Repositioning for
Growth & Sustained Profitability

ANNUAL REPORT 2018

BankofStVincent
&theGrenadines
The Bank That Gives Me *more*

Repositioning for
Growth & Sustained Profitability

MISSION STATEMENT

We are the providers of diverse financial solutions, adding value to our shareholders, customers, employees and community built on a foundation of excellent service, efficient operations and good governance.

VISION STATEMENT

To be the premier financial institution in St. Vincent and the Grenadines

CORE VALUES

Professionalism
Accountability & Transparency
Integrity
Innovation
Continuous Learning
Results Orientation

Contents

Notice Of Annual Meeting

Notice is hereby given that the 33rd Annual Meeting of the Shareholders of the Bank of St. Vincent and the Grenadines Ltd. will be held at the Methodist Church Building, Grenville St., Kingstown, May 31, 2019 at 5:00 pm, for the following purposes:

1. To consider and adopt the Report of the Auditors and Audited Financial Statements of the Company for the year ended December 31, 2018

2. To consider and adopt the Directors' Report

3. To sanction cash dividends of $0.43 per share paid for the financial year ending December 31, 2018

4. To appoint Auditors for the financial year January to December 2019

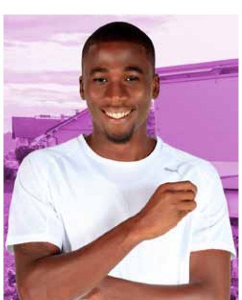
5. To elect Directors

6. To discuss any other business which may be properly considered at the Annual Meeting

Note: Votes at meetings of shareholders may be given either personally or by proxy or, in the case of a shareholder who is a body corporate or association, by an individual authorized by a resolution of the directors or governing body of that body corporate or association to represent it at meetings of shareholders of the Company. A person appointed by proxy need not be a shareholder. A proxy is enclosed for the use of shareholders and must reach the Corporate Secretary at least 48 hours prior to the date of the meeting.

By Order of the Board

Nandi Williams-Morgan
CORPORATE SECRETARY



"Everyone needs to have a dependable support system who believes in them. If one set of persons does not support you find someone who does." -Jame Byron
Owner of "JB's Enterprise"

Bank Of St. Vincent And The Grenadines Ltd. Corporate Information

REGISTERED OFFICE & POSTAL ADDRESS:

Reigate
Granby Street
P.O. Box 880
Kingstown
VC0 100
St. Vincent and the Grenadines
West Indies

Email:info@bosvg.com
Website:www.bosvg.com
Telephone: (784)457-1844
Fax: (784)456-2612

Chairman: Mr. Maurice Edwards
Secretary: Mrs. Nandi Williams-Morgan

LEGAL COUNSELS:

Williams & Williams
Chambers, Middle Street
P.O. Box 589
Kingstown
St. Vincent
Telephone: (784) 456-1757
Fax :(784) 456-2259

Regal Chambers
Second Floor, Regal Building
Middle Street, Kingstown
St. Vincent
Telephone: (784) 457-2210
Fax: (784)457-1823
Principal: Mr. Grahame Bollers

Cardinal Law Firm
114 Granby Street
P.O. Box 401
Kingstown
St. Vincent
Telephone: (784)456-1954
Fax: (784)451-2391

SUBSIDIARY COMPANY:

Property Holding SVG Ltd.
Bedford Street
P.O. Box 880
Kingstown
St. Vincent and the Grenadines
Telephone: (784)457-1844
Fax: (784)456-2612

AFFILIATIONS:

Member of:
Caribbean Association of Banks
Caribbean Association of Audit Committee Members
Caribbean Banks Users Group
Eastern Caribbean Institute of Banking
ECCU Bankers Association
St. Vincent and the Grenadines Bankers Association
St. Vincent and the Grenadines Chamber of Industry and Commerce
St. Vincent Employers' Federation
East Caribbean Financial Holding Company Ltd. (ECFH)

REGULATORS:

Eastern Caribbean Central Bank
Eastern Caribbean Securities Regulatory Commission
Financial Intelligence Unit
Financial Services Authority
Ministry of Finance

EXTERNAL AUDITORS:

KPMG
First Floor, National Insurance Services Headquarters, Upper Bay Street, P.O. Box 587, Kingstown, St. Vincent
Telephone: (784)451-1300
Fax: (784)451-2329
Email:kpmg@kpmg.vc

OWNERSHIP IN BANK OF ST.VINCENT AND THE GRENADINES LTD. AS AT December 31, 2018

Gov't of SVG 43.13%
NIS 20%
ECFH 20%
The Public & Staff of BOSVG 16.87%

"I am most fulfilled when I am creating and though it gets very challenging on occasion, it is my vocation."
Jeremy Payne
Fashion Designer, Owner of "Fashion is Payne"

Bank Of St. Vincent And The Grenadines Ltd. Corporate Information

CORRESPONDENT BANKS

REGIONAL

Antigua Commercial Bank Limited
P.O. Box 95
St. John's, Antigua

Eastern Caribbean Central Bank
P.O Box 89
Basseterre, St. Kitts

1st National Bank St. Lucia Limited
P.O. Box 168
Castries, St. Lucia

National Bank of Anguilla Ltd.
P.O Box 44
The Valley
Anguilla

National Bank of Dominica
Roseau, Dominica

Republic Bank Grenada Limited
NCB House, P.O. Box 857, Maurice Bishop Highway,
Grand Anse, St. George's, Grenada

St. Kitts Nevis Anguilla National Bank
P.O. Box 343
Basseterre, St. Kitts

First Citizens Bank
62 Independence Square, Port of Spain
Trinidad

National Commercial Bank Jamaica
54 King Street
Kingston, Jamaica

Republic Bank
Barbados Limited
Trident House
Lower Broad Street
Bridgetown, Barbados

Republic Bank (Guyana) Limited
110 Camp & Regent Streets
Lacytown
Georgetown, Guyana

Republic Bank Trinidad Ltd
59 Independence Square, Port of Spain
Trinidad

INTERNATIONAL

Toronto Dominion Bank
Toronto Data Centre
26 Gerrard Street West
Toronto Ontario M5B, 1G3, Canada

Bank of New York Mellon
1 Wall Street
New York, NY 10286

Crown Agents Bank
St. Nicolas House, St. Nicholas Road
Sutton Surrey SM1 1EL
United Kingdom

Bank of America
100 SE 2nd Street, 13th Floor, Miami
Florida 33131, USA

Lloyds TSB Bank
Monument International Office
11/15 Monument Street
London, England EC3R 8JU

"A journey through soulful renditions."
- Reajhaun Baptiste
Musician, Entertainer

FINANCIAL HIGHLIGHTS 2014 - 2018

Bank Of St. Vincent And The Grenadines Ltd.

	2018	2017	2016	2015	2014
OPERATING RESULTS ($'000)					
Interest income	50,965,020	49,659,001	49,887,423	50,068,147	48,640,918
Interest expense	(15,777,317)	(17,382,035)	(17,642,436)	(19,412,837)	(22,244,978)
NET INTEREST INCOME	35,187,703	32,276,966	32,244,987	30,655,310	26,395,940
Non interest income	15,962,510	12,420,377	12,540,550	12,290,053	13,054,659
NET OPERATING INCOME	51,150,213	**44,697,343**	**44,785,537**	**42,945,363**	**39,450,599**
Impairment losses on financial assets	2,559,163	8,087,060	6,159,722	3,607,851	(77,150)
Impairment losses on investment securities	-	-	-	410,408	-
Impairment losses on property and equipment	-	1,824,911	-	-	-
Income tax expense	1,149,548	1,993,503	2,698,931	2,206,384	5,685,062
Non interest expense	34,526,454	31,995,497	30,990,513	30,861,766	30,748,138
Net income	12,915,048	796,372	4,936,371	5,858,954	3,094,549
Dividend declared	6,449,932	2,549,973	2,551,157	2,900,000	1,500,000
OPERATING PERFORMANCE					
Basic and diluted earnings per share	0.86	0.05	0.49	0.59	0.31
Cash dividends per share	0.43	0.17	0.17	0.29	0.15
Book value per share	7.85	6.95	10.58	10.39	9.95
Return on equity	11.0%	0.8%	4.7%	5.6%	3.1%
Return on assets	1.3%	0.1%	0.5%	0.7%	0.3%
Efficiency ratio	72.5%	93.8%	83.0%	80.3%	77.7%
Core banking margin (spread)	3.5%	3.3%	3.3%	3.4%	2.9%
FINANCIAL POSITION DATA ($'000)					
Cash and deposits with banks	224,603,444	234,197,883	264,963,024	195,560,043	207,936,530
Total assets	1,001,282,839	974,582,643	971,281,102	899,188,648	909,102,657
Loans and advances	616,595,632	605,030,164	578,813,735	586,006,095	577,997,867
Investments	79,013,983	55,025,191	42,715,267	39,250,294	43,077,581
Customers deposits	767,161,792	745,782,313	715,812,152	655,935,277	651,341,735
Shareholders equity	117,675,714	104,272,671	105,831,658	103,898,879	99,467,056
CAPITAL AND LIQUIDITY MEASURES					
Capital adequacy	23.9%	21.5%	20.9%	20.4%	20.2%
Total risk weighted assets	519,516,889	528,595,619	533,435,125	517,993,966	497,421,031
Loans to deposits	80.4%	81.1%	80.9%	89.3%	88.7%
CREDIT QUALITY					
Impaired loans	39,589,589	48,291,574	45,995,529	37,702,505	36,634,578
Allowance for loan losses	17,006,295	20,670,580	12,508,727	7,019,004	5,194,196
General provision reserve	3,133,354	-	-	-	-
Impaired loans as a % of loans	6.2%	7.7%	7.8%	6.4%	6.3%
Allowances for credit loss plus contingency reserve fund as a % of NP loans	50.9%	42.8%	27.2%	18.6%	14.2%
Provisions for loan losses as a % of loans	2.7%	3.3%	2.1%	1.2%	0.9%
NP loans to total assets	4.0%	5.0%	4.7%	4.2%	4.0%
OTHER					
Number of staff	169	169	172	166	168
Earnings per staff	76,420	4,712	28,700	35,295	18,420
Number of Shares	14,999,844	14,999,844	10,000,000	10,000,000	10,000,000

Chairman's Message

"Being a young artist in Saint Vincent & The Grenadines is very difficult; one must have a deep passion for it in order to succeed. People should do what makes them happy; once you have the drive and believe in yourself enough, nothing is impossible." - Sherika Sayers *Owner of Black Canvas Studios*

BRIEF BACKGROUND

The 2018 financial year was a successful one for the Bank of St. Vincent and the Grenadines Ltd. This success is reflected not only in the excellent financial results, but perhaps more importantly, in the improvements to operations and corporate governance which took place during the year.

We started the year with the ambitious task of implementing our new Strategic Plan 2018 – 2020 with the primary objective of repositioning the Bank on a path of cautious growth and sustained profitability.

FINANCIAL PERFORMANCE

I am therefore pleased to report that the Bank recorded a net profit of $12.9 million for the financial year ended December 31, 2018. This represents a marked improvement from the 2017 net profit of $0.8 million. During the year, the assets of the Bank grew to just over $1 billion, which is a significant milestone in its relatively short history.

The turnaround in the Bank's financial performance

> **During the year, the Bank achieved a major milestone by reaching $1 billion in assets for the first time in its financial reporting history.**

is attributable to the effective implementation of the key initiatives outlined in the aforementioned Plan. The overall strategy for the current Plan period is to focus the resources of the Bank on addressing the key strategic priorities given the changing internal and external business environment. Within this context, we have achieved the desired results in the targeted areas that have contributed to the improved financial performance for 2018. These include:

1. Improvement in earnings as reflected in increases in interest income and non-interest income. The overall income of the Bank increased by $4.8 million (7.7%) to $66.9 million in 2018, compared to $62.1 million in 2017.
2. Effective management of interest expense. Despite the overall increase in deposits by $21.4 million (2.9%) year on year, there was a reduction in interest expense of 9% which moved from $17.4 million in 2017 to $15.8 million in 2018.
3. Improvement in asset quality and the reduction in the level of allowances for credit losses. Allowances for losses on financial assets reduced significantly from $9.9 million in 2017 to $2.6 million in 2018.
4. Improvement in the recovery income from bad debts previously written off. The income from recoveries increased to $1.1 million in 2018 compared to $0.5 million achieved in 2017.
5. The ratio of non-performing loans to total loans improved substantively during the year from 7.7% in 2017 to 6.2% at the end of 2018 - just 120 basis points outside of the international benchmark of 5%.

Notwithstanding these positive results, the overall increase in operating expenses of $2.5 million (7.9%), adversely impacted performance. Apart from the increase for employee benefit expense, the other areas are expenses related to strategic relationships with correspondent banks and costs associated with information technology improvements. The major portion of the increase in employee benefit expense is specific to the reorganisation costs; negotiated union increases and performance pay made to employees during the year.

SUCCESSFUL IMPLEMENTATION OF IFRS 9

The results of the Bank for 2018 were also subject to the transitioning of the accounting standards for impairment of financial assets from the IAS 39 to the new IFRS 9 which took effect from January 1, 2018. Following the assessment of the adequacy of the related provisions under the new reporting standard, it was determined that the Bank held excess provisions for impairment losses.

Given this development, and to ensure that we continue to create a strong buffer against the inherent volatility, the Board thought it prudent to create a general provision reserve to transfer this excess provision. Accordingly, the reserve was established during the year with an opening balance of $3.1 million. This general provision reserve will be funded on an annual basis until the balance of the reserve and the allowances for impairment losses under the IFRS 9 standard aggregate to 100% of the non-performing loans of the Bank. At the end of the 2018 financial year, the aggregate balance of the general provision reserve and the allowances for credit losses under the IFRS 9 stood at $20.1 million or 50.9% of total non-performing loans.

MILESTONES

During the year, the Bank achieved a major milestone by reaching $1 billion in assets for the first time in its financial reporting history. In addition to this, the net income recorded for the year is the highest level achieved since the government first divested its majority shareholding in 2013. Based on the level of profitability achieved in 2018, several key indicators have shown significant improvements: the return on assets increased to 1.3% up from 0.1% in 2017; return on equity increased to 11.0% compared to 0.8% in 2017 and earnings per share, increased to $0.86 compared to $0.05 in 2017.

While we welcome and celebrate the achievement of these milestones, we remain mindful that there is still a long road ahead with many challenges and opportunities in equal measure. It is therefore imperative that we redouble our efforts in the ensuing periods to stay on course to achieve our stated strategic objective of cautious growth and sustained profitability.

Central to this is the continuing development of the employees of the Bank through the investment in building appropriate leadership competencies at all levels. At the same time, we equally recognize the need to continue to both invest in, as well as to enhance our systems and processes to foster efficiency and build resilient safeguards, given the risk environment. The Board remains fully committed to pursuing these strategies.

OUTLOOK

Our goals and aspirations for 2019 are many, but we remain focused on building on the main pillars of our Strategic Plan by diligently implementing the key initiatives set out therein.

ACKNOWLEDGEMENTS

Many thanks to the Board of Directors; our Managing Director, Mr. Derry Williams and each of the 169 employees who work at the Bank. Our challenge is to continue to implement our plans and programmes with efficacy, and to build on the excellent foundation that has been laid. I have every confidence we can do so.

M. Edwards

Maurice Edwards
Chairman

"The most notable achievement in my career is being able to be directly involved in the delivery of Agriculture Extension Education."
Michker Edwards
Lecturer, Agripreneur"

SOWING THE SEEDS OF NEW OPPORTUNITIES

Deepening our roots in the society to create wealth for generations to come

Profile Of Directors

NAME:	**Mr. Maurice Edwards**
PROFESSION:	**Financial Consultant**
SUBSTANTIVE POSITION: (BOSVG)	Chairman of the Board Member of the Audit Committee Member of the Risk & Compliance Committee
APPOINTED:	July 1, 2017
APPOINTED BY:	Government of St. Vincent and the Grenadines
QUALIFICATION:	BSc. Accounting, Chartered Financial Analyst (CFA)

NAME:	**Sir. Errol Allen**
PROFESSION:	**Economist - Retired**
SUBSTANTIVE POSITION: (BOSVG)	Director Chairman of the Human Resources Committee Member of the Credit Committee
REAPPOINTED:	June 21, 2016
APPOINTED BY:	Government of St. Vincent and the Grenadines
QUALIFICATION:	BSc. Economics, MSc. International Economics, Chartered Director

NAME:	**Mrs. Judith Veira**
PROFESSION:	**Consulting Actuary**
SUBSTANTIVE POSITION: (BOSVG)	Director Chairperson of the Audit Committee Member of the Risk & Compliance Committee
REAPPOINTED:	June 21, 2016
APPOINTED BY:	Government of St. Vincent and the Grenadines
QUALIFICATION:	BA Hons. Actuarial Science Fellow of the Society of Actuaries

NAME:	**Dr. Timothy Providence**
PROFESSION:	**Medical Doctor**
SUBSTANTIVE POSITION: (BOSVG)	Director Chairman of the Credit Committee Member of the Human Resources Committee
REELECTED:	June 21, 2016
ELECTED BY:	The Public
QUALIFICATION:	MBBS, MRCOG, FRCOG

"Never let the fear of failure stop you from starting."
- Dwayne Alexander
Entrepreneur

Profile Of Directors

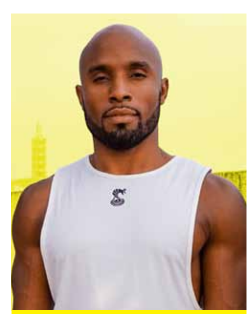
NAME:	**Mrs. Saibrina Brewster-Dickson**
PROFESSION:	**Accountant**
SUBSTANTIVE POSITION: (BOSVG)	Director Member of the Credit Committee Member of the Human Resources Committee
APPOINTED:	July 1, 2017
APPOINTED BY:	Government of St. Vincent and the Grenadines
QUALIFICATION:	BSc. Management, ACCA, MBA

NAME:	**Mr. Medford Francis**
PROFESSION:	**Economist**
SUBSTANTIVE POSITION: (BOSVG)	Director Member of the Risk & Compliance Committee
APPOINTED:	August 1, 2018
APPOINTED BY:	East Caribbean Financial Holding Company Ltd.
QUALIFICATION:	BSc. Economics, MSc. Financial Management

NAME:	**Mr. Lennox Bowman**
PROFESSION:	**Chief Executive Officer**
SUBSTANTIVE POSITION: (BOSVG)	Director Member of the Credit Committee Member of the Human Resources Committee
REAPPOINTED:	June 21, 2016
APPOINTED BY:	St. Vincent and the Grenadines National Insurance Services
QUALIFICATION:	MAAT, ACIB

NAME:	**Mr. Omar Davis**
PROFESSION:	**Financial & Management Consultant**
SUBSTANTIVE POSITION: (BOSVG)	Director Member of the Audit Committee
REAPPOINTED:	June 21, 2016
APPOINTED BY:	East Caribbean Financial Holding Company Ltd
QUALIFICATION:	ACCA

NAME:	**Mr. Lennox Timm**
PROFESSION:	**Chartered Accountant**
SUBSTANTIVE POSITION: (BOSVG)	Director Chairman of the Risk & Compliance Committee Member of the Audit Committee
REAPPOINTED:	August 1, 2017
APPOINTED BY:	St. Vincent and the Grenadines National Insurance Services
QUALIFICATION:	FCCA, MAAT, CBV, MSc. International Banking and Finance



"Do not accept labels but rather create your own. We were all born as blank slates, unable to walk, talk, even think in a clear result-driven manner." - Adriel Francois
Owner of Cobra Camp

Board of Directors

01 Maurice Edwards
Chairman

02 Sir. Errol Allen
Director

03 Judith Veira
Director

04 Timothy Providence
Director

05 Saibrina Brewster-Dickson
Director

06 Medford Francis
Director

07 Lennox Bowman
Director

08 Omar Davis
Director

09 Lennox Timm
Director

Profile of Executive Management

NAME:	**Derry Williams**
POSITION:	**Managing Director**
QUALIFICATION:	MBA - Finance
FIRST APPOINTED:	April 1, 2011
RE-APPOINTED:	May 2018
NAME:	**Bennie Stapleton**
POSITION:	**Chief Financial Officer**
QUALIFICATION:	Certified Internal Auditor, FCCA, BSc. Accounting
APPOINTED:	September 2009
NAME:	**Cerlian Russell**
POSITION:	**Senior Manager Business and Operations**
QUALIFICATION:	MBA – General Management, Certified Mortgage Residential Underwriter, Anti-Money Laundering Certified Associate (AMLCA)
APPOINTED:	March 2010
NAME:	**Nandi Williams-Morgan**
POSITION:	**Corporate Secretary**
QUALIFICATION:	GDL, LLM International Trade Law, BSc. Economics with Law
APPOINTED:	December 2004
NAME:	**La Fleur Hall**
POSITION:	**Manager Risk and Compliance**
QUALIFICATION:	MSc. Audit Management and Consultancy, CAMS, Anti-Money Laundering Certificate Associate (AML/CA)
APPOINTED:	February 2011

"A little progress each day adds up to big results." - Moesha Pierre

Owner of Nathaljah's Dainties

Derry Williams

Bennie Stapleton

Cerlian Russell

Nandi Williams-Morgan

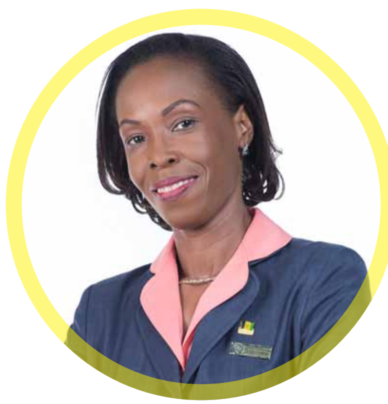
La Fleur Hall

Profile of Senior Management

NAME:	**Kenroy Alexander**
POSITION:	**Manager Branch Operations**
QUALIFICATION:	ICA International Diploma in Financial Crime Prevention
APPOINTED:	July 1, 2013
NAME:	**Joanne Ballantyne**
POSITION:	**Manager Central Services Unit**
QUALIFICATION:	Certificate – Institute of Canadian Bankers
APPOINTED:	July 1, 2013 (Deceased March 19, 2019)
NAME:	**Lisa Henry**
POSITION:	**Senior Human Resources Officer**
QUALIFICATION:	Certificate in Business Administration, BSc. Accounting Special, Diploma in Counselling
APPOINTED:	December 1, 2013
NAME:	**Nicole Fernandez**
POSITION:	**Senior Information Technology Office**r
QUALIFICATION:	Executive Diploma in Information Technology
APPOINTED:	January 3, 2006
NAME:	**Celestine Jackson**
POSITION:	**Senior Accountant**
QUALIFICATION:	Certified Accounting Technician, BSc (Hons) Applied Accounting, ACCA, Diploma in Forensic Accounting
APPOINTED:	October 1, 2009
NAME:	**Irvia Haynes**
POSITION:	**Senior Audit Officer**
QUALIFICATION:	Bachelor in Business Administration
APPOINTED:	September 15, 2009
NAME:	**Patricia John**
POSITION:	**Sales and Service Manager**
QUALIFICATION:	Certificate – Eastern Caribbean Securities Market Representative Representative Licence - Eastern Caribbean Securities Regulatory Commission
APPOINTED:	July 1, 2013
NAME:	**Andrene Hazell**
POSITION:	**Sales and Service Manager**
QUALIFICATION:	Executive Diploma- General Management
APPOINTED:	July 1, 2013
NAME:	**Monifa Latham**
POSITION:	**Senior Officer Treasury and Investment**
QUALIFICATION:	BSc Economics, Principal Licence – Eastern Caribbean Securities Regulatory Commission
APPOINTED:	October 1, 2010









A Tribute
To the late Joanne Ballantyne

The Board of Directors, Management and Staff of
the Bank of St. Vincent and the Grenadines Ltd.
bade farewell to

Miss Joanne Ballantyne

who passed away on Tuesday March 19th, 2019.

