371**	1,173
Loans and advances to customers	**204**	1,102
Interest from loans and advances to customers	**50**	64
Gross premiums written	**27**	8
Interest on customers' deposits	**12**	3
Outstanding balances	**2**	–
Key management		
Salaries and short-term benefits	**6,713**	5,426
Loans and advances to customers	**3,350**	2,827
Customers' deposits	**2,106**	1,393
Interest from loans and advances to customers	**171**	175
Gross written premiums	**77**	65
Interest on customers' deposits	**36**	30
Claims incurred	**24**	–
Insurance contract liabilities	**3**	5

As at June 30, 2022, directors held total shares in the Group of 147 (2021: 140) and key management held total shares in the Group of 16 (2021: 31).

Loans advanced to directors and key management during the year are repayable on a monthly basis at a weighted average effective interest rate of 6.09% (2021: 6.20%). Secured loans are collateralised by cash and mortgages over properties.

A provision of 18,630 (2021: $18,630) has been recognised in respect to advances made to related parties (associated company).

(expressed in thousands of Eastern Caribbean dollars)

31 Contingent liabilities and commitments

Insurance claims

The Group, like all other insurers, is subject to litigation in the normal course of its business. The Group does not believe that such litigation will have a material effect on its consolidated financial statements.

Commitments

As at reporting date, the Group had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

	2022 $	2021 $
Loan commitments	**54,198**	50,299
Credit card commitments	**14,002**	12,367
	68,200	62,666

32 Financial asset

	2022 $	2021 $
Financial asset	**352,284**	558,027
Interest receivable	**10,908**	11,590
Financial asset, gross	**363,192**	569,617
Less provision for expected credit losses	**(2,398)**	(3,112)
Financial asset, net	**360,794**	566,505

The movement in the provision for expected credit losses is as follows:

	2022 $	2021 $
Beginning provision	**3,112**	1,573
(Recovery)/provision for the year	**(714)**	1,539
Ending provision	**2,398**	3,112

(expressed in thousands of Eastern Caribbean dollars)

32 Financial asset *…continued*

The financial asset of $360,794 (2021: $566,505) along with the provision for expected credit losses of $2,398 (2021: $3,112) represents the Group's right to that amount of cash flows from the sale of certain lands pursuant to a Shareholder's Agreement (Agreement) dated April 18, 2012 and September 4, 2014 between the Group and its majority shareholder, the Government of St. Kitts & Nevis ("GOSKN"), and the Nevis Island Administration ("NIA"), respectively. Under the terms of the Agreement, the secured debt obligations owed to the Group by the GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Group in exchange for the transfer of certain land assets to the Group. Further, the unsecured debt obligations owed to the Group by GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Group in exchange for the transfer of certain unencumbered land assets to a specially created entity, Special Land Sales Company (St. Kitts) Limited ("SLSC") and the allocation of certain shares in SLSC to the Group. SLSC was incorporated for the purpose of selling land assets in order to fulfill the terms of the Agreement of the contracting parties. Other lands would be transferred to the SLSC for sale, if necessary, in order to satisfy the agreement of the contracting parties.

By way of supplemental agreements, the effective date of the Agreement was amended to July 1, 2013. Accordingly, the first step in the 'Land for Debt' swap took place on July 1, 2013 in the amount of $565,070, which is the value of the 1,200 acres of land in the first tranche based on an independent valuation. The second and third tranches were completed during 2015 and the amounts swapped amounted to $230,951 which is the value of 735 acres of land.

Based on the terms of the Agreement:

1. On the effective date, SLSC shall use all appropriate commercial efforts to sell the secured land assets that were vested to the Group at the best price reasonably possible and as soon as reasonably practicable.

2. Commencing from the effective date of the Agreement, July 1, 2013, the Group is entitled to receive interest payments at a rate of 3.5% per annum on the face value of the eligible secured debt that was exchanged for the secured land assets. The amount is to be paid by the GOSKN annually from the effective date. Subsequently, the interest rate was reduced to 2.75% for the period July 1, 2017 to June 30, 2019 and 1.75% for the period July 1, 2019 to July 30, 2020. At year end the interest remained at 1.75%.