Miss. Ballantyne joined the staff of the Bank, thirty-six years ago on September 13, 1982.
Much of her early tenure was served as the Executive Secretary
to the various General Managers.
At the time of her death she functioned as the Manager Central Service Unit,
a position she held for the past eight years.
Throughout her life, Miss. Ballantyne demonstrated
the strength of character and resoluteness that have caused many
to be easily drawn to her.
We will truly miss her great sense of purpose and candidness;
warm smile and strong leadership.
She was a valued member of the Senior Leadership Team.

Words cannot fully express the sorrow we feel during this time.
May her soul rest in peace.

BankofStVincent
&theGrenadines
The Bank That Gives Me *more*

Directors' Report

BACKGROUND

The primary role of the Board of Directors is to establish the strategic goals of the Bank, and to provide the necessary resources and guidance to the management to ensure that the stated goals are achieved. In fulfilling this responsibility, on March 19, 2018, the Board of Directors approved a Strategic Plan for the period 2018 to 2020 to focus on four (4) main strategic priorities:

- Enhancing Financial Prosperity
- Enhancing Customer Value and Brand Value
- Enhancing Process Excellence and Risk Management
- Enhancing People and Culture.

These strategic priorities were determined having conducted the critical assessment of the Bank's operating environment at a joint retreat with management in December 2017. As part of this exercise, the Board also revised the Vision and Mission Statements and for the first time, agreed to a set of Core Values for the Bank. These are very important elements of the strategic intent and will be vital in enhancing the overall culture of the Bank.

It is within this context that we now report on the activities for the period January 1, 2018, to December 31, 2018.

CHANGE OF DIRECTORS

During the financial year ended December 2018, one (1) new Director was appointed to the Board and one (1) Director ceased to hold the office of Director.

Mr. Medford Francis replaced Mr. Andre Chastanet on August 1, 2018, following Mr. Chastanet's resignation from the Board of Directors on July 31, 2018. The Board of Directors thanks Mr. Chastanet for his contribution to the BOSVG over his tenure, which commenced in November 2016.

The Directors on the Board as at December 31, 2018, were:

- Mr. Maurice Edwards – Chairman – Government appointee
- Sir Errol Allen – Government appointee
- Mrs. Judith Veira – Government appointee
- Mrs. Saibrina Brewster- Dickson – Government appointee
- Mr. Omar Davis – ECFH appointee
- Mr. Medford Francis – ECFH appointee
- Mr. Lennox Bowman – NIS appointee
- Mr. Lennox Timm – NIS appointee
- Dr. Timothy Providence – Elected by the Public Shareholders

DIRECTORS' INTEREST

Directors' interests in the ordinary shares of BOSVG as at December 2018 were as follows:

Director
Beneficial Interest

Maurice Edwards
7,500

Errol Allen
5,325

Judith Veira
46,500

Timothy Providence
90,000

Omar Davis
4,665

There was no contract of significance subsisting during or at the end of the financial year in which a Director was materially interested, directly or indirectly.

GOVERNANCE

Risk Governance

The Board of Directors has ultimate responsibility for the effective management of risk within the Bank and is advised on risk-related matters by the Risk and Compliance Committee and the Audit Committee. The primary responsibility of the Risk and Compliance Committee is to provide general oversight of the risk environment of the Bank. This is done through ongoing assessment and monitoring of the effectiveness of the Bank's risk management framework. Day to day responsibility for risk management is delegated to the Manager, Risk and Compliance who reports directly to the Managing Director

"Strength is the product of struggle, you must do what others won't do to achieve what others won't." -Gabrielle Howard
Owner of Get Lashed

and administratively to the Risk Committee of the Board. However, all employees have a role to play in risk management.

The Board also functions through a number of Sub-Committees including the Risk and Compliance Committee and the Audit Committee referred to above. The other Sub-Committees include the Credit Committee and the Human Resources Committee.

Board of Directors Meetings

Meetings of the Board are held every other month. Therefore, the Board convened a total of six (6) meetings for the year 2018. The highest attendance rate at the Board of Directors Meetings was 100% and 78% being the lowest attendance.

Committees Composition & Meetings

Four (4) active Sub Committees of the Board of Directors assisted the Board in carrying out its responsibilities during the 2018 financial year. These were: the Audit Committee, the Risk & Compliance Committee, the Credit Committee and the Human Resources Committee:

- **The Credit Committee** – The Committee members as at December 31, 2018, were Timothy Providence - Chairman, Lennox Bowman, Errol Allen and Saibrina Brewster-Dickson. The Committee is required to meet at least four (4) times for the year and met seven (7) times for 2018 satisfying its Charter requirements. There was 100% attendance for five (5) of these meetings.

- **The Audit Committee** – The Committee members as at December 31, 2018 were Judith Veira - Chairperson, Omar Davis, Maurice Edwards and Lennox Timm. The Audit Committee should meet at least once per quarter (4 times per year) and met four (4) times in 2018. There was a 100% attendance rate for all four meetings.

- **The Human Resources Committee** –The Committee members as at December 31, 2018 were Errol Allen – Chairman, Timothy Providence, Lennox Bowman and Saibrina Brewster-Dickson. The Committee is required to meet at least twice per year and met four (4) times for the year. There was a 100% attendance rate for three of these meetings.

- **Risk & Compliance Committee** –The members of the Risk & Compliance Committee as at December 31, 2018 were Lennox Timm – Chairman, Maurice Edwards, Medford Francis and Judith Veira. The Committee is required to meet at least quarterly and met four (4) times for 2018. There was also a 100% attendance rate for all four meetings.

Due Diligence & Assessments

Directors are required to complete due diligence forms annually, as well as, to conduct annual self-assessments as part of the governance oversight framework. These requirements form part of the governance stipulations outlined in the BOSVG's Board Charter and the Eastern Caribbean Central Bank's Corporate Governance Guidelines. All Directors have completed and submitted the requisite due diligence and self-assessment forms for the year under review and are accordingly, in full compliance with the Board Charter and the Eastern Caribbean Central Bank's Corporate Governance Guidelines.

Improving the Policy Framework

In 2018, the Board took the following decisions regarding governance matters:

- Approved the Three Year Strategic Plan for the period 2018 to 2020
- Approved a Corporate Governance Policy
- Approved a Fit & Proper Policy

In July 2018, the Board approved a plan to review and update BOSVG's policies as required by section 102 of the St. Vincent and the Grenadines Banking Act No. 4 of 2015. This policy review exercise was scheduled to be completed by the first quarter of 2019. A total of twenty-two (22) core policies were identified for review and implementation, including the Fit & Proper Policy and Corporate Governance Policy. Based on the approved schedule, the policies will be thoroughly reviewed and implemented during the 2019 financial year.

DIRECTORS' TENURE

In accordance with article 4.4 of the By-Laws of BOSVG: "Unless his tenure is sooner determined, a Director shall hold office from the date from which he is elected or appointed for a term of three years until the close of the annual meeting of the shareholders following but shall be eligible for re-election if qualified." The following Directors will therefore retire from the Board at the close of the 2019 annual meeting and are eligible for re-appointment/re-election:

- Mr. Maurice Edwards – Chairman – Government appointee
- Sir Errol Allen – Government appointee
- Mrs. Judith Veira – Government appointee
- Mrs. Saibrina Brewster- Dickson – Government appointee
- Mr. Omar Davis – ECFH appointee
- Mr. Medford Francis – ECFH appointee
- Mr. Lennox Bowman – NIS appointee
- Mr. Lennox Timm – NIS appointee
- Dr. Timothy Providence – Elected by the public shareholders

Accordingly, the notifications were sent to the respective shareholders to facilitate the process of electing the Directors for the upcoming term.

DIRECTORS' EDUCATION

Two (2) members of the Audit Committee attended the Caribbean Association of Audit Committee Members Inc. (CAACM) annual conference held over the period June 28, 2018 - June 29, 2018. The Conference was held under the theme "Leading Today: Harnessing the Power of Disruption".

A central element of the development of the Bank's Strategic Plan 2018 – 2020 is the need for the Board's oversight of the implementation of the agreed actions. Accordingly, the Directors received training on the subject 'Oversight for Strategy' in January 2019, which was delivered by Consultant, Dr. Harvi Millar.

SUBSTANTIAL INTEREST IN SHARE CAPITAL AS AT DECEMBER 31, 2018

The shareholding as at December 31, 2018 was as follows:

SHAREHOLDER	NO. OF COMMON SHARES	PERCENTAGE
East Caribbean Financial Holding Company Ltd.	3,000,000	20
The National Insurance Services	2,999,999	20
The Public inclusive of employees of the Bank	2,530,623	16.87
Government of St. Vincent and the Grenadines	6,469,222	43.13

SIGNIFICANT TRANSACTIONS

There were no significant transactions for the period under review.

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

Dividends

A cash dividend in the amount of $ 0.43 per share was declared by the Board on March 22, 2019 for the financial year ending December 31, 2018. The record date for shareholders who are entitled to receive payment of this cash dividend is May 03, 2019. The financial effect of the cash dividend is not included in the financial statements for the year ended December 31, 2018, and will be recognized in the 2019 financial statements.

AUDITORS

The Audit Committee recommended to the Board of Directors the re-appointment of KPMG as the Bank's external auditors for the period January 1 to December 31, 2019.

"A journey through soulful renditions."
- Reajhaun Baptiste
Musician, Entertainer

Management Discussion & Analysis

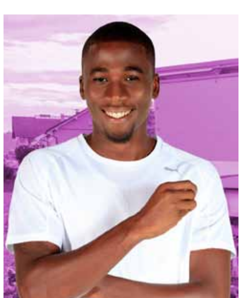
> “The central objective of this strategy is to improve all of the Bank’s asset quality indicators, particularly the reduction of the non-performing loan ratio to well within the regulatory benchmark of 5%.”

The economy of St. Vincent and the Grenadines grew at a rate of 2.0% for 2018; this is in contrast to the 0.7% recorded for 2017. Economic activity was driven by expansion in the fishing, construction, manufacturing and tourism industries[1]. Within the context of the improvement in economic growth, the Bank has managed to turnaround its financial results both in terms of profitability and growth in assets.

OPERATING HIGHLIGHTS

The Bank recorded profits after tax of $12.9 million for the 2018 financial year compared to $0.8 million in 2017. The Bank’s total revenue increased by $4.8 million or 7.7% during the year to reach $66.9 million up from $62.1 million in 2017, while there was an increase in operating expenses of $2.5 million during this same period. The profitability was also positively impacted by the significant reduction in the level of provisioning for credit losses resulting mainly from the net impact of the increase in recovery income and the improvement in the quality of the financial assets of the Bank.

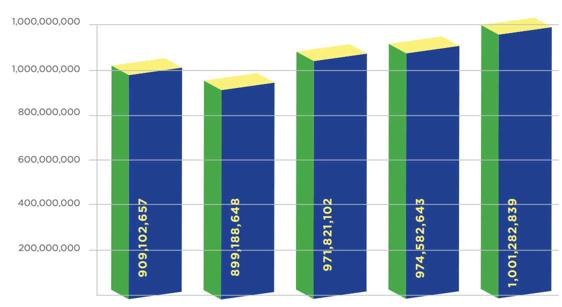
The total assets of the Bank also grew marginally (by 2.7%) from the $974.5 million at the end of 2017, to exceed $1 billion at the end of 2018. This growth rate of the assets of the Bank in 2017 and 2018 is comparable with the level of growth in the economy for the respective periods.



"Everyone needs to have a dependable support system who believes in them. If one set of persons does not support you find someone who does." -Jame Byron
Owner of “JB’s Enterprise”

TOTAL ASSETS

The growth in assets was driven by increases in the investments and loans and advances portfolios of $24 million and $11.6 million respectively. This growth was funded by an increase of $21.4 million in due to customers, which grew by 2.9% to $767.2 million at the end of 2018.



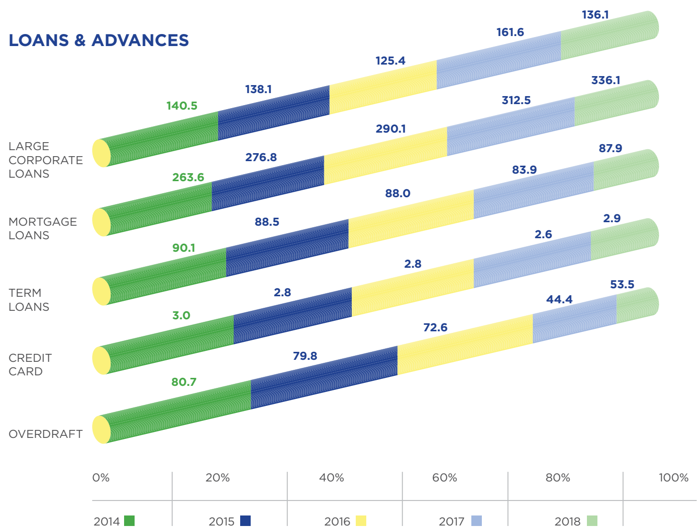
INVESTMENTS

Total investments as at December 31, 2018, amounted to $79 million compared to $55 million at the end of 2017. The increase in the portfolio was consistent with the strategy to utilise excess liquidity and place funds into income generating assets within the Bank’s risk appetite. The majority of this excess liquidity was deployed in investment-grade assets on the international market.

[1]2019 Budget Speech – Minister of Finance, St. Vincent and the Grenadines

LOANS AND ADVANCES

The modest growth in the portfolio was mainly manifested in the retail mortgages category where there was an increase of $23.6 million or 7.6% over the previous year. There was a decline of $25.5 million or 15.8% in the commercial lending portfolio which resulted primarily from the combination of the normal amortisation of the portfolio and the successful liquidation of a number of loans within this category. Total overdraft balances increased by $9.1 million or 20.5%, mainly as a result of increased exposure to the public sector while term loans grew by $4.0 million or 4.8%.



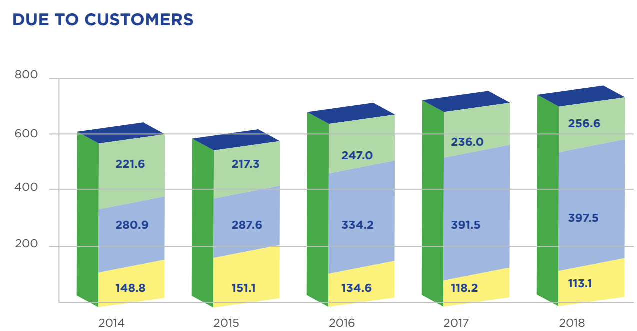
Asset quality improved year on year, with the non-performing loan portfolio declining from 48.3 million or 7.7% as at December 31, 2017, to $39.6 million or 6.2% at December 31, 2018. As noted earlier, the reduction in the non-performing portfolio was due to the successful resolution of several accounts, which were the target of the dedicated recovery strategy. The central objective of this strategy is to improve all of the Bank's asset quality indicators, particularly the reduction of the non-performing loan ratio to well within the regulatory benchmark of 5%.

The Bank adopted International Financial Reporting Standards (IFRS 9 Financial Instruments) on January 1, 2018. The implementation of this standard led to a reduction in the inherent loan provisioning of $3.1 million. In accordance with the requirements of the Standard, this amount was transferred to retained earnings. As a consequence of this, the Board of Directors approved a policy for the establishment of a general provision reserve to set aside these funds as part of the buffer against credit losses. As at December 31, 2018, the aggregate of the provisions for credit losses and the general provision reserves was 50.9% of total non-performing loans.

FUNDING

During the 2018 financial year, the Bank strengthened efforts to optimise its funding structure with a view to reducing the overall cost of funds, while being cognizant of the developments in the international market and their potential adverse impact on liquidity. These efforts resulted in the overall reduction in interest expense despite the increase in deposits during the year.

The growth of 8.7% or $20.6 million in demand deposits was the major contributing factor in the overall deposit growth of $21.4 million. Savings deposits grew by 1.5% or $6.0 million while there was a reduction in term deposits of 4.4% or $5.2 million.



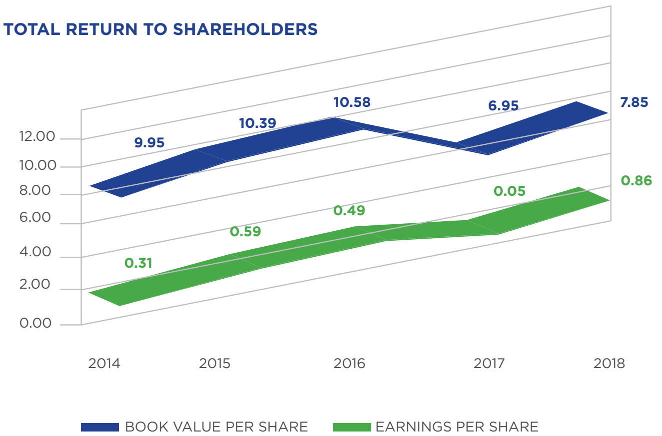
CAPITAL & RESERVES

The Bank's Total Capital & Statutory Reserve grew from $104.3 million to $117.7 million at the end of 2018. During the year, dividends amounting to $2.5 million or $0.17 per share was paid to shareholders. As noted previously, approximately $3.1 million was reclassified to retained earnings as a result of the transition from IAS 39 and implementation of IFRS 9.

While the Banking Act 2015 requires a minimum transfer of 20% of profits after tax to fund shortfalls in the Statutory Reserves on an annual basis, the Board of Directors opted to fully fund the reserve at the end of 2018, with a transfer of $5.8 million from retained earnings.

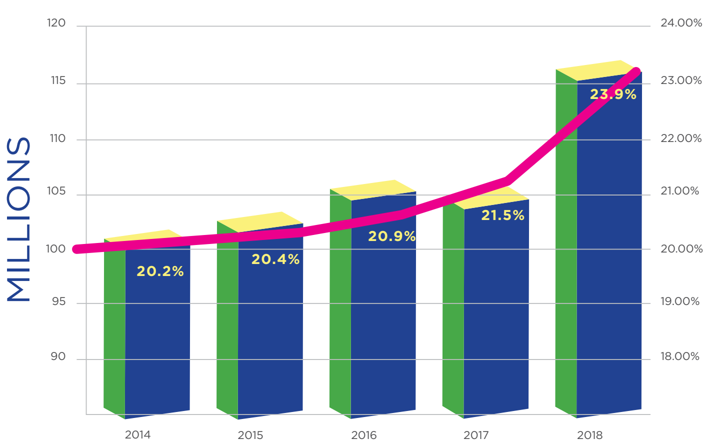
"I am most fulfilled when I am creating and though it gets very challenging on occasion, it is my vocation."
Jeremy Payne
Fashion Designer, Owner of "Fashion is Payne"

TOTAL RETURN TO SHAREHOLDERS



The Bank's Capital Adequacy Ratio improved to 23.9% from 21.5%. This ratio is well above the benchmarked guidelines of 8%. The Bank has commenced preparations for the implementation of Basel II/III and the Eastern Caribbean Central Bank's (ECCBs) Credit Impairment Prudential guidelines and is currently assessing the potential impact the frameworks might have on its capital. The preliminary assessments show that the Bank's capital will remain well above the regulatory limit post implementation of the proposed changes in the regulatory environment.

CAPITAL & RESERVES



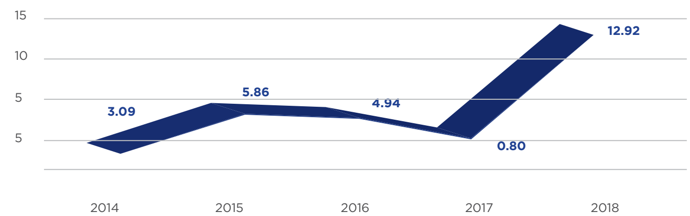
"Being a young artist in Saint Vincent & The Grenadines is very difficult; one must have a deep passion for it in order to succeed. People should do what makes them happy; once you have the drive and believe in yourself enough, nothing is impossible." - Sherika Sayers *Owner of Black Canvas Studios*

OPERATING RESULTS

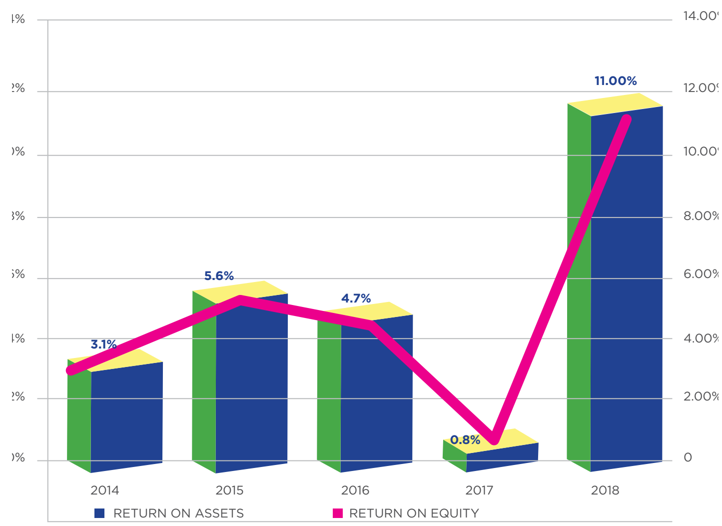
The increase in the current year's profitability was primarily driven by:

1) Increase in net interest income
2) Increase in non-interest income
3) Reduction in credit losses

NET PROFITS



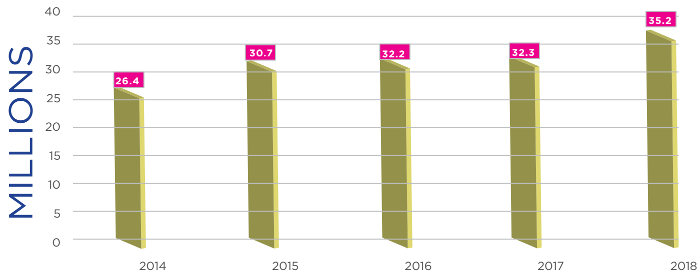
PERFORMANCE INDICATORS



NET INTEREST INCOME

Total interest income grew by $1.3 million, with income from deposits with banks increasing by approximately $0.1 million, while income from loans and advances and investments grew by a combined amount of $1.2 million. Interest expense declined by $1.6 million or 9.2% with a reduction of $1.1 million in expense on savings being the major contributor. The overall decline was consistent with the Bank's strategy to reduce the cost of funds.

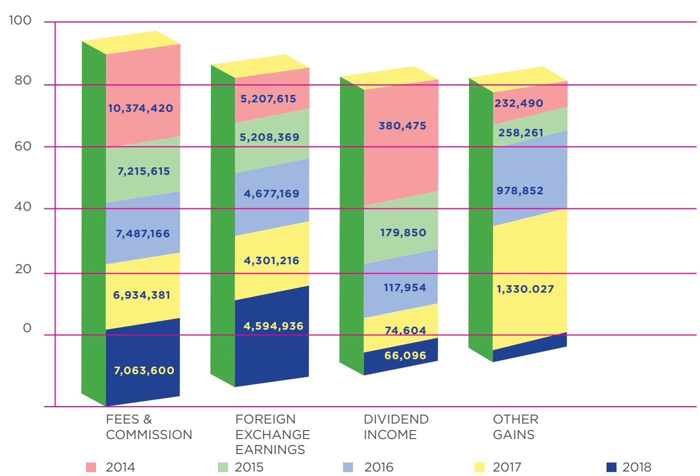
NET-INTEREST INCOME



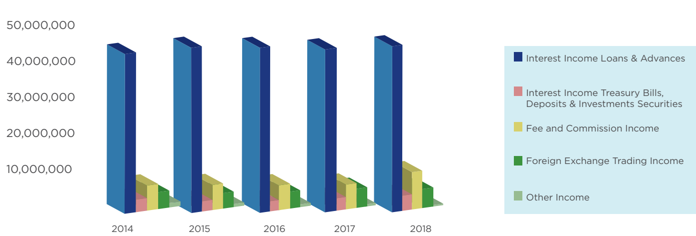
NON-INTEREST INCOME

Total non-interest income grew by approximately $3.5 million mainly due to increases in the fee and commission income. This resulted mainly from a combination of the introduction of a number of new fees and the improvements in the collection of fees generally during the year.

NON-INTEREST INCOME



TOTAL REVENUE



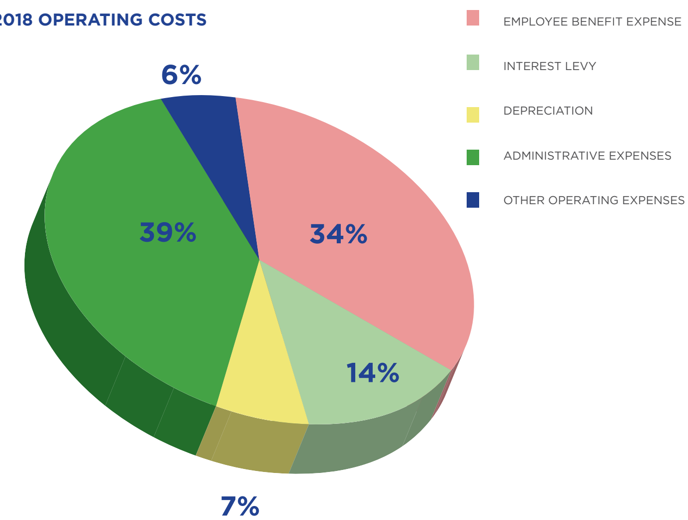
REDUCTION IN PROVISIONS FOR CREDIT LOSSES

Total provision expenses net of recovery income was $2.6 million in 2018 compared to $9.9 million in 2017. This significant reduction is reflective of the overall improvement in asset quality. Additionally, the Bank recovered $1.1 million from amounts previously written off compared to an amount of $0.4 million for the previous financial year.

OPERATING EXPENSES

Total operating expenses, comprising of staff costs and other operating expenses increased by 7.9% to $34.5 million. This increase was mainly in the category of employee benefits, which grew by $2.0 million. The increase in expenses in this category was as a result of costs incurred in repositioning the institution as a stand-alone entity.

2018 OPERATING COSTS

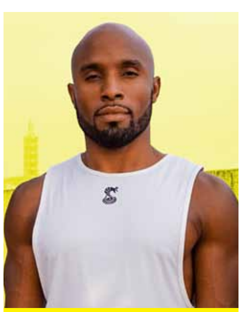


The increased cost of doing business in a complex regulatory environment and its associated compliance cost resulted in an increase in licenses and membership fees of $0.7 million. The increase of $0.3 million in interest levy cost was commensurate with the growth in the deposit portfolio, while the increase in Credit Card expenses of $0.3 million was mainly due to increased transaction levels during the year. However, there was a corresponding increase in the associated revenue from the credit card activities with a margin of approximately 20%.

"Never let the fear of failure stop you from starting."
- Dwayne Alexander
Entrepreneur

Expense Category	2018	2017	2016	2015	2014
Employee benefit expense	11,647,235	9,641,719	9,661,973	10,027,311	9,677,982
Repairs and maintenance	446,777	422,056	472,366	376,371	444,428
Subscription and donations	141,141	157,165	222,823	113,474	665,684
Bank and other licenses	2,280,037	1,548,483	1,166,628	1,061,287	958,162
Legal and professional fees	850,973	783,370	744,729	446,371	111,992
Credit card expenses	2,023,330	1,749,494	1,504,282	1,404,237	1,222,953
Depreciation	2,466,021	2,741,407	2,851,220	2,941,254	3,021,297
Interest levy expense	4,835,151	4,575,432	4,282,163	4,060,066	3,926,720
Rent	292,357	287,126	263,308	260,213	275,117
Audit and accounting fees	252,000	274,374	263,000	312,076	326,029
Insurance	653,062	641,078	569,777	648,215	675,564
Utilities	2,404,862	2,324,176	2,142,765	2,183,852	2,405,120
Director fees	302,283	294,585	345,373	329,452	356,780
Computer expense	64,158	109,459	67,192	105,162	66,439
Commission and fees	2,028,754	1,856,308	1,462,504	1,096,913	949,863
Management fees	-	479,670	909,340	909,340	1,661,935
Advertisement and sponsorship	374,298	312,855	460,091	549,949	355,642
Security	371,796	375,108	421,053	452,047	525,073
Postage and stationery	832,375	815,596	700,573	896,926	766,194
Loss on disposal of investment property	-	-	-	45,010	-
Other operating expenses	2,259,844	2,606,036	2,479,353	2,642,240	2,355,164
Total	**34,526,454**	**31,995,497**	**30,990,513**	**30,861,766**	**30,748,138**

Other Expenses	2018	2017	2016	2015	2014
ATM expenses	88,915	152,734	96,447	215,237	143,798
Cashiers shorts & overs	(8,472)	8,407	(20,669)	(7,087)	(14,068)
Cleaning	161,254	164,982	174,960	178,018	172,485
Motor vehicle	92,576	101,583	106,133	99,434	144,237
Scholarships	108,000	104,500	103,500	112,500	139,321
Travelling	170,956	174,747	187,397	226,320	178,329
Cash carriage	571,574	490,199	618,708	619,991	629,853
Debit card expenses	674,475	575,061	537,988	427,928	353,065
Office toiletries & expenses	221,937	202,069	192,174	150,460	123,573
Recoveries expense	-	-	-	-	834
Sundry gains & losses	172,729	615,669	484,241	608,223	459,780
Transaction fees	1,559	13,965	(5,900)	2,083	12,810
Miscellaneous expenses	4,341	2,120	4,374	9,133	11,147
Total	**2,259,844**	**2,606,036**	**2,479,353**	**2,642,240**	**2,355,164**



"Do not accept labels but rather create your own. We were all born as blank slates, unable to walk, talk, even think in a clear result-driven manner." - Adriel Francois
Owner of Cobra Camp

OUTLOOK

The 2018 performance has laid a solid foundation from which we intend to continue to build. The banking sector continues to face several critical challenges including the increasing threat of cyber security, the emerging threats from new technologies and the risks posed to business continuity, particularly, in the event of natural disaster. We, therefore, have to continue to invest in building new capabilities and competencies to minimize the possible impact on the operations of the Bank. Notwithstanding the existence of these risks, there are opportunities that the Bank will continue to pursue to improve the output in a number of key result areas including earnings, asset quality, efficiency, human capital, risk management, customer and brand value. Given the stable economic outlook, the Bank is also poised to take advantage of the growth opportunities in the market. To this end, we will continue to foster critical alliances and partnerships with appropriate stakeholders to ensure that we maximize the value from the available opportunities.

ACKNOWLEDGEMENTS

The results above could not have been achieved without the leadership of a team of dedicated professionals and support staff that have taken on the responsibility of overseeing the core activities of the Bank. We had to move swiftly to implement a number of large projects during the year, to not only achieve the financial results, but at the same time, to achieve compliance with the evolving regulatory standards within the banking sector. Some of these projects included the review of the core banking policies, the reorganization of a number of functional activities to garner efficiencies, and most significantly, the successful implementation of the new IFRS 9 standard.

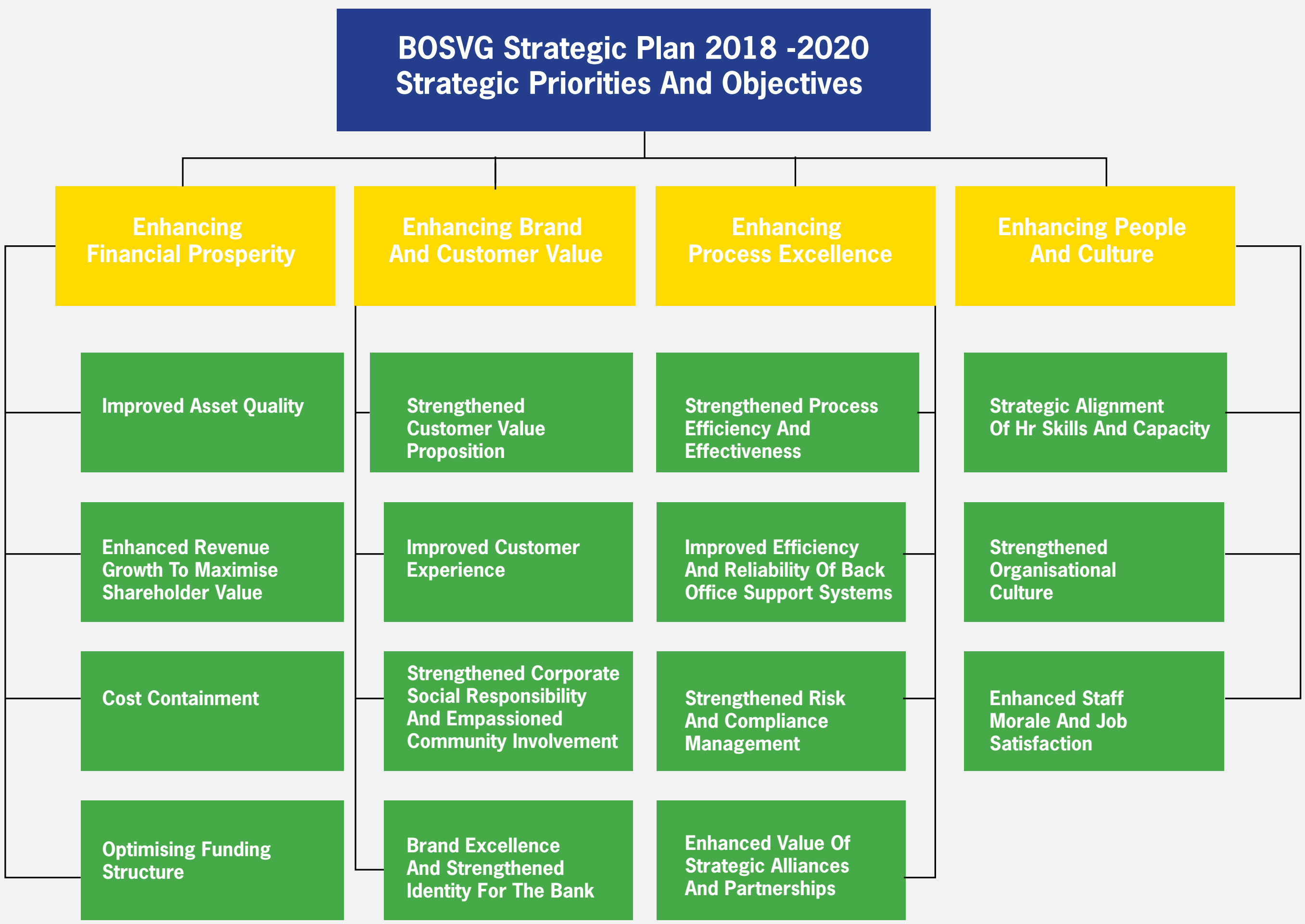
For this, I wish to extend sincerest appreciation to the management team and the rest of the staff for their commitment, and for the hard work that they have contributed during the year. I wish also to extend profound thanks to the Board of Directors for the leadership and guidance provided to the management team.

In closing, I wish to thank all of our customers and other key stakeholders for their support throughout the year. We look forward to advancing our co-operation in ways that are mutually beneficial.

DERRY WILLIAMS
Managing Director

"The most notable achievement in my career is being able to be directly involved in the delivery of Agriculture Extension Education." Michker Edwards
Lecturer, Agripreneur"

Summary of 3 year Strategic Plan



STRATEGIC PRIORITIES	PLAN OF ACTION
ENHANCING FINANCIAL PROSPERITY	By focusing on improving the earnings and overall asset quality, while building and maintaining a strong capital base.
ENHANCING PEOPLE AND CULTURE	By building and aligning the core competencies of the employees with the refreshed mission and vision.
ENHANCING PROCESS EXCELLENCE	By continuously improving the risk management capabilities and engendering an appropriate risk culture while recognizing the need to be forward looking and agile.
ENHANCING CUSTOMER AND BRAND VALUE	By ensuring that the confidence of the customers, the general public and all key stakeholders remains at a very high level.

ENHANCING BRAND AND CUSTOMER VALUE

Rebranding

One of the key pillars of the Bank's 3-year Strategic Plan addresses the constant evolution of the Company's Brand in keeping with the development, changes and challenges of the industry. After seven (7) years the BOSVG's brand has become richly interwoven into the fabric of our society becoming one of its most valuable assets. As we see the company reposition for growth and sustained profitability in a new dispensation, the Bank embarked on a brand refresh that includes an enhanced brand value proposition. This is also underpinned by a modification of the company's brand identity including its logo and tagline, supported by a family of marketing and advertising products. This rebranding is in its embryonic stage and will see a full roll out in the year 2019.

BOSVG
Doing *more* Together

Customer Centricity

Central to our new thrust is Customer Intimacy and Engagement. Significant efforts are underway to enhance our Product Offerings through greater rationalization and streamlining, as well as the implementation of new and improved technologies to meet market demands. These technologies will cover a suite of Convenience Banking services.

The Bank will also engage the use of Social Media and Digital Marketing to better engage emerging demographics.

While we may consider that a large segment of our customers remain loyal, they continue to be motivated mainly by competitive pricing of specific products which has existed in the market for the past five years. Notwithstanding the competitive nature of the market, we have succeeded in maintaining market leadership in deposits and loans over this period. This performance trend will only be maintained if we continuously invest in areas that will increase the overall value to both the customers and the Bank.

HUMAN RESOURCE DEVELOPMENT (HRD)

The development of the human resource capabilities and competencies within the Bank is a central element of the Bank's Strategic Plan. The objectives of the HRD strategy are geared towards the alignment of the key skills within the Bank with the achievement of the overall mission and vision.

During the year, as part of the transition following the divestment by ECFH in June 2017, we commenced the process of the reorganization to achieve the stated objectives by conducting a job evaluation and classification exercise, which included the review of the structure and the attendant skills gaps within the Bank. The findings of the report are being reviewed currently and the implementation of the main recommendations will commence in 2019. A significant aspect of the implementation will be the development of technical and leadership competencies in a number of core areas of the Bank's operation. This will result in a dedicated training programme for the general staff, as well as, specific training for critical positions that will form part of the overall succession planning process to support the succession policy slated to be developed in 2019.

While we are developing the plans to implement the strategic HRD initiatives, we continue to provide training opportunities for our staff. During the year, four employees successfully completed their undergraduate programmes with support from the Bank's education policy of zero percent financing with a refund on successful completion of their programmes. Accordingly, the employees were refunded approximately $30,000 each making a total of $120,000.

KAYLORNE ADAMS

Department: Operations

Qualification: BSc. Management Studies

Date of Employment: July 23, 2003

RASHIDA MALONEY

Department: Central Services Unit

Qualification: BSc. Banking and Finance with Compliance and Corporate Governance Minor

Date of Employment: September 5, 2005

OLDEN THOMAS

Department: Central Services Unit

Qualification: BSc. Banking and Finance

Date of Employment: August 18, 2009

JOHANA CULZAC

Department: Finance

Qualification: BSc. Management Studies (Marketing)

Date of Employment: November 10, 1997

COMMUNITY OUTREACH

Over the course of 2018, the Bank actively supported a number of community development initiatives mainly in the areas of youth development and sports. One of these is the scholarship programme for Secondary Schools and the Community College, which continues to impact many families across St. Vincent and the Grenadines. Our flagship project is the annual calendar dubbed **'Generation Next'**, now in its 5th year. The Calendar continues to showcase the talented young Vincentians across many disciplines. It is a continuous reminder of the promise and great potential that we possess as a Nation. As usual, the 2019 edition of the calendar is featured on the pages of this report.

STEM Summer Program

The following is a list of the projects supported in 2018:

- Coast Guard Youth Development Summer Programme
- SVG Special Olympics
- Rise Up Bequia
- Vincy Mas
- Youlou Arts Foundation Youth programme
- Scholarship programmes
- NTRC Myapp Summer Programme
- STEM Summer Programme
- Rotary's George Phillips Excellence Awards
- Barrouallie Football League
- SVG Netball Association
- The Garifuna Heritage Foundation
- The National Treasures
- Bequia Easter Regatta
- Union Easterval Committee
- Eastern Caribbean Securities Exchange (ECSE) Seminar
- Mayreau Regatta
- Invest SVG Everything Vincy Expo
- Bequia On-Shore Activities Committee
- Financial Information Month(FIM)
- Fancy Unity Farmers' Cooperative (National Heroes Day Festival)
- National Theater Arts Festival

National Theatre Arts Festival

Social Club Church Outing

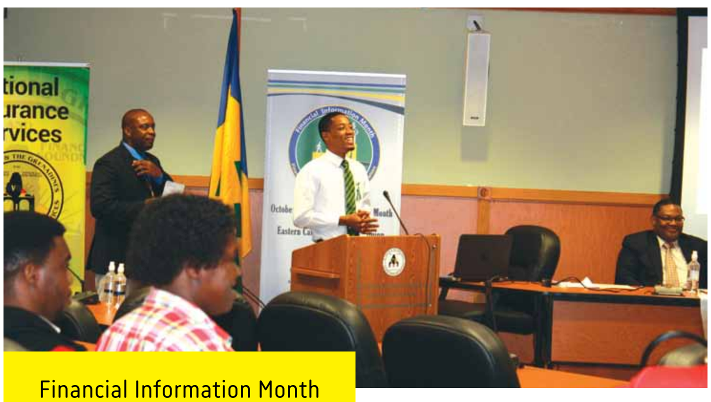
NTRC Myapp Summer Programme

BOSVG Scholarship

Social Club

ECSE BOSVG Group

Coast Guard



Financial Information Month

SVG Special Olympics National Games

BOSVG Scholarship

A total investment of EC$253,595.00 was made into these community-based activities as part of the Bank's corporate social responsibility programme reflecting its deep commitment to national development.

" I disliked the idea of working for someone for years and the way the boss treated us workers pushed me towards becoming my own CEO." -Phillip Hazell
CEO of P&M Metal Works

SHAREHOLDER EMPOWERMENT

A key objective of the Corporate Governance framework of the Bank is to ensure that we foster and maintain a positive relationship with shareholders. We are committed to respecting the rights of all shareholders by creating opportunities for them to participate actively in the corporate governance process. Central to this, is ensuring that shareholders have access at all times to pertinent information that will guide them in making their contributions to the stewardship of the Bank.