3. Distribution of sale proceeds of the Group land assets shall be applied as follows:

   a. First towards the payment of selling and operational costs of SLSC;

   b. Secondly to the Group until the Group has received the face amount of the eligible secured debt immediately prior to the effective date and the interest payments, less amounts paid to the Group;

   c. Thirdly to the Group in exchange for the redemption of its relative interest in SLSC which was allotted for the release of eligible unsecured debt that was owed to the Group prior to the effective date; and

   d. Fourthly to the Government of St. Kitts and Nevis.

(expressed in thousands of Eastern Caribbean dollars)

32 Financial asset *...continued*

For the year ended June 30, 2022, the Group's consolidated statement of income includes interest income amounting to $8,576 (2021: $10,071) (see note 22). Further, as of June 30, 2021, interest receivable of $10,909 (2021: $11,590) was pending from the GOSKN. During the year $9,258 (2021: $10,436) of cumulative interest payments were received from the GOSKN. The decrease in the provision for expected credit losses amounted to $714 (2021: increase $1,539) during the year.

Based on the terms of the Agreement, all of the risks and rewards of ownership of the secured land assets have not been transferred to the Group. The Group is only entitled to receive cash flows from the sales of said lands up to the face value of the eligible secured debt that was exchanged and any interest payments as noted above. Additionally, if the lands are sold for less than the value that was transferred, the GOSKN and NIA is obligated to transfer additional lands to make up for the shortfall. The Group's interest in the land assets is not subject to variation of returns as there is no risk of loss for the Group, and also the Group does not stand to benefit should the lands be sold for more than the value. Therefore, the Group has not classified the amounts received in exchange for the loans as inventory, but as a financial asset based on its rights to the cash flows from the sales of the land assets under the Agreement.

The Group has not included in these consolidated financial statements any investment in SLSC. Further, the Group has not invested any funds in SLSC.

33 Cash and cash equivalents

	2022 $	2021 $
Deposits with other financial institutions (note 7)	**486,970**	363,681
Cash and balances with Central Bank (note 5)	**49,259**	42,711
Treasury bills (note 6)	**13,282**	12,765
	549,511	419,157
Operating line of credit (note 10)	**(21,164)**	(42,942)
	528,347	376,215

(expressed in thousands of Eastern Caribbean dollars)

34 Defined benefit asset

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of June 30, 2022 by independent actuaries. The present value of the defined benefit obligation and related current service cost were measured using the Projected Unit Credit Method.

	2022 Per annum %	2021 Per annum %
Actuarial assumptions		
Discount rate	**3.50**	3.50
Return on plan assets	**5.00**	5.00
Future salary increases	**3.00**	3.00

Mortality table (UP94 table projected to 2021 using Scale AA) in both years.

	2022 $	2021 $
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	**51,816**	51,234
Current service cost	**2,357**	2,186
Interest cost	**1,813**	1,792
Actuarial losses/(gains)	**1,484**	(2,039)
Benefits paid	**(1,740)**	(1,357)
Closing defined benefit obligation	**55,730**	51,816
Changes in the fair value of the plan assets		
Opening fair value of plan assets	**70,629**	67,515
Interest income	**3,532**	3,376
Employer's contribution	**2,178**	2,095
Management fees	**(213)**	(242)
Return on plan assets (other than net interest)	**(834)**	(758)
Benefit paid	**(1,740)**	(1,357)
Closing fair value of plan assets	**73,552**	70,629
Benefit cost		
Current service cost	**2,357**	2,186
Interest cost	**1,813**	1,792
Management fees	**213**	242
Interest on plan assets	**(3,532)**	(3,376)
Pension expense (note 25)	**851**	844

(expressed in thousands of Eastern Caribbean dollars)

34 Defined benefit asset *...continued*

	2022 $	2021 $
Amount recognised in other comprehensive income		
Actuarial losses/(gains)	**1,484**	(2,039)
Interest income on plan assets	**3,532**	3,376
Actual return on plan assets	**(2,698)**	(2,618)
Re-measurement loss/(gain) on net defined benefit asset	**2,318**	(1,281)