Therefore, the following information is provided as part of our initiative to educate and empower shareholders:

WHO IS A SHAREHOLDER OF BOSVG?

A shareholder of the BOSVG is a person who has acquired and retained shares in the Company. The shareholders are the collective owners of the Company.

WHAT ARE SOME OF THE RIGHTS OF SHAREHOLDERS?

Shareholders are entitled to do the following in accordance with the St. Vincent and the Grenadines Companies Act No. 8 of 1994:

- To elect directors (s. 69)
- To remove directors (s.73)
- To appoint Auditors (s.162)
- To remove auditors (s.165)
- To receive notice of meetings (s. 111)
- To vote at shareholders meetings (s.126)
- Through proxy to appoint a proxy holder (s. 138)
- To examine the list of its shareholders (s.124)
- To receive a copy of the financial statements and report of the Auditor (s.153)
- To submit to the company notice of any matter he proposes to raise at the meeting (proposals) (s.114)
- To enter a unanimous shareholder agreement that restricts in whole or in part, the powers of the directors of the company to manage the business and affairs of the company (s.135)
- To approve fundamental amendments to articles (s. 213, 214 & 215)
- To apply to the court for various remedies, such as relief from any oppressive action (s.241) and leave to bring a derivative action in the name and on behalf of the company or any of its subsidiaries (s.239)

WHAT IS THE MOST COMMON WAY IN WHICH PERSONS CAN BECOME SHAREHOLDERS OF BOSVG?

Persons can become shareholders of BOSVG by purchasing shares from existing shareholders who are offering shares for sale. The BOSVG's shares can only be purchased through the Eastern Caribbean Securities Exchange (ECSE). The ECSE is a regional securities market, established by the Eastern Caribbean Central Bank (ECCB) in 2001 and licensed under the Securities Act, which governs the securities market activities. The ECSE facilitates the buying and selling of financial products such as Shares (also known as corporate stocks); Corporate Bonds, Government Bonds and Government Treasury Bills for the eight ECCB member territories. These instruments are referred to as Securities.

There are currently thirteen listed companies including BOSVG on the ECSE. Listing refers to a Company's shares being on the list of stocks that are officially traded on a stock exchange.

BOSVG's trading symbol on the ECSE is BOSV.

HOW CAN YOU BUY OR SELL SECURITIES ON THE ECSE?

Businesses licenced to act as Securities Market Intermediaries, also known as Limited Service Brokers and Broker/Dealers, purchase and sell securities on behalf of investors on the ECSE. There are currently six Broker/Dealers operating on the Eastern Caribbean Securities Market licensed under the Eastern Caribbean Securities Regulatory Commission (ECSRC). The ECSRC is the regulatory body that administers the securities legislation governing securities business in the Eastern Caribbean Currency Union. Bank of St. Vincent and the Grenadines Ltd. is the sole licensed Broker/Dealer registered in St. Vincent and the Grenadines.

The procedures to buy securities on the ECSE through the broker-dealer are:

- Establish an account with a licensed broker-dealer by providing them with a photo ID of yourself and completing the required forms.
- Provide the Broker/Dealer with the necessary details of the transaction request, i.e. the shares you want to buy including the amount and the maximum price you are willing to pay.
- Provide the Broker/Dealer with the amount of money required for completing the order.
- On the day your order is executed, the Broker/Dealer will contact you to notify you of the same.
- You will receive written confirmation from your Broker/Dealer of your order being successfully executed a day after its execution and the Eastern Caribbean Central Securities Registry (ECCSR) will notify you of your investor ID and Registry account number for the securities you have just acquired.

WHAT IS A DIVIDEND?

Owners of shares, otherwise known as shareholders, may receive periodic income payments from profits/ reserves of the company known as dividends. Dividends are never guaranteed since the value of the investment fluctuates based on market conditions.

WHAT IS A STOCK DIVIDEND?

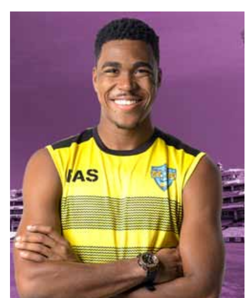
A stock dividend is a dividend payment made in the form of additional shares issued to shareholders instead of a cash payment.

WHAT IS BOSVG'S DIVIDEND HISTORY?

BOSVG declared cash dividends for the past six (6) financial years, 2013, 2014, 2015, 2016, 2017 and 2018. The table below shows the cash dividend declared over the past six (6) years:

Items	2013	2014	2015	2016	2017	2018
Total dividend Paid	$3,700,000	$1,500,000	$2,900,000	$2,551,157	$2,549,973	$6,449,932
Dividend per share	0.37c	0.15c	0.29c	0.17c	0.17c	0.43c
Return on Equity	7.5%	3.1%	5.6%	4.7%	0.8%	11.0%
Share price (NBV)	$10.02	$9.95	$10.39	$10.58	$6.95	$7.85
Earnings per Share	0.75c	0.31c	0.59c	0.49c	0.05c	0.86c

In 2017, BOSVG issued an interim stock dividend in the amount of $6 million to all shareholders on record as at February 3, 2017. This represented one for two stock dividend to shareholders. The 2015 Banking Act requires commercial banks to increase its minimum paid-up capital from $5.0 million to $20.0 million. To comply with the new Act, the Board of Directors of BOSVG approved the transfer of $6 million from retained earnings to issued capital upon approval of the Eastern Caribbean Central Bank. This increased BOSVG's paid-up capital from $14.7 million to $20.7 million in full compliance with the requirement of the Act. The total shareholding increased from 10,000,000 to 14,999,844.



"Put God first in everything, and anything is possible through hard work, hard work never betrays. Self motivation is key everything will fall into place." - Obed McCoy
Cricketer

INVESTING IN A FUTURE OF EVEN GREATER SUCCESS

With visionary development, deep commitment and a timeless devotion to personal and national development.

Bank of St. Vincent and the Grenadines Ltd
Consolidated Financial Statements
For the year ended 31 December 2018

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St. Vincent and the Grenadines

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Independent Auditors' Report

To the Shareholders of Bank of St. Vincent and the Grenadines Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bank of St. Vincent and the Grenadines Ltd. and its subsidiary (collectively, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, 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 (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in St. Vincent and the Grenadines, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Independent Auditors' Report (continued)

To the Shareholders of Bank of St. Vincent and the Grenadines Ltd.

Key Audit Matters (continued)

Key Audit Matter	How the matter was addressed in our audit
IFRS 9 Expected Credit Losses	
Refer to Notes 2, 9, 10, and 37 of the consolidated financial statements IFRS 9, *Financial Instruments*, was implemented by the Group on January 1, 2018. The standard, which replaced IAS 39 *Financial Instruments: Recognition and Measurement* is new and complex and requires the Group to recognise expected credit losses ('ECL') on financial assets, the determination of which is highly subjective and requires management to make significant judgement and estimates. The key areas requiring a greater level of judgement by management and therefore increased audit focus include the identification of significant increase in credit risk ('SICR') and the application of forward-looking information. The identification of significant increase in credit risk is a key area of judgement as these criteria determine whether a 12 month or lifetime provision is recorded (i.e. the Stage allocation process). IFRS 9 requires the Group to measure expected credit losses on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is used in determining the economic scenarios and management overlay.	**General** We understood management's process and reviewed key activities around the determination of expected credit loss allowances including: - Appropriateness of modeling methodology; - Model approval; - The identification of credit impairment events; and - The review, challenge and approval of the expected credit loss allowances, including the impairment model outputs, key management judgments and overlays applied. **Stage 1 and Stage 2 Loans and advances** • Obtained an understanding of the impairment model used by management for the calculation of expected credit losses. • Tested the completeness and accuracy of the key data inputs used in the model to the underlying accounting records. • Involved our actuarial specialists to evaluate the reasonableness of the Group's ECL estimates based on the underlying ECL models produced by the Group. As part of this, the specialists reviewed the methodologies and assumptions employed within the models for reasonableness. This included a review of the SICR criteria used, the derivation and assumptions selected for probability of default, loss given default and the exposure at default. Additionally the specialists considered the appropriateness of using a management's overlay approach in lieu of a regression model based on the statistical credibility results provided.

Independent Auditors' Report (continued)

To the Shareholders of Bank of St. Vincent and the Grenadines Ltd.

Key Audit Matters (continued)

Key Audit Matter	How the matter was addressed in our audit
IFRS 9 Expected Credit Losses (cont'd)	
For the Group's loans and advances in Stage 1 and 2 (i.e. *Stage 1* - loans which had not experienced a significant increase in credit risk since origination and; *Stage 2* - those that had experienced such), the allowance is determined on a collective basis with the use of impairment models. These models use a number of key assumptions including probability of default, loss given default and valuation of recoveries. Management also apply overlays where they believe the model calculated assumptions and allowances require refinement due to historical trends or due to the model limitations. For the Group's loans and advances in Stage 3 (i.e. credit impaired facilities) expected credit losses are estimated on an individual basis. Specific criteria has been developed to identify loans that have become credit impaired. However judgement is exercised to determine whether any additional loans are exhibiting specific characteristics that would lead to such classification. The Group then estimates the expected future cash flows related to those loans. We therefore determined that the impairment of loans and advances has a high degree of estimation uncertainty. Disclosures regarding the Group's application of IFRS 9 are key to understanding the change from IAS 39 as well as explaining the key judgements and material inputs to the IFRS 9 ECL results.	**Stage 3 Loans and advances** • We critically assessed the criteria for determining whether a credit impairment event had occurred. This involved reviewing a sample of loan facilities in Stage 1 and 2 for indicators of a credit impairment event based on determined risk characteristics. • We assessed the adequacy of the impairment allowance for loans and advances by testing the key assumptions used in the Group's ECL calculations including forecasts of future cash flows and timing of such. • We involved our internal valuation specialists in the review of third party valuations of the underlying collateral security supporting a sample of loans and advances. • We also considered the current market conditions and compared these against the Group's historical experience of the realization of security and actual collection of cash flows. • Re-performed management's allowance calculation. **Financial statement disclosures** • Assessed the adequacy of the disclosures of the key assumptions and judgements and the details of the transition adjustment for compliance with the standard.

Independent Auditors’ Report (continued)

To the Shareholders of Bank of St. Vincent and the Grenadines Ltd.

Other Matter

The consolidated financial statements of Bank of St. Vincent and the Grenadines Ltd. for the year ended 31 December 2017, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 19 March 2018.

Other Information

Management is responsible for the other information. The other information comprises the Group’s 2018 Annual Report, but does not include the consolidated financial statements and our auditors’ report thereon. The Annual Report is expected to be made available to us after the date of this auditors’ report.

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

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

When we read the Group’s 2018 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the 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.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Independent Auditors' Report (continued)

To the Shareholders of Bank of St. Vincent and the Grenadines Ltd.

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

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

- Identify and assess the risks of material misstatement of the 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 auditors' 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 auditors' 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report (continued)

To the Shareholders of Bank of St. Vincent and the Grenadines Ltd.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, 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 auditors' 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 auditors' report is Lisa Brathwaite.

KPMG

KPMG
Kingstown, St. Vincent and the Grenadines
22 March 2019

Bank of St. Vincent and the Grenadines Ltd.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(expressed in Eastern Caribbean dollars)

	Note	2018 $	2017 $
Assets			
Cash and balances with Eastern Caribbean Central Bank	5	**105,753,066**	118,625,250
Deposits with other banks	6	**118,850,378**	115,572,633
Treasury bills	7	**10,290,846**	10,401,918
Investment securities	8	**79,013,983**	55,025,191
Loans and advances to customers	9	**616,595,632**	605,030,164
Investment security at amortised cost	11	**9,924,905**	10,032,877
Investment properties	12	**2,232,000**	2,412,000
Property and equipment	13	**53,020,306**	53,190,104
Deferred tax asset	15	**1,592,111**	-
Other assets	16	**4,009,612**	4,292,506
Total assets		**1,001,282,839**	974,582,643
Liabilities			
Deposits from banks	17	**37,863,272**	35,248,997
Due to customers	18	**767,161,792**	745,782,313
Borrowings	19	**38,284,024**	42,095,265
Deferred tax liability	15	-	47,105
Provisions and other liabilities	20	**40,298,037**	47,136,292
Total liabilities		**883,607,125**	870,309,972
Equity			
Share capital	21	**20,753,306**	20,753,306
Statutory reserves	22	**20,753,306**	14,912,580
General provision reserves	23	**3,133,354**	-
Unrealised (loss)/gain on investments		**(95,386)**	1,725,685
Retained earnings		**73,131,134**	66,881,100
Total equity		**117,675,714**	104,272,671
Total liabilities and equity		**1,001,282,839**	974,582,643

Approved by the Board of Directors on 22 March 2019

M. Edwards ....Director

....Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(expressed in Eastern Caribbean dollars)

	Notes	Share Capital (Note 21) $	Statutory Reserves (Note 22) $	General Provision Reserves (Note 23) $	Unrealised (Loss)/Gain on Investments $	Retained Earnings $	Total $
Balance at 1 January 2017		14,753,306	14,753,306	-	1,529,887	74,795,159	105,831,658
Transfers	21, 22	6,000,000	159,274	-	-	(6,159,274)	-
Total comprehensive income		-	-	-	195,798	796,372	992,170
Dividend paid ($0.17 per share)		-	-	-	-	(2,551,157)	(2,551,157)
Balance at 31 December 2017		20,753,306	14,912,580	-	1,725,685	66,881,100	104,272,671
Balance at 1 January 2018 (as previously reported)		**20,753,306**	**14,912,580**	**-**	**1,725,685**	**66,881,100**	**104,272,671**
Net impact of adopting IFRS 9	37	**-**	**-**	**-**	**(1,725,685)**	**4,859,039**	**3,133,354**
Restated opening balance under IFRS 9		**20,753,306**	**14,912,580**	**-**	**-**	**71,740,139**	**107,406,025**
Transfer to statutory reserves	22	**-**	**5,840,726**	**-**	**-**	**(5,840,726)**	**-**
Transfer to general provision reserves	23	**-**	**-**	**3,133,354**	**-**	**(3,133,354)**	**-**
Total comprehensive income		**-**	**-**	**-**	**(95,386)**	**12,915,048**	**12,819,662**
Dividend paid ($0.17 per share)		**-**	**-**	**-**	**-**	**(2,549,973)**	**(2,549,973)**
Balance at 31 December 2018		**20,753,306**	**20,753,306**	**3,133,354**	**(95,386)**	**73,131,134**	**117,675,714**

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

Bank of St. Vincent and the Grenadines Ltd.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2018

(expressed in Eastern Caribbean dollars)

	Notes	2018 $	2017 $
Interest income	25	**50,965,020**	49,659,001
Interest expense	25	**(15,777,317)**	(17,382,035)
Net interest income		**35,187,703**	32,276,966
Fee, commission and other income	26, 28, 29	**15,582,035**	12,240,527
Dividend income	27	**380,475**	179,850
Allowances for credit losses on financial assets	32	**(2,559,163)**	(9,911,971)
Operating expenses	30	**(34,526,454)**	(31,995,497)
Profit before income tax		**14,064,596**	2,789,875
Income tax expense	33	**(1,149,548)**	(1,993,503)
Profit for the year		**12,915,048**	796,372
Basic and diluted earnings per share	34	**0.86**	0.05

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Profit for the year	**12,915,048**	796,372
Other comprehensive income ***Items that are or may be reclassified to profit or loss in subsequent periods:***		
Unrealised gain on available-for-sale investments	**-**	195,798
Net change in fair value of debt instruments measured at FVOCI	**(95,386)**	-
Other comprehensive (loss)/income for the year, net of tax	**(95,386)**	195,798
Total comprehensive income for the year	**12,819,662**	992,170

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Cash flows from operating activities		
Profit for the year	**12,915,048**	796,372
Adjustments for:		
Interest income – investment securities and deposits	**(4,220,495)**	(3,549,911)
Interest expense – borrowings	**1,925,368**	1,984,684
Loan impairment losses	**3,653,325**	8,943,101
Credit losses on investment securities	**1,200**	-
Credit losses on other financial assets	**(4,525)**	1,824,911
Depreciation	**2,466,021**	2,741,407
Recovery of impairment losses on investments	**(13,911)**	(415,974)
Dividend income	**(380,475)**	(179,850)
Fair value loss on investment property	**180,000**	-
Loss on disposal of investment property	**-**	183,484
Gain on disposal of property and equipment	**(60,232)**	-
Income tax expense	**1,149,548**	1,993,503
	17,610,872	14,321,727
Changes in:		
Mandatory deposits with Eastern Caribbean Central Bank	**(1,282,769)**	(1,798,210)
Loans and advances to customers	**(15,215,468)**	(35,159,530)
Other assets	**282,894**	1,360,625
Due to customers	**21,379,479**	29,970,161
Deposits from banks	**2,614,275**	(4,791,808)
Other liabilities	**(4,644,908)**	(16,757,083)
	20,744,375	(12,854,118)
Dividends received	**380,475**	179,850
Interest received	**4,220,495**	3,549,911
Interest paid	**(1,961,184)**	(1,935,802)
Income tax paid	**(2,123,932)**	(708,747)
Net cash from/(used in) operating activities	**21,260,229**	(11,768,906)
Cash flows from investing activities		
Interest bearing deposits with financial institutions	**(20,451,229)**	(48,017)
Proceeds from sale of investment property	**-**	184,516
Proceeds from disposal and redemption of investment securities	**9,498,133**	9,556,663
Purchase of investment securities	**(33,132,204)**	(21,253,788)
Purchase of property and equipment	**(2,301,991)**	(2,198,005)
Proceeds from disposal of property and equipment	**66,000**	-
Net cash used in investing activities	**(46,321,291)**	(13,758,631)

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Cash flows from financing activities		
Dividends paid	**(2,549,973)**	(2,551,157)
Repayment of borrowings	**(4,282,650)**	(4,304,591)
Proceeds from borrowings	**454,175**	-
Net cash used in financing activities	**(6,378,448)**	(6,855,748)
Net decrease in cash and cash equivalents	**(31,439,510)**	(32,383,285)
Cash and cash equivalents at beginning of year	**197,354,931**	229,738,216
Cash and cash equivalents at end of year (Note 35)	**165,915,421**	197,354,931

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

1 General information

Bank of St. Vincent and the Grenadines Ltd. ("the Bank"), (formerly the National Commercial Bank (SVG) Ltd.) a company listed on the Eastern Caribbean Securities Exchange, was incorporated in St. Vincent and the Grenadines on 1 June 1977. On 19 June 2009, the Bank and the St. Vincent and the Grenadines Development Bank Inc. were amalgamated and continued under the name of the National Commercial Bank (SVG) Ltd. The Bank's name was changed to Bank of St. Vincent and the Grenadines Ltd. on 26 November 2012. In addition to the Company's Act of 1994, the Bank is subject to the provisions of the Banking Act 2015, the Securities Act #29 of 2001 and provisions of other legislations applicable to the business of the Bank.

Property Holdings SVG Ltd. ("the Subsidiary") is wholly owned by the Bank. The Subsidiary was incorporated in St. Vincent and the Grenadines on 13 December 2010. The Subsidiary's principal activity is to own, develop and manage real estate properties acquired by the Bank.

The principal activities of the Bank and its Subsidiary (the Group) are the provision of retail, corporate, banking and investment services in St. Vincent and the Grenadines. The Bank is publicly listed on the Eastern Caribbean Stock Exchange.

The Group's principal place of business and registered office is located at Reigate, Granby Street, Kingstown, St. Vincent.

2 Summary of significant accounting policies

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

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) as at 31 December 2018 (the reporting date).

The consolidated financial statements for the year ended 31 December 2018 were approved by the Board of Directors for issue on 22 March 2019.

Basis of preparation

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

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

New and amended standards and interpretations

The Group has initially adopted IFRS 9 and IFRS 15 from 1 January 2018.

A number of other new standards are also effective from 1 January 2018 but they did not have a material effect on the Group's consolidated financial statements.

Due to the transition method chosen by the Group in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The effect of initially applying these standards is mainly attributed to the following:

- a decrease in impairment losses recognised on financial assets (Note 37)
- additional disclosures related to IFRS 9 (Notes 2, 8, 10 and 37)

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 2 to all periods presented in the consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers*
On 1 January 2018, the Group adopted IFRS 15 *Revenue from Contracts with Customers* as issued in May 2014 by the IASB which replaced IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations. IFRS 15 defines principles for recognising revenue and is applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases continues to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g. IFRS 9 and IFRS 16).

The standard requires the identification of distinct performance obligations within a contract, and allocation of the transaction price of the contract to those performance obligations. Revenue is then recognised as each performance obligation is satisfied. The standard also provides guidance on whether the entity is acting as a principal or an agent which impacts the presentation of revenue on a gross or net basis. It also provides a model for the recognition and measurement of disposal of certain non-financial assets including property, equipment and intangible assets.

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

IFRS 9 *Financial Instruments*
On 1 January 2018, the Group adopted IFRS 9 *Financial Instruments* as issued by the IASB in July 2014, which replaced IAS 39 *Financial Instruments: Recognition and Measurement*. The adoption of this standard resulted in changes in accounting policies and adjustments to the financial statements. The accounting policies that relate to the classification, measurement and impairment of financial assets were amended to comply with this standard. The total adjustment on the adoption of IFRS 9 to the opening balance of the Group's equity on 1 January 2018 was an increase of $3,133,354 (Note 37).

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

New and amended standards and interpretations*...continued*

Changes to classification and measurement
To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Group's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available-for-sale (AFS), held-to-maturity (HTM) and amortised cost) have been replaced by:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on de-recognition;
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition; and
- Financial assets at FVTPL.

The accounting for financial liabilities remains largely the same as under IAS 39.

The Group's classification of its financial assets and liabilities is described in Note 2. The quantitative impact of applying IFRS 9 as at 1 January 2018, is disclosed in the transition disclosures in Note 37.

Changes to impairment calculation
The adoption of IFRS 9 has resulted in fundamental changes to the Group's accounting for impairment of financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

Details of the Group's impairment methodology are disclosed in Note 2. The quantitative impact of applying IFRS 9, as at 1 January 2018, is disclosed in the transition disclosures in Note 37.

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

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

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

New and amended standards and interpretations*...continued*

Transition*…continued*

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 37.

New and amended standards and interpretations issued but not yet effective

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

IFRS 16 *Leases* (effective 1 January 2019)

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be required to re-measure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

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

New and amended standards and interpretations issued but not yet effective*...continued*

IFRIC 23 *Uncertainty over Income Tax Treatments* (effective 1 January 2019)
The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

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

Amendments to IFRS 9 *Financial Instruments* (effective 1 January 2019*)*
Amendments to IFRS 9 *Financial Instruments* relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

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

Consolidation

The financial statements of the Subsidiary used to prepare the consolidated financial statements were prepared as of the parent entity's reporting date of 31 December 2018. The consolidation principles are unchanged as against the previous year.

The consolidated financial statements of the Group comprise the financial statements of the parent entity and its Subsidiary (collectively referred to as the "Group") as of 31 December 2018.

Control is achieved when the Group is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure to, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

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

Consolidation*…continued*

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective acquisition date or up to the effective date on which control ceases, as appropriate.

(expressed in Eastern Caribbean dollars)

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

Consolidation*…continued*

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting methods.

Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. Any losses applicable to the non-controlling interest are allocated against the interests of the non-controlling interest even if this results in a deficit balance. Non-controlling interests are presented separately within equity in the consolidated statement of financial position.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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

Fair value measurement

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

• Disclosures for valuation methods, significant estimates and assumptions	Notes 2 and 4
• Quantitative disclosures of fair value measurement hierarchy	Note 3
• Investment properties	Note 12
• Financial instruments (including those carried at amortised cost)	Notes 3 and 8

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

a) Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including: cash and non-restricted balances with the Eastern Caribbean Central Bank (ECCB), treasury bills, deposits with other banks, deposits with non-bank financial institutions and other short-term securities.

b) Statutory deposits with Eastern Caribbean Central Bank (ECCB)
Pursuant to the Banking Act of St. Vincent and the Grenadines 2015, the Group is required to maintain specified assets as a reserve requirement for its deposit liabilities. The minimum requirement is 6% of the average deposit liabilities over a four-week period.

(expressed in Eastern Caribbean dollars)

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

Fair value measurement*...continued*

c) Financial instruments

Recognition and initial measurement

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

Measurement categories of financial assets

From 1 January 2018, the Group classifies all of its financial assets into one of the following categories:

- Amortised cost as explained in Note 2
- FVTPL as explained in Note 2 or
- FVOCI as explained in Note 2.

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

Financial assets

Under IFRS 9 (Policy applicable from 1 January 2018)

Deposits with other banks, treasury bills, loans and advances to customers and investment securities

The Group measures deposits with other banks, treasury bills, loans and advances to customers and investment securities at amortised cost if the following criteria are met:

- the financial asset is held within a business model with the objective to hold the financial asset in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Debt instruments

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

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

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

Financial assets*...continued*

Debt instruments*...continued*
Investments in debt instruments are measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

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

Business model assessment
With the adoption of IFRS 9, the business model test was used by the Group to migrate the instruments along with the SPPI test to the new reporting classification. The assessment was done by reviewing the investments under the existing IAS 39 classification and selecting the business model that best suits the individual instruments in the respective classification.

The objective of this test was to determine whether an arrangement pays only interest and principal and would then qualify as a basic lending arrangement. An instrument would therefore pass the SSPI test if it does not introduce risks or volatility that is inconsistent with a basic lending arrangement. Conversely, financial assets which have SPPI characteristics but are held within the business model whose objective is both to collect the contractual cash flows and to sell the financial assets ("hold to collect" and sell) are subsequently measured at fair value through other comprehensive income (FVOCI).

The Group currently holds loans and advances solely for the collection of principal and interest. Based on the business model, it is the Group intention to hold these instruments until they are fully amortised. However, there may be instances where the Group may need to dispose of a portion of its portfolio to meet liquidity requirements this is however only done in exceptional circumstances and is not considered to be the sole purpose of negotiating these instruments.

For the held-to-maturity (HTM) instruments the “hold to collect” business model was adopted since the objective is to hold the financial asset and to collect contractual cash flows. The existing fixed income HTM portfolio consists only of bond instruments with fixed contractual cash flows. Since investment disposals, for this portfolio are infrequent and incidental to the model’s objective, the measurement category used will be amortised cost.

Finance instruments held for trading which are primarily for the Group’s repo portfolio were assessed by using the business model from IFRS 9. This portfolio consists of only bullet type fixed income instruments with contractual cash flows. Based on the nature of the portfolio, which is being used as the underlying instrument for these repurchase agreement contracts, the model does not conform with the “hold to collect” or “hold to collect and sell”. Due to this, these instruments will be classified as FVTPL.

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

Financial assets*...continued*

Business model assessment*...continued*
Financial instruments at FVTPL comprises of our externally and internally managed assets. These portfolios are managed at the portfolio manager's discretion and the objective being one of yield maximization can include a risk or portfolio rebalancing objective. These portfolios are actively managed and buying and selling of securities are done almost daily. Therefore, the portfolio objective is one of hold to collect and sell. The equity component of the portfolios were measured at FVTPL with the exception of the strategic investments which were measured at FVOCI.

Equity investments under the new IFRS 9 are always reported at fair value since they fail the SPPI test. Under IAS 39 the Group's equity instruments fell under the AFS classification. The majority of these investments represents participation interest in a number of sub-regional projects which were designed to improve the efficiency of the services provided to the indigenous banking sector in the Eastern Caribbean Currency Union. Hence, the Group's intention was to hold these investments for a long term. Due to the cost and difficulties in obtaining information that will facilitate accurate fair value measurement, the Group made a decision to recognize these instruments at FVOCI.

The SPPI Test
As a second step of the classification process, the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI criteria.

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

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial assets is denominated and the period for which the interest rate is set.

In contrast, the contractual terms that introduce a more than de minimis exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases the financial asset is required to be measured at FVTPL or FVOCI without recycling.

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

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

Financial assets*...continued*

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

Debt instruments measured at fair value through other comprehensive income (FVOCI)
Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in non-interest income in the consolidated statement of income on an average cost basis. Foreign exchange gains and losses that relate to the amortised cost of the debt instrument are recognised in the consolidated statement of income.

Premiums, discounts and related transaction costs are amortised over the expected life of the instrument to interest income in the consolidated statement of income using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the consolidated statement of financial position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to provision for credit losses in the consolidated statement of income. The accumulated allowance recognised in OCI is recycled to the consolidated statement of income upon derecognition of the debt instrument.

Debt instruments measured at fair value through profit or loss (FVTPL)
Debt instruments are measured at FVTPL for assets:

— held for trading purposes;
— held as part of a portfolio managed on a fair value basis; or
— whose cash flows do not represent payments that are SPPI.

These instruments are measured at fair value in the consolidated statement of financial position, with transaction cost recognised immediately in the consolidated statement of income as part of non-interest income. Realised and unrealised gains and losses are recognised as part of non-interest income in the consolidated statement of income.

Debt instruments designated at FVTPL
Financial assets classified in this category are those that have been designated by the Group upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is available only for those financial assets for which a reliable estimate of fair value can be obtained.

Financial assets are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise.

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

Financial assets...*continued*

Debt instruments measured at fair value through profit or loss (FVTPL) ...*continued*
Financial assets designated at FVTPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognised in non-interest income in the consolidated statement of income.

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

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

Equity instruments measured at FVTPL
Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase, with transaction costs recognised immediately in the consolidated statement of income as part of non-interest income. Subsequent to initial recognition the changes in fair value are recognised as part of non-interest income in the consolidated statement of income.

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

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

Financial liabilities
The Group will continue to recognise financial liabilities at amortised cost.

Reclassification of financial assets and liabilities
From 1 January 2018, the Group ceased reclassifying its financial assets subsequent to their initial recognition, apart from exceptional circumstances in which a major acquisition or disposal is deemed. On adoption of IFRS 9, the Group classified its financial assets and liabilities in accordance with its existing business models. If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. Changes in contractual cash flows are considered under the accounting policy on modification and de-recognition of financial assets described below.

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

Financial assets*...continued*

Derecognition of financial assets and liabilities

Derecognition of financial assets

The derecognition criteria are applied to the transfer of part of an asset, rather than the asset as a whole, only if such part comprises specifically identified cash flows from the asset, a fully proportionate share of the cash flows from the asset or a fully proportionate share of specifically identified cash flows from the asset.

A financial asset is derecognised when the contractual rights to the cash flows from the asset has expired; or the Group transfers the contractual rights to receive the cash flows from the financial asset; or has assumed an obligation to pay those cash flows to an independent third-party; or the Group has transferred substantially all the risks and rewards of ownership of that asset to an independent third-party. Management determines whether substantially all the risk and rewards of ownership have been transferred by quantitatively comparing the variability in cash flows before and after the transfer. If the variability in cash flows remains significantly similar subsequent to the transfer, the Group has retained substantially all of the risks and rewards of ownership.

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Group derecognizes the transferred asset only if it has lost control over that asset. Control over the asset is represented by the practical ability to sell the transferred asset. If the Group retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement. At times such continuing involvement may be in the form of investment in senior or subordinated tranches of notes issued by non-consolidated structured entities.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the consolidated statement of income.

Transfers of financial assets that do not qualify for derecognition are reported as secured financing in the consolidated statement of financial position.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, canceled or expires. If an existing financial liability is replaced by another from the same counterparty on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability at fair value. The difference in the respective carrying amount of the existing liability and the new liability is recognised as a gain/loss in the consolidated statement of income.

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

Financial assets*...continued*

Impairment of financial assets
Policy applicable from 1 January 2018
The Group recognizes loss allowances for expected credit losses (ECLs) on the following financial assets that are not measured at FVTPL:

- debt instruments measured at amortised cost and fair value through other comprehensive income;
- lease receivables;
- loan commitments; and
- financial guarantee contracts.

The measurement of expected credit loss involves increased complex judgement that includes:

Determining a significant increase in credit risk since initial recognition.

- The assessment of significant deterioration since initial recognition is key in establishing the point of switching between the requirement to measure an allowance based on 12 months ECL and one that is based on lifetime ECL. The quantitative and qualitative assessments are required to estimate the significant increase in credit risk by comparing the risk of a default occurring on the financial assets as at reporting date with the risk of default occurring on the financial assets as at the date of initial recognition. The Group applies a three-stage approach based on the change in credit quality since initial recognition.

Expected credit loss impairment model
The Group's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either:

(i) over the following twelve months; or

(ii) over the expected life of a financial instrument depending on credit deterioration since origination.

The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

This impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

- <u>Stage 1 – 12 month ECL</u>
  The Group collectively assesses ECL on exposures where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument. An amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to the remaining term to maturity is used.

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

Financial assets*...continued*

Impairment of financial assets*...continued*

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

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

Measurement of expected credit loss

Expected credit losses are computed as unbiased, probability weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward looking.

ECLs are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.

- For undrawn loan commitments the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life and calculates the ECL as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.

- Financial guarantee contracts as the expected payments to reimburse the holder less any amounts the Group expects to recover.

(expressed in Eastern Caribbean dollars)

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

Financial assets*...continued*

Measurement of expected credit loss*...continued*
The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given period of time. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD The Exposure At Default is an estimate of the loss arising at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

Macroeconomic factors
The standard also requires incorporation of macroeconomic factors in models for ECLs. In its models, the Group conducted an assessment of a broad range of forward-looking economic information as possible inputs, such as: GDP growth, unemployment rates, and Eastern Caribbean Central Bank interest rates. There was little correlation between the overall performance of the economy and historical loss trends. It was therefore not possible to directly correlate macroeconomic expectations to adjustments within the ECL models.

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

To account for the potential non-linearity in expected losses, multiple scenarios were incorporated into the range of reasonably possible outcomes for all material portfolios. For example, where there is a greater risk of downside credit losses than upside gains, management overlays and exponential smoothing were incorporated into the scenarios to determine a range of reasonably possible outcomes, both in respect of determining the PDs (and where relevant, the LGD and EAD) and in determining the overall expected credit loss amounts.

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

Financial assets*...continued*

Assessment of significant increase in credit risk (SICR)

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that was available.

The assessment of an increase in credit risk included macroeconomic outlook, management judgement, and delinquency and monitoring. The importance and relevance of each specific factor depends on the type of product, characteristics of the financial instruments and the borrower and the industry. With regards to delinquency and monitoring, there was a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

Some of the indicators which were incorporated included:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the actual or expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower.

Quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime determined PD by comparing the remaining lifetime PD at reporting date with the remaining lifetime PD at the point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For loans and advances there is particular focus on assets that are included on a 'watch list' once there is a concern that the creditworthiness of the specific counterparty has deteriorated Events such as unemployment, bankruptcy or death are also considered.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD. Financial assets that are 30 or more days past due and are not credit impaired will always be considered to have experienced a significant increase in credit risk. For less material portfolios where a loss rate or churn rate approach is applied to compute expected credit losses, significant increase in credit risk is primarily based on 30 days past due on the contractual payment.

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

Financial assets*...continued*

Credit impaired (or defaulted) exposures (Stage 3)
Financial assets that are credit impaired (or in default) are referred to as Stage 3 assets and represent those that are at least 90 days past due in respect of principal and/or interest. Similar to requirements of IAS 39, lifetime ECL is recognised for loans where there is objective evidence of impairment.

Expected credit losses are determined based on an assessment of the recoverable cash flows using a probability weighted range of possible future economic scenarios and applying this to the estimated exposure of the Group at the point of default (exposure at default) after taking into account the value of any collateral held or other mitigants of loss (loss given default), while allowing for the impact of discounting for the time value of money and assumptions about past and future events discounted at the asset's effective interest rate (EIR).

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

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

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

Definition of default
Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12 month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The definition of default is appropriately tailored to reflect different characteristics of different assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

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

Financial assets*...continued*

Improvement in credit risk/curing
A period may elapse from the point at which financial instruments enter lifetime expected credit losses (stage 2 and stage 3) and are reclassified back to 12 month expected credit losses (stage 1). For financial assets that are credit impaired (stage 3), a transfer to stage 2 or stage 1 is only permitted where the instrument is no longer considered to be credit impaired. An instrument will no longer be considered credit impaired when there is no shortfall of cash flows compared to the original contractual terms.

For financial assets within stage 2, these can only be transferred to stage 1 when they are no longer considered to have experienced a significant increase in credit risk.

Where a significant increase in credit risk was determined using quantitative measures, the instruments will automatically transfer back to stage 1 when the original transfer criteria are no longer valid. Where instruments were transferred to stage 2 due to an assessment of qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified to stage 1.

A forborne loan can only be removed from the category (cured) if the loan is performing (stage 1 or 2) and a further one year probation is met.

In order for a forbearance loan to become performing, the following criteria have to be satisfied:

- At least a year has passed with no default upon the forborne contract terms
- The customer is likely to repay its obligations in full without realising security
- The customer has no accumulated impairment against amount outstanding

Subsequent to the criteria above being met, probation continues to assess if regular payments are made by the customer and none of the exposures to the customer are more than 30 days past due.

Expected life
When measuring expected credit loss, the Group considers the maximum contractual period over which the Group is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, extension and rollover options. For certain revolving credit facilities, such as credit cards, the expected life is estimated based on the period over which the Group is exposed to credit risk and how the credit losses are mitigated by Management's actions.

Presentation of allowance for credit losses in the consolidated statement of financial position
- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets;
- Debt instruments measured at fair value through other comprehensive income: no allowance is recognised in the consolidated statement of financial position because the carrying values of these assets is their fair values. However, the allowance determined is presented in accumulated other comprehensive income;
- Off-balance sheet credit risks include undrawn lending commitments, letters of credit and letters of guarantee: as a provision in other liabilities.

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

Financial assets*...continued*

Modified financial assets

When a financial asset is modified or an existing financial asset is replaced with a new one, the Group conducts an assessment to determine if the existing financial asset should be derecognised. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors such as contractual cash flows after modification are no longer SPPI, change in currency or change in counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest rate.

If the modification does not result in cash flows that are substantially different, it does not result in derecognition. Based on the change in cash flows discounted at the original rate, the Group records a modification gain or loss to the extent that an impairment loss has not already been recorded. For all loans, performing and credit-impaired, where the modification of terms did not result in the derecognition of the loan, the gross carrying amount of the modified loan is recalculated based on the present value of the modified cash flows discounted at the original effective interest rate and any gain or loss from the modification is recorded in the provision for credit losses line in the consolidated statement of income.

Write offs of credit impaired assets and reversal of impairment

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or source of income that could generate sufficient cash flows to repay the amounts subject to the write off. A write off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the consolidated statement of income. If, in a subsequent period, the amount of the credit impairment losses decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognised (such as improvement in the debtor's credit rating), the previously recognised credit impairment loss is reversed by adjusting the provision account. The amount of reversals is recognised in the consolidated statement of income.

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial asset is impaired. A financial asset or group of financial assets is impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

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

Financial assets*...continued*

Write offs of credit impaired assets and reversal of impairment*...continued*

(i) Loans and advances

All non-performing and performing loans and advances are individually reviewed and specific provisions made for impaired portion based on the realisable value of the loan collateral and discounted by the original effective rate of the loan. The provision made is the difference between the loan balance and the discounted value of the collateral. Previously accrued income is reversed and further interest income not accrued. Loans and advances with similar characteristics are assessed for impairment on a group basis. Where possible the Group seeks to restructure loans instead of taking possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms are renegotiated, any impairment is measured using the original effective interest rate and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and the future payments likely to occur. The loans continue to be subject to an individual or collective impairment assessment.

When all efforts have been exhausted to recover a non performing loan, that loan is deemed uncollectible and written off against the related provision for loan losses.

(ii) Investment securities

The Group individually assesses each investment security for objective evidence of impairment. If an impaired instrument has been renegotiated, interest continues to accrue at the effective interest rate on the reduced carrying amount of the asset and is recorded as part of "interest income". If the fair value of the instrument increases in a subsequent year, the impairment loss is reversed through the consolidated statement of income.

If there is objective evidence that the cost of an equity instrument may not be recovered, the instrument is considered to be impaired. Objective evidence that the cost may not be recovered includes qualitative impairment criteria as well as a significant or prolonged decline in the fair value below cost.

If an equity instrument is impaired based upon the Group's qualitative and quantitative impairment criteria, any further declines in the fair value at subsequent reporting dates are recognised as impairment losses. Therefore, at each reporting period, for an equity security that is determined to be impaired based on the Group's impairment criteria, an impairment loss is recognised for the difference between the fair value and the original cost, less any previously recognised impairment losses.

Any subsequent increases in value of previously impaired securities is recognised in the consolidated statement of other income.

Offsetting financial instruments

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.

(expressed in Eastern Caribbean dollars)

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

Financial assets*...continued*

(ii) Investment securities…continued

Impairment of other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount 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).

Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Work in progress is stated at historical cost, less accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

Leasehold improvements	20%
Motor vehicles	25%
Equipment	15%
Furniture	10%
Buildings	2%
Computer equipment and software	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carry amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use.

Gains and losses on disposal are determined by comparing proceeds with carrying amount and are included in the consolidated statement of income.

(expressed in Eastern Caribbean dollars)

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

Investment property

Investment property is initially measured at cost and subsequently at fair value, with any change therein recognised in profit or loss within other income.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Income tax

(i) Current tax

Income tax payable/recoverable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the year except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to the consolidated statement of income.

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

The Group does not offset income tax liabilities and income tax assets.

(ii) Deferred tax

Deferred income tax is provided in full on temporary differences arising between the tax base 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 or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

The rates enacted or substantively enacted at the reporting date are used to determine deferred income tax. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting, nor taxable profit or loss.

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

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

Borrowings

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

Provisions

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

Employee benefits

The Group operates a defined contribution pension scheme. The scheme is generally funded through payments to a trustee-administered fund, as determined by the provisions of the plan. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis.

The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Guarantees and letters of credit

Guarantees and letters of credit comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most guarantees and letters of credit to be settled simultaneously by reimbursement from customers. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised as premium less cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

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

Share capital

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

(ii) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are declared.

Dividends for the year that are declared after the reporting date are disclosed in the subsequent events note.

Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated at fair value through profit or loss (FVTPL) are recognised in 'net interest income' as 'interest income' and 'interest expense' in the consolidated profit or loss account using the effective interest method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in the profit or loss at initial recognition.

Fees and commission income

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

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

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

Dividend income
Dividend income is recognised when the right to receive payment is established.

Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Monetary items denominated in foreign currency are translated at the closing rates as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate as at the date of initial recognition.

Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of other comprehensive income.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the monetary assets. Translation differences related to changes in the amortised cost are recognised in profit and loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in the other comprehensive income.

Leases
The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to operating expenses in the consolidated statement of income on a straight-line basis over the life of the lease.

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

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

3 Financial risk management

(a) Strategy in using financial instruments

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The 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 Management Committee under policies approved by the Board of Directors. The Group's Management Committee identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and non-derivative financial instruments. In addition, the Internal Audit Department is responsible for the independent review of risk management and the control environment.

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

(b) Credit risk

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

The Group's credit risk management process operates on the basis of a hierarchy delegated authorities. The Credit Committee is a sub-committee of the Board of Directors with the authority to exercise the powers of the Board on all risk management decisions.

The debt securities within the Group's investment security portfolio are exposed to credit risk and are management by investment grading or country exposure with pre-set exposure limits as approved the Board of Directors. The credit quality of each individual security is assessed based on the financial strength, reputation and market position of the issuing entity and the ability of that entity to service the debt.

The Group avoids exposure to undue concentrations of risk by placing limits on the amount of risk accepted from a number of borrowers engaged in similar business activities, or activities in the same geographic region or with similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Such risks are controlled and monitored on a revolving basis and are subject to an annual or more frequent review.

3 Financial risk management*...continued*

(b) Credit risk*...continued*

Limits on the level of credit risk by product, industry sector or geography are approved by the Board of Directors.

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

Loans and advances to customers
The Group takes on exposure to credit risk which, is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses based on an expected credit loss model using counter party probabilities of default across the various loan categories. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the 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 credit risk.