	2022 $	2021 $
Net defined benefit asset recognised in the consolidated statement of financial position		
Fair value of plan assets	**73,552**	70,629
Present value of defined benefit obligation	**(55,730)**	(51,816)
Net defined benefit asset	**17,822**	18,813

	2022 $	2021 $
Reconciliation: Net defined benefit asset		
Opening balance	**18,813**	16,281
Employer's contribution	**2,178**	2,095
Period cost	**(851)**	(844)
Other effects recognised in other comprehensive income	**(2,318)**	1,281
Closing balance (note 16)	**17,822**	18,813

Plan assets allocation is as follows:

	2022 %	2021 %
Certificates of deposit	**99.10**	99.50
Shares and treasury bills	**0.90**	0.50
	100.00	100.00

(expressed in thousands of Eastern Caribbean dollars)

34 Defined benefit asset *...continued*

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and the average life expectancy. The calculation of the net defined benefit liability is sensitive to these assumptions. The following table summarises the effects of changes in these actuarial assumptions on the defined benefit obligation.

	Discount rate plus 50 basis points $	**Discount rate minus 50 basis points $**
(Decrease)/increase in obligation	**(2,703)**	**2,957**

	Mortality plus 10% $	**Mortality minus 10% $**
(Decrease)/increase in obligation	**(1,182)**	**1,294**

35 Subsidiaries

	Percentage of direct and indirect equity interest held	
	2022 %	**2021 %**
National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited	**100**	100
National Caribbean Insurance Company Limited	**100**	100
St. Kitts and Nevis Mortgage and Investment Company Limited	**100**	100

(expressed in thousands of Eastern Caribbean dollars)

36 Segmental statement of insurance related income – product line

Year ended of June 30, 2022	Medical $	Fire $	Motor $	Marine $	Public liability $	Sundry $	Other $	Total non-life $	Life assurance $	Total $
Gross premiums written	21,868	12,907	6,523	140	1,447	37	1,031	43,953	11,051	55,004
Reinsurers' share of gross premiums	–	(10,482)	(304)	(103)	(1,308)	–	(1,031)	(13,228)	–	(13,228)
	21,868	2,425	6,219	37	139	37	–	30,725	11,051	41,776
Net change in provision for unearned premiums	–	257	(175)	1	(26)	1	–	58	(751)	(693)
Net insurance premium income (note 24)	**21,868**	**2,682**	**6,044**	**38**	**113**	**38**	**0**	**30,783**	**10,300**	**41,083**
Claims and benefits	13,773	969	2,914	–	–	–	–	17,656	4,204	21,860
Change in insurance contract liabilities	710	–	1,077	–	–	–	–	1,787	510	2,297
Change in actuarial liabilities	–	–	–	–	–	–	–	–	(3,110)	(3,110)
Net claims incurred (note 27)	**14,483**	**969**	**3,991**	**–**	–	–	–	**19,443**	**1,604**	**21,047**

(expressed in thousands of Eastern Caribbean dollars)

36 Segmental statement of insurance related income – product line *...continued*

Year ended of June 30, 2021	Medical $	Fire $	Motor $	Marine $	Public liability $	Sundry $	Other $	Total non-life $	Life assurance $	Total $
Gross premiums written	21,392	16,074	6,197	181	1,369	22	764	45,999	10,570	56,569
Reinsurers' share of gross premiums	–	(11,915)	(291)	(143)	(1,264)	–	(764)	(14,377)	–	(14,377)
	21,392	4,159	5,906	38	105	22	–	31,622	10,570	42,192
Net change in provision for unearned premiums	–	(589)	105	(3)	43	1	–	(443)	(1,159)	(1,602)
Net insurance premium income (note 24)	**21,392**	**3,570**	**6,011**	**35**	**148**	**23**	**–**	**31,179**	**9,411**	**40,590**
Claims and benefits	9,755	61	2,730	1	–	–	–	12,547	2,603	15,150
Change in insurance contract liabilities	749	(401)	981	–	360	–	–	1,689	79	1,768
Change in actuarial liabilities	–	–	–	–	–	–	–	–	6,052	6,052
Net claims incurred (note 27)	**10,504**	**(340)**	**3,711**	**1**	**360**	**–**	**–**	**14,236**	**8,734**	**22,970**