Debt securities and other bills
For debt securities and treasury bills, external rating such as Standard & Poor's or Caricris or their equivalents are used by the Asset and Liability Committee for managing of 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.

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

(i) 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 risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to the industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary by the Board of Directors.

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

Some other specific control and mitigation measures are outlined below.

3 Financial risk management*...continued*

(b) Credit risk*...continued*

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 credit risk mitigation. The principal collateral types for loans and advances are:

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

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

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

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 authorisations by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the 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 to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment and provisioning policies
The internal rating systems focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes an expected loss model using a three stage approach.

3 Financial risk management*.....continued*

(b) Credit risk*...continued*

Impairment and provisioning policies*...continued*
Management determines whether objective evidence of impairment exists based on the following criteria set out by the Group:

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

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

Financial instruments that are not already credit impaired are originated into stage 1 and a 12-month expected credit loss provision is recognised.

Instruments will remain in stage 1 until they are repaid, unless they experience significant credit deterioration (stage 2) or they become credit impaired (stage 3).

Instruments will transfer to stage 2 and a lifetime expected credit loss provision recognised when there has been a significant increase in credit risk compared with what was expected at origination.

The framework used to determine a significant increase in credit risk is set out above (page 29).

Stage 1	Stage 2	Stage 3
12 month expected credit loss - performing	Lifetime expected credit loss -performing but significant increase in credit risk (SICR)	Credit impaired - non-performing

Impairment losses and investment valuation (IAS 39)
Under IAS 39, financial assets were determined to be impaired when the carrying value was greater than the recoverable amount and there was objective evidence of impairment. The recoverable amount was the present value of the future cash flows.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

(expressed in Eastern Caribbean dollars)

3 Financial risk management*.....continued*

(b) Credit risk*...continued*

Impairment losses and investment valuation (IAS 39)*...continued*

Collective impairment on advances (Note 10)

Inherent provisions on advances are calculated on an estimate of impairment incurred but not existing in assets as at the statement of financial position date. Estimated impairment incurred is determined by applying against performing loan balances, the average loan default rates and adjusting this balance for current economic factors that affect loan performance. An anticipated recovery rate (determined from historical average) is then applied to determine the value that is recoverable. This calculation is computed by product type.

Valuation of investment (Note 8)

The Group has applied IAS 39 in its classification of investment securities which requires measurement of securities as fair value. For unlisted securities, fair values are estimated using price/earnings of price/cash flow ratios which have been refined to accommodate the specific circumstances of the issuer.

Maximum exposure to credit risk

Credit risk exposures relating to the financial assets in the statement of financial position:

	Maximum exposure	
	2018	**2017**
	$	**$**
Deposit with ECCB	**83,260,524**	98,038,872
Treasury bills	**10,290,846**	10,401,918
Deposits with other banks	**118,850,378**	115,572,633
Loans and advances to customers:		
− Overdrafts	**53,547,954**	44,419,097
− Term loans	**87,921,057**	83,947,790
− Large corporate loans	**136,133,033**	161,576,186
− Mortgage loans	**336,139,167**	312,483,286
− Credit cards	**2,854,421**	2,603,805
Investments security at amortised cost	**9,924,905**	10,032,877
Investment securities	**61,773,961**	44,505,092
Other assets	**2,656,474**	2,801,821
	903,352,720	886,383,377
Credit risk exposures relating to off-balance sheet items		
Guarantees and letters of credit	**40,000**	40,000
Loan commitments	**7,664,002**	14,351,760
	7,704,002	14,391,760
	911,056,722	900,775,137

3 Financial risk management*.....continued*

(b) Credit risk*...continued*

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

As shown above 68% (2017 – 67%) of the total maximum exposure is derived from loans and advances to customers; 7% (2017 – 5%) represents investments in debt securities.

Loans and advances to customers are summarised as follows:

	2018 $	2017 $
Neither past due nor impaired	**527,475,512**	498,166,875
Past due but not impaired	**66,536,826**	79,242,295
Impaired	**39,589,589**	48,291,574
Gross	**633,601,927**	625,700,744
Less allowance for impairment losses on loans and advances to customers	**(17,006,295)**	(20,670,580)
Net	**616,595,632**	605,030,164

The total credit impairment for loans and advances to customers is $17,006,295 (2017 - $20,670,580) of which $11,332,659 (2017 - $11,507,519) represents the individually impaired loans (stage 3) and the remaining amount of $5,673,636 represents the credit impairment for stage 1 and stage 2 loans. The collective provision for 2017 was $9,163,061. Further information on the allowance for impairment losses on loans and advances to customers is provided in Notes 9 and 10.

Loans and advances to customers neither past due nor impaired (Stage 1)
The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

	Overdrafts $	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Credit Cards $	Total $
31 December 2018	**54,508,299**	**68,515,394**	**278,787,698**	**123,001,081**	**2,663,040**	**527,475,512**
31 December 2017	43,713,728	65,287,659	255,869,636	130,933,007	2,362,845	498,166,875

3 Financial risk management*.....continued*

(b) Credit risk*...continued*

Loans and advances to customers past due but not impaired (Stage 2)

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

	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Credit Cards $	Total $
At 31 December 2018					
Past due up to 30 days	**10,441,494**	**34,649,413**	**2,372,192**	**189,261**	**47,652,360**
Past due 30 - 60 days	**2,359,801**	**6,967,161**	**3,650,499**	**28,256**	**13,005,717**
Past due 60 - 90 days	**1,102,505**	**3,349,622**	**1,402,422**	**24,200**	**5,878,749**
	13,903,800	**44,966,196**	**7,425,113**	**241,717**	**66,536,826**
At 31 December 2017					
Past due up to 30 days	10,527,096	39,924,787	12,695,979	180,535	63,328,397
Past due 30 - 60 days	1,125,817	6,768,817	2,533,163	90,888	10,518,685
Past due 60 - 90 days	1,074,268	2,335,587	1,972,268	13,090	5,395,213
	12,727,181	49,029,191	17,201,410	284,513	79,242,295

Loans and advances to customers individually impaired (Stage 3)

	Over -drafts $	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Credit Cards $	Total $
31 December 2018	**1,215,671**	**8,223,305**	**15,283,734**	**14,793,380**	**73,499**	**39,589,589**
31 December 2017	1,991,971	8,960,378	15,002,440	22,010,158	326,627	48,291,574

3 Financial risk management.....*continued*

(b) Credit risk...*continued*

Debt securities and other eligible bills

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

IFRS 9 classification

	Treasury bills $	Debt securities at amortised cost $	Debt securities at FVOCI	Deposits with other banks $	Total $
At 31 December 2018					
AA- to A+	**-**	**-**	**1,620,567**	**-**	**1,620,567**
Lower than A+	**10,290,846**	**56,153,782**	**4,369,386**	**-**	**70,814,014**
Unrated	**-**	**15,545,084**	**3,845,742**	**118,850,378**	**138,241,204**
	10,290,846	**71,698,866**	**9,835,695**	**118,850,378**	**210,675,785**

IAS 39 classification

	Treasury bills $	Financial assets held-to-maturity $	Financial assets available-for-sale $	Deposits with other banks $	Loans and receivables – Bonds $	Total $
At 31 December 2017						
AA- to A+	-	-	-	-	-	-
Lower than A+	10,401,918	20,664,908	-	-	10,032,877	41,099,703
Unrated	-	23,840,184	10,520,099	115,572,633	-	149,932,916
	10,401,918	44,505,092	10,520,099	115,572,633	10,032,877	191,032,619

Concentrations of risks of financial assets with credit exposure

Geographical sectors

The Group operates primarily in Saint Vincent and the Grenadines. Based on the country of domicile of its counterparties, exposure to credit risk is concentrated in this location, except for investments that have other exposures, primarily in the other Caribbean countries.

Industry sectors

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management.....*continued*

(b) Credit risk...*continued*

Industry and economic concentrations of assets

	Financial Institutions $	Manu-facturing $	Tourism $	Government $	Professional and Other Services $	Personal $	Other Industries $	Total $
Cash and balances with ECCB	105,753,066	-	-	-	-	-	-	105,753,066
Deposits with other banks	118,850,378	-	-	-	-	-	-	118,850,378
Treasury bills	-	-	-	10,290,846	-	-	-	10,290,846
Investment securities:								
- At amortised cost	34,091,368	-	-	27,682,593	-	-	-	61,773,961
- At FVOCI	3,048,217	-	-	-	-	-	6,787,478	9,835,695
- At FVTPL	965,250	-	-	-	-	-	6,439,077	7,404,327
Loans and advances to customers:								
- Large corporate loans	-	3,614,985	8,331,758	66,353,871	10,500,218	11,126,518	36,205,683	136,133,033
- Term loans	-	-	262,720	-	170,357	86,873,622	614,358	87,921,057
- Mortgages loans	-	-	-	-	1,273,365	333,947,335	918,467	336,139,167
- Overdrafts	241,132	857,399	404,044	39,857,971	2,828,235	2,841,751	6,517,422	53,547,954
- Credit cards	-	-	11,278	2,653	2,656	2,829,033	8,801	2,854,421
Investment security at amortised cost	-	-	-	9,924,905	-	-	-	9,924,905
Other assets	-	-	-	-	-	-	2,656,474	2,656,474
At 31 December 2018	262,949,411	4,472,384	9,009,800	154,112,839	14,774,831	437,618,259	60,147,760	943,085,284
Guarantees, letters of credit, loan commitments and other credit related obligations	-	208,000	-	-	280,000	5,616,002	1,600,000	7,704,002

(expressed in Eastern Caribbean dollars)

3 **Financial risk management**.....*continued*

(b) Credit risk… *continued*

Industry and economic concentrations of assets

	Financial Institutions $	Manu-facturing $	Tourism $	Government $	Professional and Other Services $	Personal $	Other Industries $	Total $
Cash and balances with ECCB	118,625,250	-	-	-	-	-	-	118,625,250
Deposits with other banks	115,572,633	-	-	-	-	-	-	115,572,633
Treasury bills	-	-	-	10,401,918	-	-	-	10,401,918
Investment securities:								
- Held-to-maturity	26,375,987	-	-	18,128,927	-	-	178	44,505,092
- Available-for-sale	3,952,735	-	-	-	-	-	6,567,364	10,520,099
Loans and advances to customers:								
- Large corporate loans	-	3,248,478	11,522,048	75,731,829	10,248,881	8,619,611	52,205,339	161,576,186
- Term loans	-	-	515,306	-	137,246	82,782,937	512,301	83,947,790
- Mortgages loans	-	-	-	-	1,432,467	310,609,565	441,254	312,483,286
- Overdrafts	508	2,441,071	376,514	28,647,787	2,873,780	2,766,137	7,313,300	44,419,097
- Credit cards	43,704	-	10,176	5,217	4,957	2,507,433	32,318	2,603,805
Investment security at amortised cost	-	-	-	10,032,877	-	-	-	10,032,877
Other assets	-	-	-	-	-	-	2,801,821	2,801,821
At 31 December 2017	264,570,817	5,689,549	12,424,044	142,948,555	14,697,331	407,285,683	69,873,875	917,489,854
Guarantees, letters of credit, loan commitments and other credit related obligations	-	-	1,600,000	-	40,000	12,211,760	540,000	14,391,760

(expressed in Eastern Caribbean dollars)

3 Financial risk management.....*continued*

(c) Market risk

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

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

(d) Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The 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 exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) has been formally pegged at EC$2.70 = US$1.00 since 1974.

(expressed in Eastern Caribbean dollars)

3 Financial risk management.....*continued*

(d) Currency risk ...*continued*

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
Concentrations of financial assets and financial liabilities								
As at 31 December 2018								
Financial assets								
Cash and balances with ECCB	101,867,607	2,369,220	270,705	460,338	261,427	523,769	-	105,753,066
Deposit with other banks	32,985,897	82,425,437	118,797	1,418,810	659,041	762,105	480,291	118,850,378
Treasury bills	10,290,846	-	-	-	-	-	-	10,290,846
Investment securities:								
– at amortised cost	57,788,767	3,985,194	-	-	-	-	-	61,773,961
– at FVOCI	3,047,644	6,787,667	-	384	-	-	-	9,835,695
– at FVTPL	-	6,439,077	965,250	-	-	-	-	7,404,327
Loans and advances to customers	616,595,632	-	-	-	-	-	-	616,595,632
Investment security at amortised cost	9,924,905	-	-	-	-	-	-	9,924,905
Other assets	2,656,474	-	-	-	-	-	-	2,656,474
Total financial assets	835,157,772	102,006,595	1,354,752	1,879,532	920,468	1,285,874	480,291	943,085,284

(expressed in Eastern Caribbean dollars)

3 Financial risk management.....*continued*

(d) Currency risk ...*continued*

Concentrations of financial assets and financial liabilities	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
As at 31 December 2018								
Financial liabilities								
Deposits from banks	37,863,272	-	-	-	-	-	-	37,863,272
Due to customers	738,582,627	26,975,352	-	1,295,374	305,835	2,604	-	767,161,792
Borrowings	21,306,420	16,977,604	-	-	-	-	-	38,284,024
Provisions and other liabilities	40,298,037	-	-	-	-	-	-	40,298,037
Total financial liabilities	838,050,356	43,952,956	-	1,295,374	305,835	2,604	-	883,607,125
Net (liabilities) assets	(2,892,584)	58,053,639	1,354,752	584,158	614,633	1,283,270	480,291	59,478,159
Guarantees, letters of credit, loan commitments and other credit related obligations	7,704,002	-	-	-	-	-	-	7,704,002

(expressed in Eastern Caribbean dollars)

3 Financial risk management.....*continued*

(d) Currency risk ...*continued*

Concentrations of financial assets and financial liabilities	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
As at 31 December 2017								
Financial assets								
Cash and balances with ECCB	115,623,240	1,645,704	308,915	423,198	190,944	433,249	-	118,625,250
Deposit with other banks	28,698,002	82,756,338	195,608	1,636,308	827,557	666,193	792,627	115,572,633
Treasury bills	10,401,918	-	-	-	-	-	-	10,401,918
Investment securities:								
– held-to-maturity	43,058,780	1,446,312	-	-	-	-	-	44,505,092
– available-for-sale	3,047,833	6,567,364	904,500	402	-	-	-	10,520,099
Loans and advances to customers	605,030,164	-	-	-	-	-	-	605,030,164
Investment security at amortised cost	10,032,877	-	-	-	-	-	-	10,032,877
Other assets	2,801,821	-	-	-	-	-	-	2,801,821
Total financial assets	818,694,635	92,415,718	1,409,023	2,059,908	1,018,501	1,099,442	792,627	917,489,854

(expressed in Eastern Caribbean dollars)

3 Financial risk management.....*continued*

(d) Currency risk ...*continued*

Concentrations of financial assets and financial liabilities	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
As at 31 December 2017								
Financial liabilities								
Deposits from banks	35,248,997	-	-	-	-	-	-	35,248,997
Due to customers	719,397,866	24,781,294	-	1,341,658	258,663	2,832	-	745,782,313
Borrowings	23,820,408	18,274,857	-	-	-	-	-	42,095,265
Provisions and other liabilities	47,136,292	-	-	-	-	-	-	47,136,292
Total financial liabilities	825,603,563	43,056,151	-	1,341,658	258,663	2,832	-	870,262,867
Net (liabilities) assets	(6,908,928)	49,359,567	1,409,023	718,250	759,838	1,096,610	792,627	47,226,987
Guarantees, letters of credit, loan commitments and other credit related obligations	14,391,760	-	-	-	-	-	-	14,391,760

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

(e) Interest rate risk

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

As at 31 December 2018	Up to 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Over 5 years $	Non-interest bearing $	Total $
Financial assets							
Cash and balances with ECCB	-	-	-	-	-	105,753,066	105,753,066
Deposits with other banks	-	2,747,723	22,949,161	-	-	93,153,494	118,850,378
Treasury bills	-	10,290,846	-	-	-	-	10,290,846
Investment securities:							
– at amortised cost	5,037,415	751,541	23,247,965	8,658,869	24,078,171	-	61,773,961
– at FVTPL	-	-	-	-	-	7,404,327	7,404,327
– at FVOCI	-	-	-	-	-	9,835,695	9,835,695
Loans and advances to customers	59,957,334	6,757,232	10,923,185	80,560,033	458,397,848	-	616,595,632
Investment security at amortised cost	-	-	9,924,905	-	-	-	9,924,905
Other assets	-	-	-	-	-	2,656,474	2,656,474
Total financial assets	64,994,749	20,547,342	67,045,216	89,218,902	482,476,019	218,803,056	943,085,284
Financial liabilities							
Deposits from banks	3,423,441	16,954,425	12,779,152	-	-	4,706,254	37,863,272
Due to customers	536,815,293	12,735,495	82,198,451	-	-	135,412,553	767,161,792
Borrowings	996,704	337,327	2,746,351	12,878,836	21,324,806	-	38,284,024
Provisions and other liabilities	7,745,947	-	-	-	-	32,552,090	40,298,037
Total financial liabilities	548,981,385	30,027,247	97,723,954	12,878,836	21,324,806	172,670,897	883,607,125
Net interest re-pricing gap	(483,986,636)	(9,479,905)	(30,678,738)	76,340,066	461,151,213	46,132,159	59,478,159

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

(e) Interest rate risk...*continued*

	Up to 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Over 5 years $	Non-interest bearing $	Total $
As at 31 December 2017							
Financial assets							
Cash and balances with ECCB	-	-	-	-	-	118,625,250	118,625,250
Deposits with other banks	39,894	-	2,497,932	-	-	113,034,807	115,572,633
Treasury bills	-	10,401,918	-	-	-	-	10,401,918
Investment securities:							
– held-to-maturity	178	-	20,821,914	14,465,173	9,217,827	-	44,505,092
– available-for-sale	-	-	-	-	-	10,520,099	10,520,099
Loans and advances to customers	25,784,161	3,509,635	37,899,593	80,614,603	457,222,172	-	605,030,164
Investment security at amortised cost	-	-	-	10,032,877	-	-	10,032,877
Other assets	-	-	-	-	-	2,801,821	2,801,821
Total financial assets	25,824,233	13,911,553	61,219,439	105,112,653	466,439,999	244,981,977	917,489,854
Financial liabilities							
Deposits from banks	-	10,011,096	22,878,260	-	-	2,359,641	35,248,997
Due to customers	523,481,948	19,493,165	88,207,455	-	-	114,599,745	745,782,313
Borrowings	1,025,096	316,670	3,184,203	14,214,016	23,355,280	-	42,095,265
Other liabilities	39,469,324	-	-	-	-	7,666,968	47,136,292
Total financial liabilities	563,976,368	29,820,931	114,269,918	14,214,016	23,355,280	124,626,354	870,262,867
Net interest re-pricing gap	(538,152,135)	(15,909,378)	(53,050,479)	90,898,637	443,084,719	120,355,623	47,226,987

(expressed in Eastern Caribbean dollars)

3 Financial risk management*...continued*

(e) Interest rate risk*...continued*

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 or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate re-pricing that may be undertaken.

	2018	2017
Loans and advances to customers:		
- Overdrafts	**8%-14%**	8%-14%
- Term loans	**4.5% -14%**	4.5%-14%
- Large corporate loans	**5.5% - 14%**	5.5%-14%
- Mortgage loans	**4.5% -14%**	4.5%-14%
- Credit cards	**19.50%**	19.50%
Investment security at amortised cost	**7.50%**	7.50%
Investment securities:		
Government treasury bills and bonds	**1.1% -8.5%**	4.5%-8.5%
Other securities	**2.1% -8%**	2%-8%
Deposits with banks	**0%-2.69%**	0%-1.75%
Deposits due to customers:		
Term deposits	**1.25% -3%**	1.25%-3.25%
Savings deposits	**2%-3.5%**	2%-3.5%
Demand deposits	**2.25%-3.5%**	0%-3.5%
Deposits from banks	**0%-2.75%**	0%-2.75%
Borrowings	**2.50%-6.75%**	2.50%-6.75%

Cash flow interest rate risk arises from loans and advances to customers and borrowings at variable rates. At 31 December 2018, if variable interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year would have been $3,082,978 (2017 - $3,025,151) higher/lower on variable rate loans.

(f) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, payment of cash requirements from contractual commitments, or other cash out flows.

3 Financial risk management*...continued*

(f) Liquidity risk*…continued*

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

(i) Liquidity risk management process

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

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

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

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

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

(f) Liquidity risk...*continued*

	Up to 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Total $
As at 31 December 2018						
Financial liabilities						
Deposits from banks	8,178,932	25,257,552	4,815,617	-	-	38,252,101
Due to customers	666,818,294	18,216,858	83,619,713	-	-	768,654,865
Borrowings	996,704	595,051	4,122,992	18,539,412	23,106,893	47,361,052
Provisions and other liabilities	40,298,037	-	-	-	-	40,298,037
Total financial liabilities	716,291,967	44,069,461	92,558,322	18,539,412	23,106,893	894,566,055
Financial assets						
Cash and balances with ECCB	118,625,250	-	-	-	-	118,625,250
Deposits with other banks	93,153,495	2,766,150	23,326,542	-	-	119,246,187
Treasury bills	-	10,048,082	-	-	-	10,048,082
Investment securities:						
- at amortised cost	4,908,813	885,651	25,777,152	15,692,865	32,896,367	80,160,848
- at FVTPL		7,404,327	-	-	-	7,404,327
- at FVOCI	-			6,856,671	2,979,024	9,835,695
Loans and advances to customers	69,926,417	26,668,950	90,322,938	357,884,579	609,467,913	1,154,270,797
Investment security at amortised cost	-	-	10,717,123	-	-	10,717,123
Other assets	4,009,612	-	-	-	-	4,009,612
Total financial assets held for managing liquidity	290,623,587	47,773,160	150,143,755	380,434,115	645,343,304	1,514,317,921

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

(f) Liquidity risk...*continued*

	Up to 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Total $
As at 31 December 2017						
Financial liabilities						
Deposits from banks	2,359,640	10,036,575	23,107,708	-	-	35,503,923
Due to customers	637,057,922	19,577,711	89,519,612	-	-	746,155,245
Borrowings	1,025,096	595,051	4,464,365	19,555,785	25,590,915	51,231,212
Provision and other liabilities	47,136,292	-	-	-	-	47,136,292
Total financial liabilities	687,578,950	30,209,337	117,091,685	19,555,785	25,590,915	880,026,672
Financial assets						
Cash and balances with ECCB	118,625,250	-	-	-	-	118,625,250
Deposits with other banks	113,074,701	-	2,515,604	-	-	115,590,305
Treasury bills	-	10,048,082	-	-	-	10,048,082
Investment security at amortised cost	-	-	750,000	10,717,123	-	11,467,123
Investment securities:						
- held-to-maturity	52,897	106,247	22,429,153	17,935,794	13,542,858	54,066,949
- available-for-sale	-	10,520,099	-	-	-	10,520,099
Loans and advances to customers	33,266,215	22,915,335	86,737,294	396,676,344	638,188,769	1,177,783,957
Other assets	4,292,506	-	-	-	-	4,292,506
Total financial assets held for managing liquidity	**269,311,569**	**43,589,763**	**112,432,051**	**425,329,261**	**651,731,627**	**1,502,394,271**

3 Financial risk management*...continued*

(f) Liquidity risk*…continued*

Assets held for managing liquidity risk

The Group holds a diversified portfolio of cash and investment securities to support payment obligations.

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

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

(g) Off-balance sheet items

(i) 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 24), are summarised in the table below.

(ii) Financial guarantees and other financial facilities

Financial guarantees (Note 24) are also included below based on the earliest contractual maturity date.

	1 Year $	Total $
At 31 December 2018		
Loan commitments	**7,664,002**	**7,664,002**
Guarantees and letters of credit	**40,000**	**40,000**
Total	**7,704,002**	**7,704,002**
At 31 December 2017		
Loan commitments	14,351,760	14,351,760
Guarantees and letters of credit	40,000	40,000
Total	14,391,760	14,391,760

(h) 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 used to estimate the fair value of financial instruments are described below:

3 Financial risk management*...continued*

(h) Fair values of financial assets and liabilities*...continued*

The fair values of cash resources, other assets and liabilities, deposits with other banks and due from other banks are assumed to approximate their carrying values due to their short term nature. The fair value of off-balance sheet commitments is also assumed to approximate the amounts disclosed in Note 24 due to their short term nature.

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

Investment securities
Investment securities include interest bearing debt and equity securities are classified at amortised cost and at fair values through profit or loss or fair value through other comprehensive income. Assets classified for sale are measured at fair value based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

Loans and advances
Loans and advances are net of provisions for impairment losses. The estimated fair value of loans and advances represents 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.

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

	Carrying value		Fair value	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Financial assets				
Loans and advances to customers:				
− Term loans	**87,921,057**	83,947,790	**81,140,982**	76,808,081
− Large corporate loans	**136,133,033**	161,576,186	**119,935,305**	140,028,147
− Mortgage loans	**336,139,167**	312,483,286	**251,074,758**	233,134,506
− Overdrafts	**53,547,954**	44,419,097	**53,547,954**	44,419,097
− Credit cards	**2,854,421**	2,603,805	**2,854,421**	2,603,805
Investment security at amortised cost	**9,924,905**	10,032,877	**9,924,905**	9,907,114
Investment securities:				
− At amortised cost	**61,773,961**	-	**52,007,860**	-
− Held-to-maturity	**-**	44,505,092	**-**	43,086,783
Financial liabilities				
Borrowings	**38,284,024**	42,095,265	**40,052,431**	43,077,998

3 Financial risk management*...continued*

(h) Fair values of financial assets and liabilities*...continued*

Management assessed that cash and short-term deposits with other banks, treasury bills, loans and advances, provisions and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values of assets and liabilities:

- The Group's interest-bearing borrowings and loans are determined by using DCF method using the discount rate that reflects the average rates at the end of the period; and
- The value of regional bonds classified as loans and receivable with evidence of open market trades at par plus accrued interest is deemed to approximate fair value.

Fair value hierarchy
IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on actively traded exchanges.

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

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

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management*...continued*

(h) Fair values of financial assets and liabilities*...continued*

Fair value hierarchy

The following table outlines the fair value hierarchy of instruments carried at fair value on a recurring basis and instruments not carried at fair value.

	2018				**2017**		
	Level 1	**Level 2**	**Level 3**	**Total**	Level 2	Level 3	Total
As at 31 December							
Financial assets carried at fair value							
Lands	**-**	**2,232,000**	**-**	**2,232,000**	2,412,000	-	2,412,000
Financial assets							
Equity securities at FVTPL	**7,404,327**	**-**	**-**	**7,404,327**	-	-	-
Debt securities at FVOCI	**6,799,573**	**-**	**-**	**6,799,573**	-	-	-
Equity securities – available-for-sale	**-**	**-**	**-**	**-**	7,471,864	-	7,471,864
Financial assets for which fair values are disclosed							
Investment securities at amortised cost	**-**	**61,932,375**	**-**	**61,932,375**	52,993,897	-	52,993,897
Loans and advances to customers	**-**	**-**	**508,553,420**	**508,553,420**	-	496,993,636	496,993,636
Total financial assets	**14,203,900**	**64,164,375**	**508,553,420**	**586,921,695**	62,877,761	496,993,636	559,871,397
Liabilities for which fair values are disclosed							
Borrowings	**-**	**40,052,431**	**-**	**40,052,431**	43,077,998	-	43,077,998

3 Financial risk management...*continued*

(h) Fair values of financial assets and liabilities...*continued*

The fair value of financial instruments that are not traded in an active market is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, deal, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily DAX, FTSE 100 and Dow Jones debt securities classified as trading securities at FVTPL.

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no transfers between levels in the fair value hierarchy during the year.

(i) Capital management

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

- To comply with the capital requirements of the Banking Act 2015.
- To comply with the capital requirements set by the regulators of the banking markets where the Group operates;
- 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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

(i) Capital management...*continued*

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 Eastern Caribbean Central Bank the "Authority" for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Authority requires each bank or banking group to hold the minimum level of the regulatory capital to the risk-weighted asset (the 'Basel capital adequacy ratio') at or above the internationally agreed minimum of 8% of Tier 1 capital.

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

- Tier 1 capital: share capital (net of any book value of the treasury shares), minority interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held at FVOCI and fixed asset revaluation reserves (limited to 50% of Tier 1 capital).

Investments in "associated companies" are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

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

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

3 Financial risk management...*continued*

(i) Capital management...*continued*

	2018 $	2017 $
Tier 1 capital		
Share capital	**20,753,306**	20,753,306
Statutory reserves	**20,753,306**	14,912,580
General provision reserves	**3,133,354**	-
Retained earnings	**73,131,134**	66,881,100
Total qualifying Tier 1 capital	**117,771,100**	102,546,986
Tier 2 capital		
Unrealised (loss)/gain on investments	**(95,386)**	1,725,685
Collective impairment allowance	**6,278,346**	9,163,061
Total qualifying Tier 2 capital	**6,182,960**	10,888,746
Total regulatory capital	**123,954,060**	113,435,732
Risk-weighted assets:		
On-balance sheet	**488,779,995**	484,745,837
Off-balance sheet	**30,736,894**	43,849,782
Total risk-weighted assets	**519,516,889**	528,595,619
Basel capital adequacy ratio	**23.86%**	21.46%

4 Critical accounting estimates, and judgements in applying accounting policies

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

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

Measurement of the expected credit loss allowance
The Group expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions. The significant judgements and estimates in determining expected credit loss include:

- The Group's criteria for assessing if there has been a significant increase in credit risk; and
- Development of expected credit loss models, including the choice of inputs relating to macroeconomic variables.

The calculation of credit impairment provisions also involves expert credit judgement to be applied by the credit risk management team based upon counterparty information they receive including relationship managers and on external market information.

Impairment losses on loans and advances to customers
The Group reviews its loan portfolio to assess impairment at least annually. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated-$601,970/$562,522 (2017 - $604,901/$964,157) lower/higher respectively.

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

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

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

Impairment of non-financial assets

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

Held-to-maturity investment securities

Held-to-maturity investment securities are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which do not meet the definition of a loan, are not held-for-trading, and are not designated at fair value through profit or loss or as available-for-sale. After initial measurement, held-to-maturity investment securities are carried at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. The amortization is included in interest income – securities in the consolidated statement of income.

A sale or reclassification of a more than an insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- Sales or reclassifications after the Group has collected substantially all of the asset's original principal; or
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

Fair value of financial instruments

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

Deferred taxes

In calculating the provision for deferred taxation, management uses judgment to determine the possibility that future taxable profits will be available to facilitate utilization of temporary tax differences which may arise. The deferred tax assets recognised at 31 December 2018 have been based on future profitability assumptions over a five-year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

4 Critical accounting estimates, and judgements in applying accounting policies

Revaluation of investment property

The Group measures its investment properties at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect.

The Group engages independent valuation specialists to determine fair value of its investment properties. The valuer uses judgment in the application of valuation techniques such as replacement cost, capitalization of potential rentals and the market price of comparable properties, as applicable in each case.

Corporate income taxes

Significant estimates are required in determining the provision for income taxes. 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 income tax and deferred tax provisions.

5 Cash and balances with Eastern Caribbean Central Bank

	2018 $	2017 $
Cash in hand	**22,492,542**	20,586,378
Balances with ECCB other than mandatory reserve deposits	**37,230,816**	53,291,933
Included in cash and cash equivalents (Note 35)	**59,723,358**	73,878,311
Mandatory reserve deposits with ECCB	**46,029,708**	44,746,939
	105,753,066	118,625,250

Pursuant to the Banking Act of 2015, Banking institutions are required to maintain in cash and deposits with the ECCB reserve balances in relation to the deposit liabilities of the institution.

Mandatory reserve deposits are not available for use in the Banking institutions' day-to-day operations. The balances with the ECCB are non-interest bearing.

6 Deposits with other banks

	2018 $	2017 $
Items in the course of collection with other banks (Note 35)	**12,934,994**	7,817,963
Placements with other banks (Note 35)	**82,966,223**	105,256,738
Interest bearing deposits (more than 3 months)	**22,949,161**	2,497,932
	118,850,378	115,572,633

The weighted average effective interest rate in respect of interest bearing deposits at 31 December 2018 was 1.61% (2017 - 1.75%)

7 Treasury bills

	2018 $	2017 $
Treasury bills – Cash and cash equivalents	**10,401,918**	**10,401,918**
Less allowance for impairment losses	**(111,072)**	**-**
Treasury bills less than 90 days to maturity (Note 35)	**10,290,846**	10,401,918

Treasury bills are debt securities issued by the Government of Saint Lucia. The weighted average effective interest rate on treasury bills at 31 December 2018 was 4.5% (2017 - 4.5%)

8 Investment securities

	2018 $	2017 $
Securities held-to-maturity		
Debt securities at amortised cost		
- Unlisted	**-**	40,157,215
- Listed	**-**	5,454,712
	-	45,611,927
Less allowance for impairment losses	**-**	(1,106,835)
	-	44,505,092
Securities available-for-sale		
Unlisted	**-**	3,048,235
Listed	**-**	7,471,864
	-	10,520,099
Total investment securities	**-**	55,025,191

(expressed in Eastern Caribbean dollars)

8 Investment securities...*continued*

	2018 $	2017 $
Securities measured at amortised cost		
Debt securities at amortised cost		
- Unlisted	**16,679,359**	-
- Listed	**46,359,391**	-
	63,038,750	-
Less allowance for impairment losses	**(1,264,789)**	-
	61,773,961	-
Securities measured at FVOCI		
Debt securities at fair value		
- Unlisted	**-**	-
- Listed	**6,799,573**	-
	6,799,573	-
Equity securities at fair value		
- Unlisted	**3,048,217**	-
- Listed	**-**	-
	3,048,217	-
Less allowance for impairment losses	**(12,095)**	-
	9,835,695	-
Securities measured at FVTPL		
Equity securities at fair value		
- Unlisted	**-**	-
- Listed	**7,404,327**	-
	7,404,327	-
Total equity securities	**79,013,983**	-

The weighted average effective interest rate on securities stated at amortised cost at 31 December 2018 was 5.45% (2017 - 5.17%).

(expressed in Eastern Caribbean dollars)

8 Investment securities*...continued*

	2018				2017
Loss allowance - Investment securities at amortised cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	**Reported**
At beginning of year, as previously stated	-	201,708	905,127	1,106,835	1,106,835
Effects of adopting IFRS 9	386,644	15,160	-	401,804	-
At 1 January 2018, as restated	386,644	216,868	905,127	1,508,639	1,106,835
Changes in the loss allowance as at 1 January 2018					
– Transfer to stage 1	111,072	-	-	111,072	-
– Transfer to stage 2	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-
– Increases due to change in credit risk	38,954	-	-	38,954	-
– Decreases due to change in credit risk	(150,904)	(10,018)	-	(160,922)	-
Loss allowance as at 31 December 2018	**385,766**	**206,850**	**905,127**	**1,497,743**	**1,106,835**
Loss allowance - Investment securities at FVOCI					
At beginning of year as previously stated	-	-	-	-	-
Effects of adopting IFRS 9	-	-	-	-	-
At 1 January 2018, as restated	-	-	-	-	-
Changes in the loss allowance as at 1 January 2018	-	-	-	-	-
– Transfer to stage 1	-	-	-	-	-
– Transfer to stage 2	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-
– Increases due to change in credit risk	12,095	-	-	12,095	-
– Decreases due to change in credit risk	-	-	-	-	-
Loss allowance as at 31 December 2018	**12,095**	-	-	**12,095**	-
Total loss allowance - Investment securities					
At beginning of year, as previously stated	-	201,708	905,127	1,106,835	1,106,835
Effects of adopting IFRS 9	386,644	15,160	-	401,804	-
At 1 January 2018, as restated	386,644	216,868	905,127	1,508,639	1,106,835
Changes in the loss allowance as at 1 January 2018	-	-	-	-	-
– Transfer to stage 1	111,072	-	-	111,072	-
– Transfer to stage 2	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-
– Increases due to change in credit risk	51,049	-	-	51,049	-
– Decreases due to change in credit risk	(150,904)	(10,018)	-	(160,922)	-
Total loss allowance as at 31 December 2018	**397,861**	**206,850**	**905,127**	**1,509,838**	**1,106,835**

(expressed in Eastern Caribbean dollars)

8 Investment securities*...continued*

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

	Debt securities at amortised cost $	Debt securities at FVOCI $	Equity securities at FVTPL $	Treasury bills at amortised cost $	Investment security at amortised cost $	Total $
At 1 January 2018	**45,611,927**	**3,048,235**	**7,472,275**	**10,401,918**	**10,032,877**	**76,567,232**
Additions	**26,892,079**	**6,895,148**	**113,676**	**-**	**32,877**	**33,933,780**
Losses from changes in fair value	**-**	**(95,593)**	**(181,624)**	**-**	**-**	**(277,217)**
Disposals (sales and redemptions)	**(9,465,256)**	**-**	**-**	**-**	**(32,877)**	**(9,498,133)**
Investment impairment recoveries	**13,911**	**-**	**-**	**-**	**-**	**13,911**
ECLs	**(1,278,700)**	**(12,095)**	**-**	**(111,072)**	**(107,972)**	**(1,509,839)**
At 31 December 2018	**61,773,961**	**9,835,695**	**7,404,327**	**10,290,846**	**9,924,905**	**99,229,734**

9 Loans and advances to customers

	2018 $	2017 $
Large corporate loans	**145,219,574**	170,144,576
Mortgage loans	**339,037,629**	319,901,267
Term loans	**90,642,499**	86,975,218
Credit cards	**2,978,255**	2,973,985
Overdrafts	**55,723,970**	45,705,698
Gross loans and advances to customers	**633,601,927**	625,700,744
Less allowance for impairment losses on loans and advances to customers (Note 10)	**(17,006,295)**	(20,670,580)
Total loans and advances to customers, net	**616,595,632**	605,030,164

The weighted average effective interest rate on loans and advances stated at amortised cost at 31 December 2018 was 8.5% (2017 - 8.5%).

10 Allowance for impairment losses on loans and advances to customers

Loss allowance – Loans and advances to customers at amortised cost	2018 Stage 1 - 12 month ECL $	2018 Stage 2 Lifetime ECL $	2018 Stage 3 Lifetime ECL $	2018 Total $	2017 As Reported $
Large corporate loans					
At beginning of year as previously stated	2,133,957	357,722	6,076,711	**8,568,390**	3,902,094
Effects of adopting IFRS 9	483,161	80,994	-	**564,155**	-
Loss allowance as at 1 January 2018, as restated	2,617,118	438,716	6,076,711	**9,132,545**	3,902,094
Changes in the loss allowance as at 1 January 2018					
– Transfer to stage 1	261,249	(261,249)	-	-	-
– Transfer to stage 2	(27,064)	27,064	-	-	-
– Transfer to stage 3	(10,589)	-	10,589	-	-
– Increases due to change in credit risk	230,934	177,163	2,072,204	**2,480,301**	-
– Decreases due to change in credit risk	(706,376)	(52,648)	(1,036)	**(760,060)**	-
– Write-offs	-	-	(1,766,246)	**(1,766,246)**	-
Specific provision for loan impairment	-	-	-	-	3,383,857
Collective provision for loan impairment	-	-	-	-	1,282,439
Written off during the year as uncollectible	-	-	-	-	-
Loss allowance as at 31 December 2018	**2,365,272**	**329,046**	**6,392,222**	**9,086,540**	**8,568,390**
Mortgages					
At beginning of year as previously stated	2,346,296	2,338,491	2,733,194	**7,417,981**	4,673,351
Effects of adopting IFRS 9	(2,083,336)	(2,076,406)	-	**(4,159,742)**	-
Loss allowance as at 1 January 2018, as restated	262,960	262,085	2,733,194	**3,258,239**	4,673,351
Changes in the loss allowance as at 1 January 2018					
– Transfer to stage 1	65,238	(65,238)	-	-	-
– Transfer to stage 2	(5,726)	5,726	-	-	-
– Transfer to stage 3	(3,252)	(25,681)	28,933	-	-
– Increases due to change in credit risk	80,702	230,270	1,182,654	**1,493,626**	-
– Decreases due to change in credit risk	(120,053)	(84,206)	(458,373)	**(662,632)**	-
– Write-offs	-	-	(1,190,772)	**(1,190,772)**	-
Specific provision for loan impairment	-	-	-	-	838,905
Collective provision for loan impairment	-	-	-	-	1,929,099
Written off during the year as uncollectible	-	-	-	-	(23,374)
Loss allowance as at 31 December 2018	**279,869**	**322,956**	**2,295,636**	**2,898,461**	**7,417,981**

10 Allowance for impairment losses on loans and advances to customers...*continued*

	2018				2017
Loss allowance – Loans and advances to customers at amortised cost	**Stage 1 - 12 month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**	**As Reported $**
Term loans					
At beginning of year as previously stated	1,022,885	250,822	1,753,721	**3,027,428**	2,706,439
Effects of adopting IFRS 9	(395,576)	(96,999)	-	**(492,575)**	-
Loss allowance as at 1 January 2018, as restated	627,309	153,823	1,753,721	**2,534,853**	2,706,439
Changes in the loss allowance as at 1 January 2018					
– Transfer to stage 1	41,446	(41,446)	-	-	-
– Transfer to stage 2	(14,515)	14,515	-	-	-
– Transfer to stage 3	(4,863)	(29,164)	34,027	-	-
– Increases due to change in credit risk	501,473	169,916	570,806	**1,242,195**	-
– Decreases due to change in credit risk	(425,545)	(57,893)	(167,527)	**(650,965)**	-
– Write-offs	(27,968)	(113)	(376,559)	**(404,640)**	-
Specific provision for loan impairment	-	-	-	-	653,040
Collective provision for loan impairment	-	-	-	-	425,824
Written off during the year as uncollectible	-	-	-	-	(757,875)
Loss allowance as at 31 December 2018	**697,337**	**209,638**	**1,814,468**	**2,721,443**	**3,027,428**
Overdrafts					
At beginning of year as previously stated	152,864	516,472	617,265	**1,286,601**	1,073,874
Effects of adopting IFRS 9	116,592	393,923	-	**510,515**	-
Loss allowance as at 1 January 2018, as restated	269,456	910,395	617,265	**1,797,116**	**1,073,874**
Changes in the loss allowance as at 1 January 2018					
– Transfer to stage 1	46,649	(46,649)	-	-	-
– Transfer to stage 2	(54,538)	54,538	-	-	-
– Transfer to stage 3	-	-	-	-	-
– Increases due to change in credit risk	119,409	190,692	244,098	**554,199**	-
– Decreases due to change in credit risk	(51,385)	(15,669)	(8,433)	**(75,487)**	-
– Write-offs	(3,716)	-	(96,095)	**(99,811)**	-
Specific provision for loan impairment	-	-	-	-	231,829
Collective provision for loan impairment	-	-	-	-	(19,102)
Written off during the year as uncollectible	-	-	-	-	-
Loss allowance as at 31 December 2018	**325,875**	**1,093,307**	**756,835**	**2,176,017**	**1,286,601**

(expressed in Eastern Caribbean dollars)

10 Allowance for impairment losses on loans and advances to customers...*continued*

	2018				2017
Loss allowance – Loans and advances to customers at amortised cost	**Stage 1 - 12 month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**	**As Reported $**
Credit cards					
At beginning of year as previously stated	11,366	32,187	326,627	**370,180**	152,969
Effects of adopting IFRS 9	5,129	14,524	-	**19,653**	-
Loss allowance as at 1 January 2018, as restated	16,495	46,711	326,627	**389,833**	**152,969**
Changes in the loss allowance as at 1 January 2018					
– Transfer to stage 1	161,527	(33,235)	(128,292)	-	-
– Transfer to stage 2	(143)	143	-	-	-
– Transfer to stage 3	(91)	(5,330)	5,421	-	-
– Increases due to change in credit risk	2,283	31,836	45,803	**79,922**	-
– Decreases due to change in credit risk	(161,713)	(8,147)	(112,566)	**(282,426)**	-
– Write-offs	-	-	(63,495)	**(63,495)**	-
Specific provision for loan impairment	-	-	-	-	200,863
Collective provision for loan impairment	-	-	-	-	16,348
Written off during the year as uncollectible	-	-	-	-	-
Loss allowance as at 31 December 2018	**18,358**	**31,978**	**73,498**	**123,834**	**370,180**
Total credit provisioning					
At beginning of year as previously stated	5,667,368	3,495,694	11,507,518	**20,670,580**	12,508,727
Effects of adopting IFRS 9	(1,874,030)	(1,683,964)	-	**(3,557,994)**	-
Loss allowance as at 1 January 2018, as restated	3,793,338	1,811,730	11,507,518	**17,112,586**	**12,508,727**
Changes in the loss allowance as at 1 January 2018					
– Transfer to stage 1	576,109	(447,817)	(128,292)	-	-
– Transfer to stage 2	(101,986)	101,986	-	-	-
– Transfer to stage 3	(18,795)	(60,175)	78,970	-	-
– Increases due to change in credit risk	934,801	799,877	4,115,565	**5,850,243**	-
– Decreases due to change in credit risk	(1,465,072)	(218,563)	(747,935)	**(2,431,570)**	-
– Write-offs	(31,684)	(113)	(3,493,167)	**(3,524,964)**	-
Specific provision for loan impairment	-	-	-	-	5,308,494
Collective provision for loan impairment	-	-	-	-	3,634,608
Written off during the year as uncollectible	-	-	-	-	(781,249)
Loss allowance as at 31 December 2018	**3,686,711**	**1,986,925**	**11,332,659**	**17,006,295**	**20,670,580**

11 Investment security at amortised cost: Loans and advances – bonds

	2018 $	2017 $
Government bonds	**10,032,877**	10,032,877
Less allowance for impairment losses	**(107,972)**	-
	9,924,905	10,032,877

Government bonds are purchased from and issued directly by the Government of Saint Vincent and the Grenadines. The weighted average effective interest rate at 31 December 2018 on Government bonds at amortised cost was 7.53% (2017 – 7.49 %).