(expressed in thousands of Eastern Caribbean dollars)

37 Business segments

As at June 30, 2022, the operating segments of the Group were as follows:

1. Commercial and retail banking incorporating deposit accounts, loans and advances, investment brokerage services and debit, prepaid and gift cards;
2. Insurance including coverage of life assurance, non-life assurance and pension schemes; and
3. Real estate, property management and the provision of trustee services.

Transactions between the business segments are carried out on normal commercial terms and conditions. These operating segments are monitored by the Group’s chief operating decision maker and strategic decisions are made on the basis of adjusted segment and rating results.

Segment information is based on internal reporting about the results of operating segments, such as revenue, expenses, profits or losses, assets, liabilities and other information on operations that are regularly reviewed by the Boards of Directors of the various Group companies.

(expressed in thousands of Eastern Caribbean dollars)

37 Business segments *…continued*

The table below gives the results and balances of those transactions:

	Commercial and retail Banking $	Insurance $	Real estate and trust services $	Consolidation and other adjustments $	Total $
June 30, 2022					
Total segment revenues	(150,992)	40,604	1,037	–	**(109,351)**
Intersegment revenues	674	5,750	272	(6,696)	–
Revenue for the year from external customers	(150,318)	46,354	1,309	(6,696)	**(109,351)**
Cost of revenue generation	(163,136)	(37,125)	(1,383)	6,206	**(195,438)**
Income tax credit	8,094	603	(121)	–	**8,576**
Net loss for the year	**(305,360)**	**9,832**	**(195)**	**(490)**	**(296,213)**
Property and equipment and intangible assets	30,429	8,156	16	–	**38,601**
Depreciation and amortisation	2,469	537	7	–	**3,013**
Segment assets	3,569,186	314,714	27,648	(271,123)	**3,640,425**
Segment liabilities	3,189,314	202,232	11,883	(238,198)	**3,165,231**
June 30, 2021					
Total segment revenues	374,545	46,082	464	–	**421,091**
Intersegment revenues	609	5,750	275	(6,634)	–
Revenue for the year from external customers	375,154	51,832	739	(6,634)	**421,091**
Cost of revenue generation	(147,360)	(36,172)	(1,138)	6,445	**(178,225)**
Income tax expense	(51,161)	(3,337)	–	–	**(54,498)**
Net income for the year	**176,633**	**12,323**	**(399)**	**(189)**	**188,368**
Property and equipment and intangible assets	30,323	8,228	23	–	**38,574**
Depreciation and amortisation	2,874	412	49	–	**3,335**
Segment assets	3,670,771	302,372	29,441	(265,553)	**3,737,031**
Segment liabilities	2,944,249	199,649	10,990	(230,626)	**2,924,262**

(expressed in thousands of Eastern Caribbean dollars)

38 Impact of Covid-19 pandemic

Since December 31, 2019, the spread of a novel strain of coronavirus, COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown.

The Government of St. Kitts and Nevis and the ECCB have responded with monetary and fiscal interventions to stabilise economic conditions in the Federation. This is including a loan repayment deferral programme (moratorium) in conjunction with the Eastern Caribbean Currency Union Bankers Association. Accordingly, as of June 30, 2021, the Group had a total of $169,657 of loans that were included in the moratorium programme. The moratoria were issued for a period of 3 months and then extended by 4 months with further extensions to September 2021 in light of changes in the economic outlook brought about by the pandemic. The moratorium was extended for another 6 months to March 31, 2022 to allow additional time to restructure affected facilities. A total of $241,796 loans were restructured under the moratorium by the Group.

As at June 30, 2022, there were no loans included in the Group’s moratorium programme.