12 Investment properties

	2018 $	2017 $
Fair value at 1 January	**2,412,000**	2,780,000
Disposal	**-**	(368,000)
Fair value loss	**(180,000)**	-
Fair value at 31 December	**2,232,000**	2,412,000

The investment properties are valued annually based on open market value by an independent, professionally qualified valuator.

(expressed in Eastern Caribbean dollars)

13 Property and equipment

	Land and building $	Leasehold Improvements $	Office Furniture and Equipment $	Work in Progress $	Computer Equipment and Software $	Motor Vehicles $	Total $
Year ended 31 December 2017							
Opening net book amount	47,553,003	-	5,146,932	1,035,403	1,560,652	262,427	55,558,417
Additions	677,704	48,900	646,143	517,744	307,514	-	2,198,005
Impairment losses	(1,824,911)	-	-	-	-	-	(1,824,911)
Depreciation charge (Note 30)	(665,130)	(6,441)	(1,253,836)	-	(696,122)	(119,878)	(2,741,407)
Closing net book amount	45,740,666	42,459	4,539,239	1,553,147	1,172,044	142,549	53,190,104
At 31 December 2017							
Cost	50,006,945	48,900	16,982,925	1,553,147	10,558,609	631,677	79,782,203
Accumulated depreciation	(4,266,279)	(6,441)	(12,443,686)	-	(9,386,565)	(489,128)	(26,592,099)
Net book amount	45,740,666	42,459	4,539,239	1,553,147	1,172,044	142,549	53,190,104
Year ended 31 December 2018							
Opening net book amount	**45,740,666**	**42,459**	**4,539,239**	**1,553,147**	**1,172,044**	**142,549**	**53,190,104**
Additions	**75,793**	**-**	**992,101**	**(394,484)**	**1,431,785**	**196,796**	**2,301,991**
Impairment losses	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**(5,747)**	**-**	**(19)**	**(2)**	**(5,768)**
Depreciation charge (Note 30)	**(611,718)**	**(9,780)**	**(1,216,619)**	**-**	**(529,623)**	**(98,281)**	**(2,466,021)**
Closing net book amount	**45,204,741**	**32,679**	**4,308,974**	**1,158,663**	**2,074,187**	**241,062**	**53,020,306**
At 31 December 2018							
Cost	**50,082,738**	**48,900**	**17,638,096**	**1,158,663**	**11,872,185**	**563,705**	**81,364,287**
Accumulated depreciation	**(4,877,997)**	**(16,221)**	**(13,329,122)**	**-**	**(9,797,998)**	**(322,643)**	**(28,343,981)**
Net book amount	**45,204,741**	**32,679**	**4,308,974**	**1,158,663**	**2,074,187**	**241,062**	**53,020,306**

(expressed in Eastern Caribbean dollars)

14 Related party balances and transactions

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

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

The following accounts maintained by related parties are included under investment securities, deposits with other banks and deposits from banks:

	2018 $	2017 $
Bank of Saint Lucia Limited		
Deposits with other bank	**2,017,744**	1,983,040
Deposits from banks	**(6,954,425)**	(6,834,815)
	(4,936,681)	(4,851,775)
Government of St. Vincent and the Grenadines		
Debt securities at amortised cost	**34,615,000**	24,759,375

Transactions carried out with related parties:

	2018 $	2017 $
Income		
Interest income	**2,096,513**	2,924,252
Expenses		
Interest expense	**120,214**	118,146
Management fees	-	479,670
Professional fees	438,150	-

Other related parties

A number of banking transactions are entered into with other related parties in the normal course of business. These include loans and deposits. These transactions were carried out on commercial terms and at market rates.

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

Other related party balances with the Group:

	2018		2017	
	Loans $	Deposits $	Loans $	Deposits $
Government of St. Vincent and the Grenadines	**107,340,829**	**18,056,943**	104,007,929	33,930,078
Statutory bodies	**1,720,509**	**14,951,968**	3,082,689	28,382,057
National Insurance Services	**-**	**69,581,061**	-	57,699,630
Staff pension plan	**-**	**7,722,990**	-	8,004,189
	109,061,338	**110,312,962**	107,090,618	128,015,954
Directors and key management	**2,776,137**	**1,416,834**	3,034,776	1,434,472
	111,837,475	**111,729,796**	110,125,394	129,450,426

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

The loans issued to directors and other key management personnel are repayable monthly over an average of 10.5 years and have a weighted average effective interest rates of 4.42% (2017 - 4.33%).

Interest income and interest expense with other related parties:

	2018		2017	
	Income $	Expenses $	Income $	Expenses $
Government of St. Vincent and the Grenadines	**8,602,580**	**575,669**	8,298,158	1,527,541
Statutory bodies	**179,547**	**344,340**	246,061	467,879
National Insurance Services	**-**	**1,991,613**	-	1,723,533
Staff pension plan	**-**	**275,502**	-	262,288
Directors and key management	**121,131**	**26,998**	133,727	25,658
	8,903,258	**3,214,122**	8,677,946	4,006,899

Key management compensation

Key management includes the Executive Management team. The compensation paid or payable to key management for employee services is shown below:

	2018 $	2017 $
Salaries and other short-term benefits	**1,514,768**	1,644,709
Pension cost	**52,947**	59,818
	1,567,715	1,704,527

(expressed in Eastern Caribbean dollars)

15 Deferred tax (asset)/liability

The movement on the deferred tax (asset)/liability is as follows:

	2018 $	2017 $
At beginning of year	**47,105**	297,527
Prior year release to deferred tax (Note 33)	**(1,812,536)**	(19,352)
Current year charge/(release) (Note 33)	**173,320**	(231,070)
At end of year	**(1,592,111)**	47,105

The deferred tax (asset)/liability account is detailed below:

	2018 $	2017 $
Temporary differences on capital assets	**(1,592,111)**	47,105
	(1,592,111)	47,105

Deferred income taxes and liabilities are offset when there are legally enforceable rights to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

16 Other assets

	2018 $	2017 $
Other receivables	**2,656,474**	2,801,821
Prepaid expenses	**1,353,138**	1,490,685
	4,009,612	4,292,506

17 Deposits from banks

	2018 $	2017 $
Deposits from other banks	**37,863,272**	35,248,997

Interest rates range from 0% to 2.75% (2017 - 1.75% to 2.50%).

18 Due to customers

	2018 $	2017 $
Term deposits	**113,072,006**	118,234,077
Savings deposits	**397,467,209**	391,511,533
Demand deposits	**256,622,577**	236,036,703
	767,161,792	745,782,313

The weighted average effective interest rate of customers' deposits at 31 December 2018 was 1.77% (2017 - 1.87%).

19 Borrowings

	Due	Average Interest Rate %	2018 $	Average Interest Rate %	2017 $
Caribbean Development Bank	**2018 – 2029**	**3.95%**	**21,306,420**	3.24%	23,820,408
National Insurance Services	**2018 – 2025**	**6.38%**	**16,977,604**	6.14%	18,274,857
			38,284,024		42,095,265

Security

The borrowings from the Caribbean Development Bank are guaranteed by the Government of St. Vincent and the Grenadines. Borrowings from the National Insurance Services are secured by property valued at $29,763,045 (2017 - $29,763,045) owned by the Bank of St. Vincent and the Grenadines.The Group has not had any defaults of principal, interest or other breaches with respect to borrowings during the year.

As at 31 December 2018, the Group had no undrawn facilities with either of the above mentioned institutions. Undrawn amounts with the Caribbean Development Bank at 31 December 2017, was $2,093,309.

20 Provisions and other liabilities

	2018 $	2017 $
Managers' cheques outstanding	**2,373,610**	2,495,263
Other payables	**14,810,477**	13,175,894
ECL on undrawn commitments	**18,311**	-
Customers' security deposits	**23,095,639**	31,465,135
	40,298,037	47,136,292

(expressed in Eastern Caribbean dollars)

21 Share capital

Authorised share capital – an unlimited number of shares of no par value

	2018 $	2017 $
Issued and fully paid – 14,999,844 (2017: 14,999,844)	**20,753,306**	20,753,306

During the year ended December 31, 2017, a stock dividend was issued which increased the number of shares in issue by 4,999,844 and increased paid up capital by $6,000,000.

22 Statutory reserves

	2018 $	2017 $
Balance at beginning of the year	**14,912,580**	14,753,306
Transfer from profit after taxation	**5,840,726**	159,274
Balance at end of the year	**20,753,306**	14,912,580

Pursuant to Section 45 (1) of the Banking Act of 2015, the Group shall, maintain a general reserve fund and shall, out of its net profits of each year transfer to that fund a sum equal to not less than twenty per cent of profits whenever the amount of the reserve fund is less than a hundred per cent of the issued share capital. The reserve is not available for distribution as dividends or any form of appropriation.

The Board of Directors agreed to fully fund the short fall in the reserve as at 31 December 2018.

23 General provision reserves

Following the adoption of IFRS 9, a general contingency reserve totalling $3,133,354 as a voluntary appropriation from retained earnings was created. This reserve will be funded on an annual basis at a rate to be decided by the Board of Directors.

24 Contingent liabilities and commitments

Commitments

The following table indicates the contractual amounts of the Group's financial instruments that commit it to extend credit to customers.

	2018 $	2017 $
Loan commitments	**7,664,002**	14,351,760
Guarantees and letters of credit	**40,000**	40,000
	7,704,002	14,391,760

(expressed in Eastern Caribbean dollars)

25 Net interest income

	2018 $	2017 $
Interest income		
Loans and advances	**46,744,525**	46,109,090
Treasury bills and investment securities	**4,061,871**	3,509,787
Deposits with banks	**158,624**	40,124
	50,965,020	49,659,001
Interest expense		
Savings deposits	**10,734,566**	11,797,004
Time deposits	**3,064,334**	3,548,002
Other borrowed funds	**1,925,368**	1,984,684
Correspondent banks	**53,049**	52,345
	15,777,317	17,382,035
Net interest income	**35,187,703**	32,276,966

26 Net fee and commission income

	2018 $	2017 $
Credit related fees and commissions	**10,494,188**	7,215,615

27 Dividend income

	2018 $	2017 $
Investments: equity securities	**380,475**	179,850

(expressed in Eastern Caribbean dollars)

28 Net foreign exchange trading income

	2018 $	2017 $
Net realized gains	**5,286,088**	4,973,641
Net unrealized (losses)/gains	**(78,473)**	234,755
	5,207,615	5,208,396

29 Other gains/(losses)

	2018 $	2017 $
Gain from disposal of fixed asset	**60,232**	-
Fair value loss on investment properties	**(180,000)**	-
Loss on disposal of investment properties	**-**	(183,484)
	(119,768)	(183,484)

30 Operating expenses

	2018 $	2017 $
Depreciation (Note 13)	**2,466,021**	2,741,407
Employee benefit expense (Note 31)	**11,647,235**	9,641,719
Interest levy expense	**4,835,151**	4,575,432
Rent	**292,357**	287,126
Audit and accounting fees	**252,000**	274,374
Directors' fees	**302,283**	294,585
Computer expense	**64,158**	109,459
Insurance	**653,062**	641,078
Repairs and maintenance	**446,777**	422,056
Subscription and donations	**141,141**	157,165
Commission and fees	**2,028,754**	1,856,308
Utilities	**2,404,862**	2,324,176
Credit card expenses	**2,023,330**	1,749,494
Management fees	**-**	479,670
Advertisement and sponsorship	**374,298**	312,855
Legal and professional fees	**850,973**	783,370
Postage and stationery	**832,375**	815,596
Bank and other licences	**2,280,037**	1,548,483
Security	**371,796**	375,108
Other expenses	**2,259,844**	2,606,036
	34,526,454	31,995,497

(expressed in Eastern Caribbean dollars)

31 Employee benefit expense

	2018 $	2017 $
Wages and salaries	**9,613,709**	7,491,888
Other staff costs	**1,676,148**	1,802,436
Pension cost	**357,378**	347,395
	11,647,235	9,641,719

32 Impairment losses on loans and advances to customers and other credit risk provisions

	2018 $	2017 $
Credit impairment against profit for the year on loans and advances to customers	**(3,653,325)**	(8,943,101)
Credit impairment against profit for the year relating to debt securities	**(1,200)**	-
Credit impairment against profit for the year on other non-financial assets	**-**	(1,824,911)
Reversal of credit impairment relating to financial guarantees and loan commitments	**4,525**	-
Amounts written off during the year as uncollectible	**(18,737)**	(13,687)
Recoveries of amounts previously written off	**1,095,663**	453,754
Recovery of impairment on investment securities	**13,911**	415,974
	(2,559,163)	(9,911,971)

33 Income tax expense

	2018 $	2017 $
Current tax	**2,788,764**	2,243,925
Prior year release to deferred tax (Note 15)	**(1,812,536)**	(19,352)
Deferred tax charge/(credit) (Note 15)	**173,320**	(231,070)
	1,149,548	1,993,503

33 Income tax expense...*continued*

Tax on the Group's profit before taxation differs from the theoretical amount that would arise using the statutory tax rate of 30% (2017 - 32.5%) as follows:

	2018 $	2017 $
Profit before income tax	**14,064,596**	2,789,875
Tax calculated at the applicable tax rate of 30% (2017: 32.5%)	**4,219,379**	906,710
Tax effect of exempt income	**(4,926,546)**	(3,625,545)
Tax effect of expenses not deductible for tax purposes	**3,637,696**	4,731,690
Prior year under statement of deferred tax	**(1,812,536)**	-
Other differences	**31,555**	(19,352)
	1,149,548	1,993,503

34 Earnings per share

Earnings per share (EPS) are calculated by dividing the profit for the year attributable to shareholders by the weighted average number of ordinary shares in issue during the year. The EPS calculated for 2018 was $0.86 (2017 - $0.05).

35 Cash and cash equivalents

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

	2018 $	2017 $
Cash in hand and balances with ECCB (Note 5)	**59,723,358**	73,878,311
Treasury bills (Note 7)	**10,290,846**	10,401,918
Items in the course of collection with banks (Note 6)	**12,934,994**	7,817,963
Placements with other banks (Note 6)	**82,966,223**	105,256,739
	165,915,421	197,354,931

36 Dividends

A final dividend of $0.43 per share was approved for the year ended 31 December 2018 (2017 - $0.17) subsequent to year end. These dividends have not been paid or recorded as at the date of approval of these financial statements and will be accounted for in equity as an appropriation of retained earnings in the year ending 31 December 2019 once ratified.

(expressed in Eastern Caribbean dollars)

37 Transition disclosures

As at 1 January 2018	IAS 39 Category	IAS 39 Carrying Amount	Reclassification	Remeasurement ECL	IFRS 9 Carrying Amount	IFRS 9 Category
Financial assets						
Cash and balances with ECCB	Amortised cost	118,625,250	-	-	118,625,250	Amortised cost
Treasury bills	Amortised cost	10,401,918	-	-	10,401,918	Amortised cost
Deposits with other banks	Amortised cost	115,572,633	-	-	115,572,633	Amortised cost
Investment securities						
Held-to-maturity	Amortised cost	44,505,092	-	(332,786)	44,172,306	Amortised cost
Available-for-sale	FVOCI	10,520,099	(10,520,099)	-	-	FVOCI
Equity securities designated at FVOCI	AFS	-	3,048,235	-	3,048,235	FVOCI
Equity securities designated at FVTPL	AFS	-	7,471,864	-	7,471,864	FVTPL
Loans and advances to customers	Loans and receivables					Amortised cost
- Overdrafts		45,705,698	-	-	45,705,698	
- Term loans		86,975,218	-	-	86,975,218	
- Large corporate loans		170,144,576	-	-	170,144,576	
- Mortgage loans		319,901,267	-	-	319,901,267	
- Credit cards		2,973,985	-	-	2,973,985	
		925,325,736	**-**	**(332,786)**	**924,992,950**	
Allowance for credit losses	Loans and receivables	(20,670,580)	-	3,557,994	(17,112,586)	Loans and advances to customers
		904,655,156	-	3,225,208	907,880,364	
Investment security at amortised cost	Amortised cost	10,032,877	-	(69,018)	9,963,859	Amortised cost
Total Financial Assets		**914,688,033**	-	**3,156,190**	**917,844,223**	
Non-financial assets						
Property and equipment	Cost	53,190,104	-	-	53,190,104	Cost
Investment properties	FVTPL	2,412,000	-	-	2,412,000	FVTPL
Other assets	Cost	4,292,506	-	-	4,292,506	Cost
		59,894,610	-	**-**	**59,894,610**	
Total Assets		**974,582,643**	-	**3,156,190**	**977,738,833**	

(expressed in Eastern Caribbean dollars)

37 Transition disclosures....*continued*

As at 1 January 2018	IAS 39 Category	IAS 39 Carrying Amount	Reclassification	Remeasurement ECL	Remeasurement Other	IFRS 9 Carrying Amount	IFRS 9 Category
Credit commitments		14,391,760	-	(22,836)	-	**14,368,924**	
Financial Liabilities							
Deposits from banks	Amortised cost	35,248,997	-	-	-	35,248,997	Amortised cost
Due to customers	Amortised cost	745,782,313	-	-	-	745,782,313	Amortised cost
Borrowings	Amortised cost	42,095,265	-	-	-	42,095,265	Amortised cost
Provisions and other liabilities	Amortised cost	47,136,292	-	22,837	-	47,159,129	Amortised cost
Total Financial Liabilities		**870,262,867**	**-**	**22,837**	**-**	**870,285,704**	
Non-Financial Liabilities							
Deferred tax liability		47,105	-	-	-	47,105	
Total Liabilities		**870,309,972**	**-**	**22,837**	**-**	**870,332,809**	
Equity							
Share capital		20,753,306	-	-	-	20,753,306	
Statutory reserve		14,912,580	-	-	-	14,912,580	
Other reserves		1,725,685	-	(1,725,685)	-	-	
Retained earnings		66,881,100	-	4,859,039	-	71,740,139	
Total equity		104,272,671	-	3,133,354	-	107,406,025	
Total Liabilities and Equity		**974,582,643**	**-**	**3,156,191**	**-**	**977,738,834**	

37 Transition disclosures*....continued*

(i) As of 1 January 2018, the Group classified all its previously held-to-maturity debt instruments totaling $44,505,092 at amortised cost based on its business model and because their cash flows were solely related to the payment of principal and interest (SPPI). Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.

(ii) The Group has elected to classify a portion of its previously held AFS equity portfolio at fair value through profit or loss (FVTPL) based on its business model; these amounted to $7,471,864. The other portion amounting to $3,048,235 of the AFS equity portfolio were classified as fair value through other comprehensive income (FVOCI). These instruments are strategic investments in a number of sub-regional institutions.

(iii) IAS 39 categories include Loans and Receivables, Available-for-Sale (AFS), Held-to-Maturity (HTM) and Fair Value through Profit or Loss (FVTPL). IFRS 9 categories include Amortised cost (AC), Fair Value through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI).

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

	Statutory Reserves $	Unrealized Gain $	Retained Earnings $	Total $
Closing balance under IAS 39 (31 December 2017)	14,912,580	1,725,685	66,881,100	83,519,365
Initial recognition of IFRS 9 ECLs	-	-	3,133,354	3,133,354
Reclassification of unrealized gains on AFS securities now classified as FVTPL	-	(1,725,685)	1,725,685	-
Opening balance under IFRS 9 (1 January 2018)	**14,912,580**	**-**	**71,740,139**	**86,652,719**

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

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

	Impairment allowance under IAS 39 as at 31 December 2017	Remeasurement	Impairment allowance under IFRS 9 as at 1 January 2018
Loans and advances to customers			
- Overdrafts	1,286,601	510,515	**1,797,116**
- Term loans	3,027,428	(492,575)	**2,534,853**
- Large corporate loans	8,568,390	564,155	**9,132,545**
- Mortgage loans	7,417,981	(4,159,742)	**3,258,239**
- Credit cards	370,180	19,653	**389,833**
- Undrawn	-	22,836	**22,836**
Investment securities	1,106,835	401,804	**1,508,639**
	21,777,415	(3,133,354)	**18,644,061**

Bank of St Vincent & the Grenadines
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